

STERLING FINANCIAL CORP /WA/
Form 10-Q
August 07, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended JUNE 30, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission File Number.....001-34696

STERLING FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Washington 91-1572822
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
111 North Wall Street, Spokane, Washington 99201
(Address of principal executive offices) (Zip Code)
(509) 358-8097
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer’s classes of common stock as of the latest practicable date:

Class	Outstanding as of July 31, 2012
Common Stock	62,127,106

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STERLING FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(in thousands, except shares)

	June 30, 2012	December 31, 2011
ASSETS:		
Cash and cash equivalents:		
Interest bearing	\$ 320,860	\$ 382,330
Noninterest bearing	95,772	88,269
Total cash and cash equivalents	416,632	470,599
Restricted cash	38,060	20,629
Investments and mortgage-backed securities ("MBS"):		
Available for sale	2,119,008	2,547,876
Held to maturity	1,726	1,747
Loans held for sale (at fair value: \$199,879 and \$223,638)	226,907	273,957
Loans receivable, net	5,926,575	5,341,179
Accrued interest receivable	31,306	32,826
Other real estate owned, net ("OREO")	55,801	81,910
Properties and equipment, net	86,556	84,015
Bank-owned life insurance ("BOLI")	176,593	174,512
Goodwill	22,577	0
Other intangible assets, net	22,656	12,078
Mortgage servicing rights, net	26,516	23,102
Deferred tax asset, net	285,141	0
Other assets, net	163,459	128,807
Total assets	\$9,599,513	\$9,193,237
LIABILITIES:		
Deposits:		
Noninterest bearing	\$ 1,539,786	\$ 1,211,628
Interest bearing	5,256,988	5,274,190
Total deposits	6,796,774	6,485,818
Advances from Federal Home Loan Bank ("FHLB")	205,470	405,609
Securities sold under repurchase agreements and funds purchased	1,006,324	1,055,763
Junior subordinated debentures	245,292	245,290
Accrued interest payable	5,981	22,575
Accrued expenses and other liabilities	118,878	99,625
Total liabilities	8,378,719	8,314,680
SHAREHOLDERS' EQUITY:		
Preferred stock, 10,000,000 shares authorized; no shares outstanding	0	0
Common stock, 151,515,151 shares authorized; 62,124,551 and 62,057,645 shares outstanding, respectively	1,966,307	1,964,234
Accumulated other comprehensive income	67,102	61,115
Accumulated deficit	(812,615)	(1,146,792)
Total shareholders' equity	1,220,794	878,557
Total liabilities and shareholders' equity	\$9,599,513	\$9,193,237

See notes to consolidated financial statements.

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STERLING FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(in thousands, except share amounts)

	Three Months Ended		Six Months Ended		
	June 30,		June 30,		
	2012	2011	2012	2011	
Interest income:					
Loans	\$85,537	\$79,735	\$165,378	\$160,122	
MBS	12,936	19,928	28,271	39,962	
Investments and cash equivalents	2,517	2,684	5,306	5,500	
Total interest income	100,990	102,347	198,955	205,584	
Interest expense:					
Deposits	9,921	15,216	21,023	32,510	
Short-term borrowings	1,825	111	4,031	190	
Long-term borrowings	10,334	12,213	20,638	24,334	
Total interest expense	22,080	27,540	45,692	57,034	
Net interest income	78,910	74,807	153,263	148,550	
Provision for credit losses	4,000	10,000	8,000	20,000	
Net interest income after provision for credit losses	74,910	64,807	145,263	128,550	
Noninterest income:					
Fees and service charges	14,131	12,946	26,871	25,507	
Mortgage banking operations	24,652	10,794	40,816	21,121	
Loan servicing fees	(471	) 709	1,909	1,810
BOLI	3,769	1,578	5,515	3,310	
Gains on sales of securities	9,321	8,297	9,463	14,298	
Other-than-temporary impairment credit losses on securities (1)	(6,819	) 0	(6,819	) 0
Charge on prepayment of debt	(2,664	) 0	(2,664	) 0
Gains (losses) on other loan sales	2,811	471	3,411	(879)
Other	11	(460) (2,174) (850)
Total noninterest income	44,741	34,335	76,328	64,317	
Noninterest expense	87,607	91,587	176,256	179,895	
Income before income taxes	32,044	7,555	45,335	12,972	
Income tax benefit	288,842	0	288,842	0	
Net income	\$320,886	\$7,555	\$334,177	\$12,972	
Earnings per share - basic	\$5.17	\$0.12	\$5.38	\$0.21	
Earnings per share - diluted	\$5.13	\$0.12	\$5.33	\$0.21	
Weighted average shares outstanding - basic	62,112,936	61,943,851	62,095,670	61,937,353	
Weighted average shares outstanding - diluted	62,610,054	62,312,224	62,648,152	62,320,028	

(1) The other-than-temporary impairment recognized in earnings during the second quarter of 2012 did not have a portion recognized in accumulated other comprehensive income. See Note 3.

See notes to consolidated financial statements.

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STERLING FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income	\$320,886	\$7,555	\$334,177	\$12,972
Other comprehensive income (loss):				
Change in unrealized gains on investments and MBS available for sale	7,714	36,651	12,312	38,594
Realized net gains reclassified from other comprehensive income	(2,502	) (8,297	) (2,644	) (14,298
Less deferred income tax provision	(3,681	) (3,826	) (3,681	) (2,384
Net other comprehensive income (loss)	1,531	24,528	5,987	21,912
Comprehensive income	\$322,417	\$32,083	\$340,164	\$34,884

See notes to consolidated financial statements.

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STERLING FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(in thousands)

	Six Months Ended June 30,	
	2012	2011
Cash flows from operating activities:		
Net income	\$334,177	\$12,972
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	8,000	20,000
Net gain on sales of loans	(42,969	) (13,434
Net gain on sales of investments and MBS	(9,463	) (14,298
Net gain on mortgage servicing rights	(1,143	) (5,115
Other-than-temporary impairment on securities	6,819	0
Stock based compensation	1,837	1,959
(Gain) loss on OREO	(1,605	) 10,564
Release of DTA valuation allowance	(288,842	) 0
Increase in cash surrender value of BOLI	(5,390	) (3,310
Depreciation and amortization	22,192	19,122
Change in:		
Accrued interest receivable	5,050	2,069
Prepaid expenses and other assets	(32,479	) 1,742
Accrued interest payable	(16,728	) 2,801
Accrued expenses and other liabilities	7,276	(10,257
Proceeds from sales of loans originated for sale	1,205,473	871,842
Loans originated for sale	(1,158,269	) (828,385
Net cash provided by operating activities	33,936	68,272
Cash flows from investing activities:		
Change in restricted cash	(17,431	) 249
Net change in loans	(243,657	) (169,304
Proceeds from sales of loans	20,515	31,899
Purchase of investment securities	(2,534	) (2,000
Proceeds from maturities of investment securities	17,505	294
Proceeds from sale of investment securities	179,235	30,987
Purchase of MBS	(72,032	) (242,841
Principal payments received on MBS	314,414	229,210
Proceeds from sales of MBS	183,636	353,444
Office properties and equipment, net	(4,647	) (9,595
Improvements and other changes to OREO	(1,250	) (5,061
Proceeds from sales of OREO	51,515	155,566
Net change in cash and cash equivalents from acquisitions	121,098	0
Net cash provided by investing activities	546,367	372,848
Cash flows from financing activities:		
Net change in deposits	(384,963	) (307,009
Repayment of advances from FHLB	(200,104	) (98
Net change in securities sold under repurchase agreements and funds purchased	(49,439	) 26,182
Proceeds from stock issuance, net	236	0
Net cash used in financing activities	(634,270) (280,925

See notes to consolidated financial statements.

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STERLING FINANCIAL CORPORATION
 CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)—cont.
 (in thousands)

	Six Months Ended June 30,	
	2012	2011
Net change in cash and cash equivalents	\$(53,967	) \$160,195
Cash and cash equivalents, beginning of period	470,599	411,583
Cash and cash equivalents, end of period	\$416,632	\$571,778
Supplemental disclosures:		
Cash paid during the period for:		
Interest	62,287	54,233
Income taxes, net	56	0
Noncash financing and investing activities:		
Foreclosed real estate acquired in settlement of loans	22,551	100,822

See notes to consolidated financial statements.

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STERLING FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012

1. Basis of Presentation:

The foregoing unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission. Accordingly, these financial statements do not include all of the disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements as disclosed in the annual report on Form 10-K for the year ended December 31, 2011. References to "Sterling," in this report are to Sterling Financial Corporation, a Washington corporation, and its consolidated subsidiaries on a combined basis, unless otherwise specified or the context otherwise requires. References to "Sterling Bank" refer to our subsidiary Sterling Savings Bank, a Washington state-chartered commercial bank. In the opinion of management, the unaudited interim consolidated financial statements furnished herein include all adjustments, all of which are of a normal recurring nature, necessary for a fair statement of the results for the interim periods presented.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and the reported amounts of revenues and expenses during the reporting period. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of Sterling's consolidated financial statements; accordingly, it is possible that the actual results could differ from these estimates and assumptions, which could have a material effect on the reported amounts of Sterling's consolidated financial position and results of operations.

During 2012, Sterling identified an error related to the classification of the loss on foreclosure amounts reported in the Consolidated Statement of Cash Flows for the quarter ended March 31, 2012, and for the years ended December 31, 2011 and 2010, and the interim periods therein. The loss on foreclosure amounts were previously included in the cash flows from operating activities in the Loss on OREO line item, instead of the cash flows from investing activities in the Net change in loans line item. In accordance with the SEC Staff Accounting Bulletin (SAB) No. 99, "Materiality," and SAB No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements," management evaluated the materiality of the error from qualitative and quantitative perspectives and concluded that the error was immaterial to prior periods. Consequently, the Consolidated Statement of Cash Flows contained in this Report has been revised for the six months ended June 30, 2011. This change resulted in a decrease of \$29.3 million to cash flows from operating activities and an increase of the same amount to cash flows from investing activities for the six months ended June 30, 2011. This change did not impact net income, the balance sheet, or shareholders' equity for any period.

In addition to other established accounting policies, the following is a discussion of recent accounting pronouncements:

In April 2011, the FASB issued Accounting Standards Update ("ASU") 2011-03, "Reconsideration of Effective Control for Repurchase Agreements." This update to codification topic 860 revises the assessment of effective control for purposes of determining if a reverse repurchase agreement should be accounted for as a sale, compared with a secured borrowing. ASU 2011-03 became effective for Sterling on January 1, 2012, and did not have a material effect on Sterling's consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS." This update to codification topic 820 clarifies the application of existing fair value measurement and disclosure requirements, and implements changes to the codification that align U.S. GAAP and IFRS. This update became effective for Sterling on January 1, 2012. See Note 12.

In December 2011, the FASB issued ASU 2011-11, "Balance Sheet: Disclosures about Offsetting Assets and Liabilities." ASU 2011-11 adds certain additional disclosure requirements about financial instruments and derivatives instruments that are subject to netting arrangements. The new disclosures are required for annual reporting periods beginning on or after January 1, 2013, and interim periods within those periods. This standard could add additional disclosures if applicable to Sterling. However, it is not expected to have a material impact on Sterling's consolidated financial statements.

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In September 2011, the FASB issued ASU 2011-08, “Intangibles-Goodwill and Other: Testing Goodwill for Impairment.” ASU 2011-08 is intended to simplify goodwill impairment testing by adding a qualitative review step to assess whether the required quantitative impairment analysis that exists today is necessary. Under the amended rule, a company will not be required to calculate the fair value of a business that contains recorded goodwill unless it concludes, based on the qualitative assessment, that it is more likely than not that the fair value of that business is less than its book value. If such a decline in fair value is deemed more likely than not to have occurred, then the quantitative goodwill impairment test that exists under current GAAP must be completed; otherwise, goodwill is deemed to be not impaired and no further testing is required until the next annual test date (or sooner if conditions or events before that date raise concerns of potential impairment in the business). The amended goodwill impairment guidance does not affect the manner in which a company estimates fair value. ASU 2011-08 became effective for Sterling on January 1, 2012, and did not have a material effect on Sterling’s consolidated financial statements.

2. Business Combination:

On February 29, 2012, Sterling Bank completed its acquisition of the operations of First Independent Bank, by acquiring certain assets and assuming certain liabilities, including all deposits for a net purchase price of \$40.6 million, comprised of \$28.9 million of cash paid at closing and contingent consideration with a fair value of \$11.7 million at acquisition date. As of June 30, 2012, the fair value of this contingent consideration was estimated at \$13.3 million, with the increase reflected as a charge against earnings. The contingent consideration is payable in two installments at 12 and 18 months from the date of closing, in an amount ranging from zero to \$17 million. The contingent consideration payments will be determined based on certain performance metrics relating to core deposit retention, loan charge-offs, and wealth management revenues. As a result of this transaction, Sterling now offers trust services, and has 14 additional branches in the Portland/Vancouver market. The following table summarizes the amounts recorded at closing:

	February 29, 2012 (in thousands)
Cash and cash equivalents	\$150,045
Investments and MBS	187,465
Loans receivable, net	349,990
Goodwill	22,577
Core deposit intangible	11,974
Fixed assets	4,038
Other assets	10,886
Total assets acquired	\$736,975
Deposits	\$695,919
Other liabilities	409
Total liabilities assumed	696,328
Net assets acquired	\$40,647

The recorded goodwill of \$22.6 million represents the inherent long-term value anticipated from synergies expected to be achieved as a result of the transaction. The amount recorded for goodwill includes subsequent adjustments, primarily from updated appraisals on fixed assets. The amount of goodwill deductible for income tax purposes is approximately equivalent to the recorded book value. The core deposit intangible has a weighted average amortization period of ten years and will be amortized on an accelerated basis. The following table presents certain First Independent stand alone amounts and pro forma Sterling and First Independent combined amounts as if the transaction had occurred on January 1, 2011. Cost savings estimates are not included in the pro forma combined results, nor are certain credit impaired loans and associated losses excluded from the purchase and assumption transaction.

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	First Independent (stand alone)		Pro Forma Combined		Pro Forma Combined	
	Three Months Ended	Six Months Ended	Three Months Ended		Six Months Ended	
	June 30, 2012	June 30, 2012	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
	(in thousands, except per share data)					
Net interest income	\$7,859	\$11,100	\$78,910	\$82,633	\$159,744	\$164,716
Noninterest income	1,678	2,181	44,741	36,628	77,333	69,031
Net income	3,901	6,008	320,886	10,368	338,391	20,406
Earnings per share - basic	0.06	0.10	5.17	0.17	5.45	0.33
Earnings per share - diluted	\$0.06	\$0.10	\$5.13	\$0.17	\$5.40	\$0.33

Although the majority of First Independent's credit impaired loans were excluded from the transaction, certain loans acquired were deemed to exhibit evidence of credit deterioration since origination. The purchased impaired loans are accounted for under Accounting Standards Codification ("ASC") 310-30 (Receivables - Loan and Debt Securities Acquired with Deteriorated Credit Quality), with periodic updates to the loans' cash flow expectations reflected in interest income over the life of the loans as accretable yield. For purchased impaired loans (ASC 310-30 loans), details as of the acquisition date were as follows:

	February 29, 2012 (in thousands)
Contractual cash flows	\$24,408
Expected prepayments and credit losses	7,220
Expected cash flows	17,188
Present value of expected cash flows	15,265
Accretable yield	\$1,923

As of June 30, 2012, no allowance for credit losses was recorded in connection with these loans, and the unpaid principal balance and carrying amount of the purchased impaired loans were \$20.4 million and \$13.3 million, respectively. The following table presents a roll forward of activity for the accretable yield for the purchased impaired loans:

	Three Months Ended June 30, 2012	Six Months Ended (in thousands)
Beginning balance	\$1,909	\$0
Additions	0	1,923
Accretion to interest income	(308)	(322)
Reclassifications	730	730
Ending balance	\$2,331	\$2,331

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As of February 29, 2012, the unpaid principal balance and contractual interest ("contractual cash flows") on purchased loans that had not exhibited evidence of credit deterioration was \$403.8 million. Sterling estimated that \$12.7 million of these cash flows would be uncollectable, resulting in a discount of \$21.8 million being recorded on these loans. As of June 30, 2012, the following table presents the related five-year projected accretion of the discount which will be recognized as an increase to interest income:

	Amount
Remainder of 2012	\$4,022
Years ended December 31,	
2013	4,210
2014	2,796
2015	1,724
2016	1,031
2017	679

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3. Investments and MBS:

The carrying and fair values of investments and MBS are summarized as follows:

	Amortized Cost (in thousands)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2012				
Available for sale				
MBS	\$1,839,894	\$57,416	\$0	\$1,897,310
Municipal bonds	188,776	15,535	(774	) 203,537
Other	18,156	6	(1	) 18,161
Total	\$2,046,826	\$72,957	\$(775	) \$2,119,008
Held to maturity				
Tax credits	\$1,726	\$0	\$0	\$1,726
Total	\$1,726	\$0	\$0	\$1,726
December 31, 2011				
Available for sale				
MBS	\$2,265,207	\$55,760	\$(33	) \$2,320,934
Municipal bonds	195,512	13,338	(1,394	) 207,456
Other	24,923	2	(5,439	) 19,486
Total	\$2,485,642	\$69,100	\$(6,866	) \$2,547,876
Held to maturity				
Tax credits	\$1,747	\$0	\$0	\$1,747
Total	\$1,747	\$0	\$0	\$1,747

Sterling's MBS portfolio is comprised primarily of residential agency securities. Other available for sale securities consist of a single issuer trust preferred security. Total sales of Sterling's securities during the periods ended June 30, 2012 and 2011 are summarized as follows:

	Proceeds from Sales (in thousands)	Gross Realized Gains	Gross Realized Losses
Six Months Ended			
June 30, 2012	\$362,871	\$9,537	\$(74)
June 30, 2011	384,431	16,605	(2,307)

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The following table summarizes Sterling's investments and MBS that had a market value below their amortized cost as of June 30, 2012 and December 31, 2011, segregated by those investments that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or longer:

	Less than 12 months		12 months or longer		Total		
	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses	
	(in thousands)						
June 30, 2012							
MBS	\$0	\$0	\$0	\$0	\$0	\$0	
Municipal bonds	0	0	14,609	(774) 14,609	(774)
Other	0	0	0	0	0	0	
Total	\$0	\$0	\$14,609	\$(774) \$14,609	\$(774)
December 31, 2011							
MBS	\$1,419	\$(12) \$24,726	\$(21) \$26,145	\$(33)
Municipal bonds	0	0	17,289	(1,394) 17,289	(1,394)
Other	0	0	19,479	(5,439) 19,479	(5,439)
Total	\$1,419	\$(12) \$61,494	\$(6,854) \$62,913	\$(6,866)

The following table presents the amortized cost and fair value of available for sale and held to maturity securities as of June 30, 2012, grouped by contractual maturity. Actual maturities for MBS will differ from contractual maturities as a result of the level of prepayments experienced on the underlying mortgages.

	Held to maturity		Available for sale	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(in thousands)			
Due within one year	\$0	\$0	\$0	\$0
Due after one year through five years	0	0	780	780
Due after five years through ten years	0	0	136,113	139,905
Due after ten years	1,726	1,726	1,909,933	1,978,323
Total	\$1,726	\$1,726	\$2,046,826	\$2,119,008

Management evaluates investment securities for other-than-temporary declines in fair value each quarter. If the fair value of investment securities falls below the amortized cost and the decline is deemed to be other-than temporary, the securities are written down to current market value, resulting in the recognition of an other-than-temporary impairment ("OTTI"). As of June 30, 2012, Sterling held a single issuer trust preferred security issued by JP Morgan Chase with a par value of \$27.5 million, and a market value of \$18.2 million. Although the security was downgraded during the second quarter of 2012 to Baa2 by Moody's, interest payments have not been deferred. Sterling intends to sell the security prior to its scheduled maturity or recovery of its amortized cost basis, and accordingly recognized an OTTI charge on the security during the second quarter of 2012. The following table presents a rollforward of OTTI for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(in thousands)			
OTTI, beginning balance	\$0	\$0	\$0	\$0
Additions	6,819	0	6,819	0
Ending Balance	\$6,819	\$0	\$6,819	\$0

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4. Loans Receivable and Allowance for Credit Losses:

The following table presents the composition of Sterling's loan portfolio as of the balance sheet dates:

	June 30, 2012	December 31, 2011
	(in thousands)	
Residential real estate	\$785,482	\$688,020
Commercial real estate (CRE):		
Investor CRE	1,324,917	1,275,667
Multifamily	1,311,247	1,001,479
Construction	111,550	174,608
Total CRE	2,747,714	2,451,754
Commercial:		
Owner occupied CRE	1,309,587	1,272,461
Commercial & Industrial (C&I)	504,396	431,693
Total commercial	1,813,983	1,704,154
Consumer	736,397	674,961
Gross loans receivable	6,083,576	5,518,889
Deferred loan costs (fees), net	1,243	(252)
Allowance for loan losses	(158,244)	(177,458)
Net loans receivable	\$5,926,575	\$5,341,179

Gross loans pledged as collateral for borrowings from the FHLB and the Federal Reserve totaled \$3.27 billion and \$4.02 billion as of June 30, 2012 and December 31, 2011, respectively. As of June 30, 2012 and December 31, 2011, the unamortized portion of discounts on acquired loans was \$28.5 million and \$4.3 million, respectively.

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The following table sets forth details by segment for Sterling's loan portfolio and related allowance as of the balance sheet dates:

	Residential Real Estate (in thousands)	Commercial Real Estate	Commercial	Consumer	Unallocated	Total
June 30, 2012						
Loans receivable, gross:						
Individually evaluated for impairment	\$11,504	\$103,709	\$69,373	\$930	\$0	\$185,516
Collectively evaluated for impairment	773,978	2,644,005	1,744,610	735,467	0	5,898,060
Total loans receivable, gross	\$785,482	\$2,747,714	\$1,813,983	\$736,397	\$0	\$6,083,576
Allowance for loan losses:						
Individually evaluated for impairment	\$365	\$3,646	\$6,142	\$43	\$0	\$10,196
Collectively evaluated for impairment	12,016	63,206	34,128	16,916	21,782	148,048
Total allowance for loan losses	\$12,381	\$66,852	\$40,270	\$16,959	\$21,782	\$158,244
December 31, 2011						
Loans receivable, gross:						
Individually evaluated for impairment	\$18,301	\$149,578	\$74,041	\$1,192	\$0	\$243,112
Collectively evaluated for impairment	669,719	2,302,176	1,630,113	673,769	0	5,275,777
Total loans receivable, gross	\$688,020	\$2,451,754	\$1,704,154	\$674,961	\$0	\$5,518,889
Allowance for loan losses:						
Individually evaluated for impairment	\$872	\$11,170	\$4,206	\$57	\$0	\$16,305
Collectively evaluated for impairment	14,325	80,552	33,840	13,370	19,066	161,153
Total allowance for loan losses	\$15,197	\$91,722	\$38,046	\$13,427	\$19,066	\$177,458

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The following tables present a roll forward by segment of the allowance for credit losses for the periods presented:

	Residential Real Estate (in thousands)	Commercial Real Estate	Commercial	Consumer	Unallocated	Total				
2012 quarterly activity Allowance for loan losses:										
Beginning balance, April 1	\$12,242	\$80,614	\$34,483	\$14,160	\$19,774	\$161,273				
Provisions	(377)	(9,905)	6,222	4,052	2,008	2,000				
Charge-offs	(157)	(9,481)	(3,606)	(1,643)	td>	\$—	\$6	\$369	\$7	\$-\$2,335
Collectively evaluated for impairment	20,103	3,484	2,963	1,335	1,789	1,432	31,106			
Total	\$22,056	\$3,484	\$2,969	\$1,704	\$1,796	\$1,432	\$33,441			
Loans - Ending balance:										
Individually evaluated for impairment	\$4,514	\$921	\$1,962	\$2,800	\$681	\$—	\$10,878			
Collectively evaluated for impairment	1,479,813	427,143	340,997	158,261	195,817	137,828	2,739,859			
Total	\$1,484,327	\$428,064	\$342,959	\$161,061	\$196,498	\$137,828	\$2,750,737			

A summary of Portfolio loans individually evaluated for impairment by category at March 31, 2016 and December 31, 2015, is as follows:

(in thousands)	March 31, 2016			Total Recorded Investment	Related Allowance	Average Recorded Investment
	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance			
Commercial and industrial	\$6,683	\$1,362	\$4,444	\$5,806	\$2,042	\$7,182
Real estate loans:						
Commercial - investor owned	896	648	248	896	—	908
Commercial - owner occupied	86	86	—	86	28	79
Construction and land development	4,259	2,975	379	3,354	298	2,747

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Residential	709	644	65	709	4	680
Consumer and other	—	—	—	—	—	—
Total	\$12,633	\$ 5,715	\$ 5,136	\$ 10,851	\$ 2,372	\$ 11,596

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(in thousands)	December 31, 2015			Total Recorded Investment	Related Allowance	Average Recorded Investment
	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance			
Commercial and industrial	\$5,554	\$ 509	\$ 4,204	\$ 4,713	\$ 1,953	\$ 6,970
Real estate loans:						
Commercial - investor owned	927	927	—	927	—	970
Commercial - owner occupied	329	85	113	198	6	301
Construction and land development	4,349	2,914	530	3,444	369	3,001
Residential	705	637	68	705	7	682
Consumer and other	—	—	—	—	—	—
Total	\$11,864	\$ 5,072	\$ 4,915	\$ 9,987	\$ 2,335	\$ 11,924

The following table presents details for past due and impaired loans:

(in thousands)	Three months ended	
	March 31, 2016	2015
Total interest income that would have been recognized under original terms	\$148	\$315
Total cash received and recognized as interest income on non-accrual loans	6	27
Total interest income recognized on impaired loans	6	13

There were no loans over 90 days past due and still accruing interest at March 31, 2016 or December 31, 2015. At March 31, 2016, there were no unadvanced commitments on impaired loans.

The recorded investment in impaired Portfolio loans by category at March 31, 2016 and December 31, 2015, is as follows:

(in thousands)	March 31, 2016			Total
	Non-accrued	Restructured	Loans over 90 days past due and still accruing interest	
Commercial and industrial	\$5,516	\$ 290	\$ —	—\$5,806
Real estate:				
Commercial - investor owned	896	—	—	896
Commercial - owner occupied	86	—	—	86
Construction and land development	3,354	—	—	3,354
Residential	709	—	—	709
Consumer and other	—	—	—	—
Total	\$10,561	\$ 290	\$ —	—\$10,851

(in thousands)	December 31, 2015		Loans over 90 days past due and still accruing interest	Total
	Non-accrued	Restructured		
Commercial and industrial	\$4,406	\$ 307	\$ —	—\$4,713
Real estate:				
Commercial - investor owned	927	—	—	927
Commercial - owner occupied	198	—	—	198
Construction and land development	3,444	—	—	3,444
Residential	705	—	—	705
Consumer and other	—	—	—	—
Total	\$9,680	\$ 307	\$ —	—\$9,987

The Company restructured two Portfolio loans with a recorded balance of \$0.3 million during the three months ended March 31, 2016, and none during the three months ended March 31, 2015. The restructured loans primarily resulted from interest rate concessions and changing the terms of the loans. As of March 31, 2016, the Company had \$0.2 million specific reserves allocated to loans that have been restructured. There were no Portfolio loans restructured that subsequently defaulted during the three months ended March 31, 2016 or 2015.

The aging of the recorded investment in past due Portfolio loans by portfolio class and category at March 31, 2016 and December 31, 2015 is shown below.

(in thousands)	March 31, 2016				
	30-89 Days Past Due	90 or More Days Past Due	Total Past Due	Current	Total
Commercial and industrial	\$865	\$716	\$1,581	\$1,543,399	\$1,544,980
Real estate:					
Commercial - investor owned	3,990	—	3,990	435,365	439,355
Commercial - owner occupied	—	79	79	334,101	334,180
Construction and land development	—	2,273	2,273	173,051	175,324
Residential	161	614	775	201,480	202,255
Consumer and other	15	—	15	136,507	136,522
Total	\$5,031	\$3,682	\$8,713	\$2,823,903	\$2,832,616

(in thousands)	December 31, 2015				
	30-89 Days Past Due	90 or More Days Past Due	Total Past Due	Current	Total
Commercial and industrial	\$505	\$888	\$1,393	\$1,482,934	\$1,484,327

Real estate:

Commercial - investor owned	464	—	464	427,600	428,064
Commercial - owner occupied	94	184	278	342,681	342,959
Construction and land development	384	2,273	2,657	158,404	161,061
Residential	70	681	751	195,747	196,498
Consumer and other	20	—	20	137,808	137,828
Total	\$1,537	\$4,026	\$5,563	\$2,745,174	\$2,750,737

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, such as current financial information, payment experience, credit documentation, and current economic factors among other factors. This analysis is performed on a quarterly basis. The Company uses the following definitions for risk ratings:

Grades 1, 2, and 3 – Includes loans to borrowers with a continuous record of strong earnings, sound balance sheet condition and capitalization, ample liquidity with solid cash flow, and whose management team has experience and depth within their industry.

Grade 4 – Includes loans to borrowers with positive trends in profitability, satisfactory capitalization and balance sheet condition, and sufficient liquidity and cash flow.

Grade 5 – Includes loans to borrowers that may display fluctuating trends in sales, profitability, capitalization, liquidity, and cash flow.

Grade 6 – Includes loans to borrowers where an adverse change or perceived weakness has occurred, but may be correctable in the near future. Alternatively, this rating category may also include circumstances where the borrower is starting to reverse a negative trend or condition, or has recently been upgraded from a 7, 8, or 9 rating.

Grade 7 – Watch credits are borrowers that have experienced financial setback of a nature that is not determined to be severe or influence ‘ongoing concern’ expectations. Although possible, no loss is anticipated, due to strong collateral and/or guarantor support.

Grade 8 – Substandard credits will include those borrowers characterized by significant losses and sustained downward trends in balance sheet condition, liquidity, and cash flow. Repayment reliance may have shifted to secondary sources. Collateral exposure may exist and additional reserves may be warranted.

Grade 9 – Doubtful credits include borrowers that may show deteriorating trends that are unlikely to be corrected.

Collateral values may appear insufficient for full recovery, therefore requiring a partial charge-off, or debt renegotiation with the borrower. The borrower may have declared bankruptcy or bankruptcy is likely in the near term. All doubtful rated credits will be on non-accrual.

The recorded investment by risk category of the Portfolio loans by portfolio class and category at March 31, 2016, which is based upon the most recent analysis performed, and December 31, 2015 is as follows:

(in thousands)	March 31, 2016				Total
	Pass (1-6)	Watch (7)	Substandard (8)	Doubtful (9)	
Commercial and industrial	\$ 1,403,863	\$ 99,432	\$ 41,685	\$	—\$ 1,544,980
Real estate:					
Commercial - investor owned	418,870	15,748	4,737	—	439,355
Commercial - owner occupied	301,626	28,748	3,806	—	334,180
Construction and land development	164,813	6,402	4,109	—	175,324
Residential	193,681	5,569	3,005	—	202,255
Consumer and other	129,833	717	5,972	—	136,522
Total	\$ 2,612,686	\$ 156,616	\$ 63,314	\$	—\$ 2,832,616

(in thousands)	December 31, 2015				Total
	Pass (1-6)	Watch (7)	Substandard (8)	Doubtful (9)	
Commercial and industrial	\$1,356,864	\$90,370	\$ 37,093	\$	—\$1,484,327
Real estate:					
Commercial - investor owned	403,820	18,868	5,376	—	428,064
Commercial - owner occupied	314,791	24,727	3,441	—	342,959
Construction and land development	146,601	10,114	4,346	—	161,061
Residential	188,269	5,138	3,091	—	196,498
Consumer and other	131,060	721	6,047	—	137,828
Total	\$2,541,405	\$ 149,938	\$ 59,394	\$	—\$2,750,737

NOTE 5 - PURCHASED CREDIT IMPAIRED ("PCI") LOANS

Below is a summary of PCI loans by category at March 31, 2016 and December 31, 2015:

(in thousands)	March 31, 2016		December 31, 2015	
	Weighted-Average Risk Rating ¹	Recorded Investment PCI Loans	Weighted-Average Risk Rating ¹	Recorded Investment PCI Loans
Commercial and industrial	6.63	\$ 3,768	6.70	\$ 3,863
Real estate:				
Commercial - investor owned	7.07	20,449	6.98	25,272
Commercial - owner occupied	6.12	15,880	6.30	19,414
Construction and land development	6.10	6,149	6.28	6,838
Residential	5.45	17,032	5.44	19,287
Total real estate loans		59,510		70,811
Consumer and other	5.89	199	1.89	84
Purchased credit impaired loans		\$ 63,477		\$ 74,758

¹Risk ratings are based on the borrower's contractual obligation, which is not reflective of the purchase discount.

The aging of the recorded investment in past due PCI loans by portfolio class and category at March 31, 2016 and December 31, 2015 is shown below:

(in thousands)	March 31, 2016				
	30-89 Days Past Due	90 or More Days Past Due	Total Past Due	Current	Total
Commercial and industrial	\$—	\$—	\$—	\$3,768	\$3,768
Real estate:					
Commercial - investor owned	1,453	1,102	2,555	17,894	20,449
Commercial - owner occupied	—	—	—	15,880	15,880
Construction and land development	—	—	—	6,149	6,149
Residential	479	28	507	16,525	17,032
Consumer and other	—	—	—	199	199
Total	\$1,932	\$1,130	\$3,062	\$60,415	\$63,477

(in thousands)	December 31, 2015				
	30-89 Days Past Due	90 or More Days Past Due	Total Past Due	Current	Total
Commercial and industrial	\$—	\$—	\$—	\$3,863	\$3,863
Real estate:					
Commercial - investor owned	2,342	3,661	6,003	19,269	25,272
Commercial - owner occupied	731	—	731	18,683	19,414
Construction and land development	—	—	—	6,838	6,838

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Residential	1,594	130	1,724	17,563	19,287
Consumer and other	4	—	4	80	84
Total	\$4,671	\$3,791	\$8,462	\$66,296	\$74,758

The following table is a rollforward of PCI loans, net of the allowance for loan losses, for the three months ended March 31, 2016 and 2015.

(in thousands)	Contractual Cashflows	Non-accretable Difference	Accretable Yield	Carrying Amount
Balance January 1, 2016	\$ 116,689	\$ 26,765	\$ 25,341	\$ 64,583
Principal reductions and interest payments	(5,965)	—	—	(5,965)
Accretion of loan discount	—	—	(1,845)	1,845
Changes in contractual and expected cash flows due to remeasurement	4,012	2,375	(1,032)	2,669
Reductions due to disposals	(12,869)	(2,127)	(1,518)	(9,224)
Balance March 31, 2016	\$ 101,867	\$ 27,013	\$ 20,946	\$ 53,908
Balance January 1, 2015	\$ 178,145	\$ 65,719	\$ 28,733	\$ 83,693
Principal reductions and interest payments	(6,148)	—	—	(6,148)
Accretion of loan discount	—	—	(3,088)	3,088
Changes in contractual and expected cash flows due to remeasurement	(12,159)	(26,187)	8,517	5,511
Reductions due to disposals	(5,623)	(1,709)	(933)	(2,981)
Balance March 31, 2015	\$ 154,215	\$ 37,823	\$ 33,229	\$ 83,163

The accretable yield is recognized in interest income over the estimated life of the acquired loans using the effective yield method. Outstanding customer balances on PCI loans were \$85.1 million and \$98.6 million as of March 31, 2016, and December 31, 2015, respectively.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

The Company issues financial instruments with off balance sheet risk in the normal course of the business of meeting the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments may involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheets.

The Company's extent of involvement and maximum potential exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of these instruments.

The Company uses the same credit policies in making commitments and conditional obligations as it does for financial instruments included on its consolidated balance sheets. At March 31, 2016, there were no unadvanced commitments on impaired loans.

The contractual amounts of off-balance-sheet financial instruments as of March 31, 2016, and December 31, 2015, are as follows:

(in thousands)	March 31, 2016	December 31, 2015
Commitments to extend credit	\$ 997,131	\$ 1,140,028
Standby letters of credit	71,526	54,648

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments usually have fixed expiration dates or other termination clauses, may have significant usage restrictions, and may require payment of a fee. Of the total commitments to extend credit at March 31, 2016, and December 31, 2015, approximately \$98 million and \$94 million, respectively, represent fixed rate loan commitments. Since certain of the commitments may expire without being drawn upon or may be revoked, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include accounts receivable, inventory, premises and equipment, and real estate. Other liabilities include \$0.3 million for estimated losses attributable to the unadvanced commitments at March 31, 2016 and December 31, 2015.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. These standby letters of credit are issued to support contractual obligations of the Company's customers. The credit risk involved in issuing letters of credit is essentially the same as the risk involved in extending loans to customers. The approximate remaining term of standby letters of credit range from 1 month to 2 years 11 months at March 31, 2016.

Contingencies

The Company and its subsidiaries are, from time to time, parties to various legal proceedings arising out of their businesses. Management believes there are no such proceedings pending or threatened against the Company or its subsidiaries which, if determined adversely, would have a material adverse effect on the business, consolidated financial condition, results of operations or cash flows of the Company or any of its subsidiaries.

NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS

The Company is a party to various derivative financial instruments that are used in the normal course of business to meet the needs of its clients and as part of its risk management activities. These instruments include interest rate swaps and option contracts and foreign exchange forward contracts. The Company does not enter into derivative financial instruments for trading purposes.

Risk Management Instruments. The Company enters into interest rate caps in order to economically hedge changes in fair value of State tax credits held for sale. See Note 8 – Fair Value Measurements for further discussion on the fair value of state tax credits. The notional amount of the derivative instruments used to manage risk was \$3.5 million at March 31, 2016 and December 31, 2015.

Client-Related Derivative Instruments. The Company enters into interest rate swaps to allow customers to hedge changes in fair value of certain loans while maintaining a variable rate loan on its own books. The Company also enters into foreign exchange forward contracts with clients, and enters into offsetting foreign exchange forward contracts with established financial institution counterparties. The table below summarizes the notional amounts and fair values of the client-related derivative instruments:

(in thousands)	Notional Amount		Asset Derivatives		Liability Derivatives	
			(Other Assets)		(Other Liabilities)	
	March 31, 2016	December 31, 2015	Fair Value		Fair Value	
	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
Non-designated hedging instruments						
Interest rate swap contracts	\$ 150,028	\$ 153,630	\$ 2,012	\$ 1,155	\$ 2,012	\$ 1,155
Foreign exchange forward contracts	6,976	—	6,976	—	6,976	—

Changes in the fair value of client-related derivative instruments are recognized currently in operations. For the three months ended March 31, 2016 and 2015, the gains and losses offset each other due to the Company's hedging of the client swaps with other bank counterparties.

NOTE 8 - FAIR VALUE MEASUREMENTS

Below is a description of certain assets and liabilities measured at fair value.

The following table summarizes financial instruments measured at fair value on a recurring basis as of March 31, 2016 and December 31, 2015, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

(in thousands)	March 31, 2016			Total Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets				
Securities available for sale				
Obligations of U.S. Government-sponsored enterprises	\$ -99,795	\$ —		\$99,795
Obligations of states and political subdivisions	—37,434	3,085		40,519
Residential mortgage-backed securities	—321,518	—		321,518
Total securities available for sale	\$ -458,747	\$ 3,085		\$461,832
State tax credits held for sale	—	4,733		4,733
Derivative financial instruments	—8,988	—		8,988
Total assets	\$ -467,735	\$ 7,818		\$475,553

Liabilities				
Derivative financial instruments	\$ -8,988	\$ —		\$8,988
Total liabilities	\$ -8,988	\$ —		\$8,988

(in thousands)	December 31, 2015			Total Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets				
Securities available for sale				
Obligations of U.S. Government-sponsored enterprises	\$ -99,008	\$ —		\$99,008
Obligations of states and political subdivisions	—38,624	3,077		41,701
Residential mortgage-backed securities	—311,061	—		311,061
Total securities available for sale	\$ -448,693	\$ 3,077		\$451,770
State tax credits held for sale	—	5,941		5,941
Derivative financial instruments	—1,155	—		1,155
Total assets	\$ -449,848	\$ 9,018		\$458,866

Liabilities				
Derivative financial instruments	\$ -1,155	\$ —		\$1,155
Total liabilities	\$ -1,155	\$ —		\$1,155

Securities available for sale. Securities classified as available for sale are reported at fair value utilizing Level 2 and Level 3 inputs. Fair values for Level 2 securities are based upon dealer quotes, market spreads, the U.S. Treasury yield curve, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions at the security level. At March 31, 2016, Level 3 securities available for sale consist primarily of three Auction Rate Securities that are valued based on the securities' estimated cash flows, yields of comparable securities, and live trading levels.

State tax credits held for sale. At March 31, 2016, of the \$45.3 million of state tax credits held for sale on the condensed consolidated balance sheet, approximately \$4.7 million were carried at fair value. The remaining \$40.6 million of state tax credits were accounted for at cost.

The Company is not aware of an active market that exists for the 10-year streams of state tax credit financial instruments. However, the Company's principal market for these tax credits consists of Missouri state residents

who buy these credits and local and regional accounting firms who broker them. As such, the Company employed a discounted cash flow analysis (income approach) to determine the fair value.

The fair value measurement is calculated using an internal valuation model with market data including discounted cash flows based upon the terms and conditions of the tax credits. If the underlying project remains in compliance with the various federal and state rules governing the tax credit program, each project will generate about 10 years of tax credits. The inputs to the discounted cash flow calculation include: the amount of tax credits generated each year, the anticipated sale price of the tax credit, the timing of the sale and a discount rate. The discount rate is estimated using the LIBOR swap curve at a point equal to the remaining life in years of credits plus a 205 basis point spread. With the exception of the discount rate, the other inputs to the fair value calculation are observable and readily available. The discount rate is considered a Level 3 input because it is an “unobservable input” and is based on the Company’s assumptions. An increase in the discount rate utilized would generally result in a lower estimated fair value of the tax credits. Alternatively, a decrease in the discount rate utilized would generally result in a higher estimated fair value of the tax credits. Given the significance of this input to the fair value calculation, the state tax credit assets are reported as Level 3 assets.

Derivatives. Derivatives are reported at fair value utilizing Level 2 inputs. The Company obtains counterparty quotations to value its interest rate swaps and caps. In addition, the Company validates the counterparty quotations with third party valuation sources. Derivatives with negative fair values are included in Other liabilities in the consolidated balance sheets. Derivatives with positive fair value are included in Other assets in the consolidated balance sheets.

Level 3 financial instruments

The following table presents the changes in Level 3 financial instruments measured at fair value on a recurring basis as of March 31, 2016 and 2015.

Purchases, sales, issuances and settlements. There were no Level 3 purchases during the quarter ended March 31, 2016 or 2015.

Transfers in and/or out of Level 3. There were no Level 3 transfers during the quarter ended March 31, 2016 and 2015.

	Securities available for sale, at fair value	
	Three months ended March 31,	
(in thousands)	2016	2015
Beginning balance	\$3,077	\$3,059
Total gains:		
Included in other comprehensive income	8	12
Purchases, sales, issuances and settlements:		
Purchases	—	—
Ending balance	\$3,085	\$3,071
Change in unrealized gains relating to assets still held at the reporting date	\$8	\$12

	State tax credits held for sale Three months ended March 31,	
(in thousands)	2016	2015
Beginning balance	\$5,941	\$3,059
Total gains:		
Included in earnings	76	12
Purchases, sales, issuances and settlements:		
Sales	(1,284)	—
Ending balance	\$4,733	\$3,071
Change in unrealized gains (losses) relating to assets still held at the reporting date	\$(305)	\$12

From time to time, the Company measures certain assets at fair value on a nonrecurring basis. These include assets that are measured at the lower of cost or fair value that were recognized at fair value below cost at the end of the period. The following table presents financial instruments and non-financial assets measured at fair value on a non-recurring basis as of March 31, 2016.

(in thousands)	(1)	(1)	(1)	(1)	Total gains (losses) for the three months ended March 31, 2016	
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
Impaired loans	\$ 108	\$	—\$	—\$	108	\$ (74)
Other real estate	49	—	—	49		(1)
Total	\$ 157	\$	—\$	—\$	157	\$ (75)

(1) The amounts represent only balances measured at fair value during the period and still held as of the reporting date.

Impaired loans are reported at the fair value of the underlying collateral for collateral dependent loans. Fair values for impaired loans are obtained from current appraisals by qualified licensed appraisers or independent valuation specialists. Other real estate owned is adjusted to fair value upon foreclosure of the underlying loan. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value less costs to sell. Fair value of other real estate is based upon the current appraised values of the properties as determined by qualified licensed appraisers and the Company's judgment of other relevant market conditions. Certain state tax credits are reported at cost.

Following is a summary of the carrying amounts and fair values of the Company's financial instruments on the consolidated balance sheets at March 31, 2016 and December 31, 2015.

(in thousands)	March 31, 2016		December 31, 2015	
	Carrying Amount	Estimated fair value	Carrying Amount	Estimated fair value
Balance sheet assets				
Cash and due from banks	\$56,251	\$ 56,251	\$47,935	\$ 47,935
Federal funds sold	193	193	91	91
Interest-bearing deposits	50,789	50,789	47,131	47,131
Securities available for sale	461,832	461,832	451,770	451,770
Securities held to maturity	43,257	43,853	43,714	43,441
Other investments, at cost	19,231	19,231	17,455	17,455
Loans held for sale	6,409	6,409	6,598	6,598
Derivative financial instruments	8,988	8,988	1,155	1,155
Portfolio loans, net	2,852,151	2,855,923	2,781,879	2,782,704
State tax credits, held for sale	45,305	49,180	45,850	49,588
Accrued interest receivable	8,797	8,797	8,399	8,399
Balance sheet liabilities				
Deposits	2,931,746	2,933,105	2,784,591	2,784,654
Subordinated debentures	56,807	35,599	56,807	35,432
Federal Home Loan Bank advances	130,500	130,496	110,000	109,994
Other borrowings	193,788	193,761	270,326	270,286
Derivative financial instruments	8,988	8,988	1,155	1,155
Accrued interest payable	542	542	629	629

For information regarding the methods and assumptions used to estimate the fair value of each class of financial instruments for which it is practical to estimate such value, refer to Note 19 – Fair Value Measurements in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

The following table presents the level in the fair value hierarchy for the estimated fair values of only the Company's financial instruments that are not already presented on the condensed consolidated balance sheets at fair value at March 31, 2016, and December 31, 2015.

(in thousands)	Estimated Fair Value			Balance at March 31, 2016
	Measurement at Reporting Date Using		Level 3	
	Level 1	Level 2		
Financial Assets:				
Securities held to maturity	\$-\$43,853	\$	—	\$ 43,853
Portfolio loans, net	—	2,855,923		2,855,923
State tax credits, held for sale	—	44,447		44,447
Financial Liabilities:				
Deposits	2,470,897	462,208		2,933,105
Subordinated debentures	—35,599	—		35,599
Federal Home Loan Bank advances	—130,496	—		130,496
Other borrowings	—193,761	—		193,761

(in thousands)	Estimated Fair Value			Balance at December 31, 2015
	Measurement at Reporting Date Using		Level 3	
	Level 1	Level 2		
Financial Assets:				
Securities held to maturity	\$-\$43,441	\$	—	\$ 43,441
Portfolio loans, net	—	2,782,704		2,782,704
State tax credits, held for sale	—	43,647		43,647
Financial Liabilities:				
Deposits	2,428,403	356,251		2,784,654
Subordinated debentures	—35,432	—		35,432
Federal Home Loan Bank advances	—109,994	—		109,994
Other borrowings	—270,286	—		270,286

NOTE 9 - NEW AUTHORITATIVE ACCOUNTING GUIDANCE

FASB ASU 2014-09, "Revenue from Contracts with Customers" In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers". The objective of ASU 2014-09 is to establish a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede most of the existing revenue recognition guidance, including industry-specific guidance. The core principle of ASU 2014-09 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying the new guidance, an entity will (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the contract's performance obligations; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 applies to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification. The new guidance was originally effective for annual reporting periods (including interim periods within those periods) beginning after December 15, 2016 for public companies. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of this guidance to annual reporting periods beginning after December 15, 2017 for public companies, and permits early adoption on a limited basis. The Company is currently evaluating the new guidance and has not determined the impact this standard may have on its financial statements, nor decided upon the method of adoption. Entities have the option of using either a full retrospective or

modified approach to adopt ASU 2014-09.

FASB ASU 2016-01 "Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." ASU 2016-01 requires equity investments to be measured at fair value through earnings, and eliminates the available-for-sale classification for equity securities with readily determinable fair values. For financial liabilities where the fair value option has been elected, changes in fair value due to instrument-specific credit risk must be recognized in other comprehensive income. When measuring the fair value of financial instruments at amortized cost, the exit price must be used for disclosure purposes. The ASU also requires that financial assets and liabilities be presented separately in the notes to the financial statements. This ASU becomes effective for the Company in the first quarter of 2018. Early adoption is permitted. The Company is currently evaluating the new guidance and has not determined the impact this standard may have on its financial statements.

FASB ASU 2016-02 "Leases (Topic 842)" In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)" which requires organizations that lease assets ("lessees") to recognize the assets and liabilities for the rights and obligations created by leases with terms of more than 12 months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee remains dependent on its classification as a finance or operating lease. The criteria for determining whether a lease is a finance or operating lease has not been significantly changed by this ASU. The ASU also requires additional disclosure of the amount, timing, and uncertainty of cash flows arising from leases, including qualitative and quantitative requirements. The guidance becomes effective for periods beginning after December 15, 2018. Early adoption will be permitted. The Company is currently evaluating the new guidance and has not determined the impact this standard may have on its consolidated balance sheets.

FASB ASU 2016-09 "Compensation-Stock Compensation (Topic 718)" In March 2016, the FASB issued ASU No. 2016-09, "Compensation-Stock Compensation (Topic 718)" which impacts accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 requires all excess tax benefits and tax deficiencies to be recognized in the income statement as income tax expense (or benefit.) The tax effects of exercised or vested awards must be treated as discrete items in the reporting period in which they occur, regardless of whether the benefit reduces taxes payable in the current period. Excess tax benefits will be classified with other income tax cash flows as an operating activity, and cash paid by an employer when withholding shares for tax liabilities should be classified as a financing activity. The guidance becomes effective for annual periods beginning after December 15, 2017, and interim periods beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the new guidance and has not determined the impact this standard may have on its financial statements.

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

Some of the information in this report contains "forward-looking statements" within the meaning of and intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements typically are identified with use of terms such as "may," "might," "will," "should," "expect," "plan," "anticipate," "b," "estimate," "predict," "potential," "could," "continue" and the negative of these terms and similar words, although some forward-looking statements are expressed differently. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. You should be aware that our actual results could differ materially from those contained in the forward-looking statements due to a number of factors, including, but not limited to: credit risk; changes in the appraised valuation of real estate securing impaired loans; outcomes of litigation and other contingencies; exposure to general and local economic conditions; risks associated with rapid increases or decreases in prevailing interest rates; consolidation within the banking industry; competition from banks and other financial institutions; our ability to attract and retain relationship officers and other key personnel; burdens imposed by federal and state regulation; changes in regulatory requirements; changes in accounting regulation or standards applicable to banks; and other risks discussed under the caption "Risk Factors" of our most recently filed Form 10-K and within this Form 10-Q, all of which could cause the Company's actual results to differ from those set forth in the forward-looking statements.

Readers are cautioned not to place undue reliance on our forward-looking statements, which reflect management's analysis and expectations only as of the date of such statements. Forward-looking statements speak only as of the date they are made, and the Company does not intend, and undertakes no obligation, to publicly revise or update forward-looking statements after the date of this report, whether as a result of new information, future events or otherwise, except as required by federal securities law. You should understand that it is not possible to predict or identify all risk factors. Readers should carefully review all disclosures we file from time to time with the Securities and Exchange Commission which are available on our website at www.enterprisebank.com under "Investor Relations."

Introduction

The following discussion describes the significant changes to the financial condition of the Company that have occurred during the first three months of 2016 compared to the financial condition as of December 31, 2015. In addition, this discussion summarizes the significant factors affecting the results of operations, liquidity and cash flows of the Company for the three months ended March 31, 2016, compared to the same periods in 2015. This discussion should be read in conjunction with the accompanying condensed consolidated financial statements included in this report and our Annual Report on Form 10-K for the year ended December 31, 2015.

Executive Summary

Below are highlights of our financial performance for the quarter ended March 31, 2016, as compared to the linked quarter ended December 31, 2015, and prior year quarter ended March 31, 2015.

(in thousands, except per share data)	For the Three Months ended and At			
	March 31, 2016	December 31, 2015	March 31, 2015	
EARNINGS				
Total interest income	\$35,460	\$ 35,096	\$32,151	
Total interest expense	3,032	3,017	3,106	
Net interest income	32,428	32,079	29,045	
Provision for portfolio loans	833	543	1,580	
Provision reversal for purchased credit impaired loans	(73)	(917)	(3,270)	
Net interest income after provision for loan losses	31,668	32,453	30,735	
Total noninterest income	6,005	6,557	3,583	
Total noninterest expense	20,762	22,886	19,950	
Income before income tax expense	16,911	16,124	14,368	
Income tax expense	5,886	5,445	5,022	
Net income	\$11,025	\$ 10,679	\$9,346	
Basic earnings per share	\$0.55	\$ 0.53	\$0.47	
Diluted earnings per share	0.54	0.52	0.46	
Return on average assets	1.22	% 1.20	% 1.16	%
Return on average common equity	12.46	% 12.14	% 11.78	%
Return on average tangible common equity	13.74	% 13.43	% 13.19	%
Net interest margin (fully tax equivalent)	3.87	% 3.91	% 3.92	%
Efficiency ratio	54.02	% 59.23	% 61.14	%
ASSET QUALITY (1)				
Net charge-offs (recoveries)	\$(99)	\$ (647)	\$1,478	
Nonperforming loans	9,513	9,100	15,143	
Classified assets	73,194	67,761	63,001	
Nonperforming loans to portfolio loans	0.34	% 0.33	% 0.62	%
Nonperforming assets to total assets (2)	0.52	% 0.48	% 0.52	%
Allowance for loan losses to portfolio loans	1.21	% 1.22	% 1.24	%
Net charge-offs (recoveries) to average loans (annualized)	(0.01)	% (0.10)	% 0.25	%

(1) Excludes PCI loans and related assets, except for their inclusion in total assets.

(2) Other real estate from PCI loans included in Nonperforming assets beginning with the period ended December 31, 2015 due to termination of FDIC loss share agreements.

Below are highlights of the Company's Core performance measures, which we believe are important measures of financial performance, but are non-GAAP measures. Core performance measures include contractual interest on PCI loans, but exclude incremental accretion on these loans, and exclude the Change in the FDIC receivable, gain or loss on the sale of other real estate from PCI loans, and certain other income and expense items the Company believes are not indicative of or useful to measure the Company's operating performance on an ongoing basis. A reconciliation of

Core performance measures has been included in this MD&A section under the caption "Use of Non-GAAP Financial Measures".

(in thousands)	For the Three Months ended			
	March 31, 2016	December 31, 2015	March 31, 2015	
CORE PERFORMANCE MEASURES (1)				
Net interest income	\$29,594	\$ 28,667	\$25,587	
Provision for portfolio loans	833	543	1,580	
Noninterest income	6,005	7,056	5,839	
Noninterest expense	20,435	20,027	19,068	
Income before income tax expense	14,331	15,153	10,778	
Income tax expense	4,897	5,073	3,647	
Net income	\$9,434	\$ 10,080	\$7,131	
Earnings per share	\$0.47	\$ 0.49	\$0.35	
Return on average assets	1.04	% 1.13	% 0.88	%
Return on average common equity	10.66	% 11.46	% 8.99	%
Return on average tangible common equity	11.76	% 12.68	% 10.06	%
Net interest margin (fully tax equivalent)	3.54	% 3.50	% 3.46	%
Efficiency ratio	57.40	% 56.06	% 60.67	%

(1) A non-GAAP measure. A reconciliation has been included in this MD&A section under the caption "Use of Non-GAAP Financial Measures."

During the three months ended March 31, 2016, the Company noted the following trends:

The Company reported net income of \$11.0 million, or \$0.54 per share, for the three months ended March 31, 2016, compared to \$10.7 million, or \$0.52 per share, in the linked fourth quarter, and \$9.3 million, or \$0.46 per share, for the same period in 2015. The increase in net income over the prior year period was largely due to an increase in net interest income from strong loan growth, and a decrease in the Change in FDIC receivable due to termination of the Company's loss share agreements with the FDIC in the fourth quarter of 2015.

On a core basis¹, net income was \$9.4 million, or \$0.47 per share, for the three months ended March 31, 2016, compared to \$10.1 million, or \$0.49 per share, in the linked quarter, and \$7.1 million, or \$0.35 per share, in the prior year period. The increase over the prior year was primarily due to increases in earning asset balances, driving growth in core net interest income, and a decrease in provision for losses on portfolio loans, offset by an increase in noninterest expense.

Net interest income for the first three months of 2016 increased \$3.4 million, or 12%, from the prior year quarter due to strong portfolio loan growth during the year, offset slightly by a decline in accelerations from PCI loans. On a core basis¹, net interest income increased \$4.0 million, or 16%, when compared to the prior year period.

The Core net interest margin¹, for the first three months of 2016, defined as Net interest margin (fully tax equivalent), including contractual interest on PCI loans, but excluding the incremental accretion on these loans, increased eight basis points from the prior year period primarily due to managed reductions in funding costs combined with an improved earning asset mix, and an increase in the yield on portfolio loans.

Noninterest income for the first three months of 2016 increased 68% compared to the prior year period largely due to a decrease in the Change in FDIC receivable due to the aforementioned termination of the Company's loss share agreements. Core noninterest income¹ declined slightly from the linked quarter and

increased slightly from the prior year quarter primarily due to seasonal fluctuations in tax credit sales and gains on sales of other real estate.

Noninterest expense increased 4% from the prior year period, and the Company's efficiency ratio improved to 54.0% from 61.1% when compared to the prior year. The increase was largely due to an increase in Employee compensation and benefits, which also drove an increase in Core noninterest expense¹ of 7% when compared to the prior year. However, the Core efficiency ratio¹ improved to 57.4% from 60.7% when compared to the prior year period due to revenue growth resulting from investments in revenue producers, as well as improved operating leverage.

Other highlights:

The Company's Board approved an increase in the Company's quarterly cash dividend to \$0.10 per common share for the second quarter of 2016 from \$0.09, payable on June 30, 2016 to shareholders of record as of the close of business on June 15, 2016.

The Company repurchased 160,100 shares at \$26.30 per share pursuant to its publicly announced program during the quarter ended March 31, 2016. The Company's Board authorized the repurchase plan in May of 2015, which allows the Company to repurchase up to two million common shares, representing approximately 10% of the Company's currently outstanding shares. Shares may be bought back in open market or privately negotiated transactions over an indeterminate time period based on market and business conditions.

Balance sheet highlights:

Loans – Loans totaled \$2.9 billion at March 31, 2016, including \$63.5 million of PCI loans. Portfolio loans increased \$81.9 million, or 3%, from December 31, 2015. Commercial and industrial loans increased \$60.7 million, or 4%, Consumer and other loans decreased \$1.3 million, or 1%, Construction loans and Residential real estate loans increased \$20.0 million, or 6%, and Commercial real estate increased \$2.5 million. See Item 1, Note 4 – Portfolio Loans for more information.

Deposits – Total deposits at March 31, 2016 were \$2.9 billion, an increase of \$147.2 million, or 5%, from December 31, 2015, largely due to an increase in brokered certificates of deposit to fund significant loan growth in the quarter.

Asset quality – Nonperforming loans were \$9.5 million at March 31, 2016, compared to \$9.1 million at December 31, 2015. Nonperforming loans represented 0.34% of portfolio loans at March 31, 2016 versus 0.33% at December 31, 2015. There were no portfolio loans that were over 90 days delinquent and still accruing at March 31, 2016 or December 31, 2015.

Provision for portfolio loan losses was \$0.8 million for the three months ended March 31, 2016, compared to \$1.6 million for the three months ended March 31, 2015. See Item 1, Note 4 – Portfolio Loans, and Provision and Allowance for Loan Losses in this section for more information.

RESULTS OF OPERATIONS

Net Interest Income

Average Balance Sheet

The following table presents, for the periods indicated, certain information related to our average interest-earning assets and interest-bearing liabilities, as well as, the corresponding interest rates earned and paid, all on a tax equivalent basis.

(in thousands)	Three months ended March 31, 2016			2015		
	Average Balance	Interest Income/Expense	Average Yield/ Rate	Average Balance	Interest Income/Expense	Average Yield/ Rate
Assets						
Interest-earning assets:						
Taxable portfolio loans (1)	\$2,741,188	\$ 28,310	4.15 %	\$2,391,117	\$ 24,227	4.11 %
Tax-exempt portfolio loans (2)	40,832	660	6.50	38,405	624	6.59
Purchased credit impaired loans	69,031	3,891	22.67	97,201	4,997	20.85
Total loans	2,851,051	32,861	4.64	2,526,723	29,848	4.79
Taxable investments in debt and equity securities	465,291	2,459	2.13	418,812	2,199	2.13
Non-taxable investments in debt and equity securities (2)	49,396	538	4.38	42,968	479	4.52
Short-term investments	48,054	61	0.51	59,312	47	0.32
Total securities and short-term investments	562,741	3,058	2.19	521,092	2,725	2.12
Total interest-earning assets	3,413,792	35,919	4.23	3,047,815	32,573	4.33
Noninterest-earning assets:						
Cash and due from banks	54,996			48,232		
Other assets	216,366			218,347		
Allowance for loan losses	(43,846)			(46,025)		
Total assets	\$3,641,308			\$3,268,369		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Interest-bearing transaction accounts	\$551,684	\$ 306	0.22 %	\$484,724	\$ 277	0.23 %
Money market accounts	1,064,616	1,006	0.38	843,245	642	0.31
Savings	96,067	60	0.25	81,408	50	0.25
Certificates of deposit	384,092	1,019	1.07	526,489	1,591	1.23
Total interest-bearing deposits	2,096,459	2,391	0.46	1,935,866	2,560	0.54
Subordinated debentures	56,807	348	2.46	56,807	302	2.16
Other borrowed funds	382,448	293	0.31	274,022	244	0.36
Total interest-bearing liabilities	2,535,714	3,032	0.48	2,266,695	3,106	0.56
Noninterest bearing liabilities:						
Demand deposits	714,750			655,095		
Other liabilities	34,864			24,807		
Total liabilities	3,285,328			2,946,597		
Shareholders' equity	355,980			321,772		
Total liabilities & shareholders' equity	\$3,641,308			\$3,268,369		
Net interest income		\$ 32,887			\$ 29,467	
Net interest spread			3.75 %			3.77 %
Net interest margin			3.87 %			3.92 %

Average balances include non-accrual loans. Loan fees, net of amortization of deferred loan origination fees and (1) costs, included in interest income are approximately \$0.4 million and \$0.4 million for the three months ended March 31, 2016 and 2015 respectively.

Non-taxable income is presented on a fully tax-equivalent basis using a 38% tax rate in 2015 and 2014. The (2) tax-equivalent adjustments were \$0.5 million and \$0.4 million for the three months ended March 31, 2016 and 2015.

Rate/Volume

The following table sets forth, on a tax-equivalent basis for the periods indicated, a summary of the changes in interest income and interest expense resulting from changes in yield/rates and volume.

(in thousands)	2016 compared to 2015		
	Three months ended		
	March 31,		
	Increase (decrease) due to		
	Volume(1)	Rate(2)	Net
Interest earned on:			
Taxable portfolio loans	\$3,801	\$ 282	\$4,083
Tax-exempt portfolio loans (3)	43	(7)	36
Purchased credit impaired loans	(1,526)	420	(1,106)
Taxable investments in debt and equity securities	264	(4)	260
Non-taxable investments in debt and equity securities (3)	74	(15)	59
Short-term investments	(10)	24	14
Total interest-earning assets	\$2,646	\$ 700	\$3,346
Interest paid on:			
Interest-bearing transaction accounts	\$39	\$ (10)	\$29
Money market accounts	194	170	364
Savings	10	—	10
Certificates of deposit	(387)	(185)	(572)
Subordinated debentures	—	46	46
Borrowed funds	88	(39)	49
Total interest-bearing liabilities	(56)	(18)	(74)
Net interest income	\$2,702	\$ 718	\$3,420

(1) Change in volume multiplied by yield/rate of prior period.

(2) Change in yield/rate multiplied by volume of prior period.

(3) Nontaxable income is presented on a fully-tax equivalent basis using the combined statutory federal and state income tax rate in effect for each tax year.

NOTE: The change in interest due to both rate and volume has been allocated to rate and volume changes in proportion to the relationship of the absolute dollar amounts of the change in each.

Net interest income (on a tax equivalent basis) was \$32.9 million for the three months ended March 31, 2016, compared to \$29.5 million for the same period of 2015, an increase of \$3.4 million, or 12%. Total interest income increased \$3.3 million and total interest expense decreased \$0.1 million. The tax-equivalent net interest margin was 3.87% for the first quarter of 2016, compared to 3.91% for the fourth quarter of 2015, and 3.92% in the first quarter of 2015. The yield on taxable portfolio loans increased 4 basis points from the prior year period to 4.15% for the three months ended March 31, 2016. The increase was due to an increase in yields on variable rate loans, aided by the Federal Reserve's raise in the targeted Fed Funds rate of 25 basis points, to a range of 0.25% to 0.50%, in December 2015. The run-off of higher yielding PCI loans continues to negatively impact net interest margin leading to a \$1.5 million decrease in interest income due to volume.

Core net interest margin¹ was 3.54% for the three months ended March 31, 2016, compared to 3.46% for the prior year period. Core net interest margin¹ increased eight basis points from the prior year quarter primarily due to loan growth improving the earning asset mix, lower funding costs, and the aforementioned increase in the yield on

portfolio loans. The Company continues to manage its balance sheet to grow core net interest income and expects to maintain or improve core net interest margin over the coming quarters; however, pressure on funding costs and continued reductions in PCI loan balances could negate the expected trends in core net interest margin.

Purchased Credit Impaired "PCI" Contribution

The following table illustrates the non-core contribution of PCI loans and related assets for the periods indicated.

(in thousands)	For the Three Months ended	
	March 31, 2016	March 31, 2015
Accelerated cash flows and other incremental accretion	\$2,834	\$ 3,458
Provision reversal for PCI loan losses	73	3,270
Loss on sale of other real estate	—	(15)
Change in FDIC loss share receivable	—	(2,264)
Change in FDIC clawback liability	—	(412)
Other expenses	(327)	(470)
PCI assets income before income tax expense	\$2,580	\$ 3,567

Accelerated cash flows and other incremental accretion consists of the interest income on PCI loans in excess of contractual interest on the loans. The contractual amount of interest is included in the Company's core results. At March 31, 2016, the remaining accretable yield on the portfolio was estimated to be \$21 million and the non-accretable difference was approximately \$27 million. Absent cash flow accelerations or pool impairment, the Company currently estimates average PCI loan balances for 2016 to be approximately \$60 million.

In the fourth quarter of 2015, the Company incurred a \$2.4 million charge to terminate all existing loss share agreements with the FDIC. As of March 31, 2016, the entire charge has been earned back through accretion from early repayment of PCI loans, loan recoveries, and provision reversal, all no longer shared with the FDIC.

Noninterest Income

The following table presents a comparative summary of the major components of noninterest income for the periods indicated.

(in thousands)	Three months ended March 31,			
	2016	2015	Increase (decrease)	
Service charges on deposit accounts	\$2,043	\$1,856	\$187	10 %
Wealth management revenue	1,662	1,740	(78)	(4)%
Other service charges and fee income	868	753	115	15 %
Gain on state tax credits, net	518	674	(156)	(23)%
Gain on sale of other real estate	122	35	87	249 %
Miscellaneous income	792	781	11	1 %
Core noninterest income (1)	6,005	5,839	166	3 %
Loss on sale of other real estate from PCI loans	—	(15)	15	(100)%
Gain on sale of investment securities	—	23	(23)	(100)%
Change in FDIC loss share receivable	—	(2,264)	2,264	(100)%
Total noninterest income	\$6,005	\$3,583	\$2,422	68 %

(1) A non-GAAP measure. A reconciliation has been included in this MD&A section under the caption "Use of Non-GAAP Financial Measures."

Noninterest income increased \$2.4 million, or 68% in the first three months of 2016 compared to the first three months of 2015. Core noninterest income¹ grew 3% in the first three months of 2016 due to an increase in charges on deposit accounts, and fee income from swaps, card products, and mortgages. Gain on state tax credits decreased \$0.2 million from the prior year period, as sales depend on client demand and availability of tax credits.

Noninterest Expense

The following table presents a comparative summary of the major components of noninterest expense for the periods indicated.

(in thousands)	Three months ended March 31,				
	2016	2015	Increase (decrease)		
Core expenses (1):					
Employee compensation and benefits - core	\$12,465	\$11,250	\$1,215	11	%
Occupancy - core	1,657	1,667	(10)	(1)	%
Data processing - core	1,089	1,001	88	9	%
FDIC and other insurance	723	726	(3)	—	%
Professional fees	684	972	(288)	(30)	%
Loan, legal and other real estate expense - core	254	131	123	94	%
Other - core	3,563	3,321	242	7	%
Core noninterest expense (1)	20,435	19,068	1,367	7	%
FDIC clawback	—	412	(412)	(100)	%
Other expenses related to PCI loans	327	470	(143)	(30)	%
Total noninterest expense	\$20,762	\$19,950	\$812	4	%

(1) A non-GAAP measure. A reconciliation has been included in this MD&A section under the caption "Use of Non-GAAP Financial Measures."

Noninterest expenses were \$20.8 million for the three months ended March 31, 2016, compared to \$20.0 million for the three months ended March 31, 2015. Core noninterest expenses¹, which exclude certain items and expenses directly related to PCI loans and related assets increased \$1.4 million to \$20.4 million for the three months ended March 31, 2016, from \$19.1 million for the prior year period. The increase was largely due to an increase in Employee compensation and benefits from the addition of client service personnel to accommodate growth.

The Company's Core efficiency ratio¹ was 57.4% for the three months ended March 31, 2016, compared to 60.7% for the prior year, and reflects overall expense management and revenue growth trends. Core efficiency ratio is a non-GAAP measure. A reconciliation of Core efficiency ratio has been included in this MD&A section under the caption "Use of Non-GAAP Financial Measures".

The Company anticipates total noninterest expenses to be between \$19 million and \$21 million per quarter for 2016.

Income Taxes

The Company's income tax expense for the three months ended March 31, 2016, which includes both federal and state taxes, was \$5.9 million, compared to \$5.0 million for the same period of 2015. The combined federal and state effective income tax rates for the three months ended March 31, 2016 were 34.8%, compared to 35.0% for the same period of 2015.

Summary Balance Sheet

(in thousands)	March 31, December 31, Increase			
	2016	2015	(decrease)	
Total cash and cash equivalents	\$ 106,233	\$ 94,157	12,076	12.8 %
Securities	505,089	495,484	9,605	1.9 %
Portfolio loans	2,832,616	2,750,737	81,879	3.0 %
Purchased credit impaired loans	63,477	74,758	(11,281)	(15.1)%
Total assets	3,709,905	3,608,483	101,422	2.8 %
Deposits	2,931,746	2,784,591	147,155	5.3 %
Total liabilities	3,350,521	3,257,654	92,867	2.9 %
Total shareholders' equity	359,384	350,829	8,555	2.4 %

Assets

Loans by Type

The Company has a diversified loan portfolio, with no particular concentration of credit in any one economic sector; however, a substantial portion of the portfolio is secured by real estate, including loans classified as C&I loans. The ability of the Company's borrowers to honor their contractual obligations is partially dependent upon the local economy and its effect on the real estate market. The following table summarizes the composition of the Company's loan portfolio:

(in thousands)	March 31, December 31, Increase			
	2016	2015	(decrease)	
Commercial and industrial	\$ 1,544,980	\$ 1,484,327	\$ 60,653	4.1 %
Commercial real estate - investor owned	439,355	428,064	11,291	2.6 %
Commercial real estate - owner occupied	334,180	342,959	(8,779)	(2.6)%
Construction and land development	175,324	161,061	14,263	8.9 %
Residential real estate	202,255	196,498	5,757	2.9 %
Consumer and other	136,522	137,828	(1,306)	(0.9)%
Portfolio loans	2,832,616	2,750,737	81,879	3.0 %
Purchased credit impaired loans	63,477	74,758	(11,281)	(15.1)%
Total loans	\$ 2,896,093	\$ 2,825,495	\$ 70,598	2.5 %

Portfolio loans grew by \$81.9 million to \$2.8 billion at March 31, 2016 when compared to December 31, 2015. PCI loans totaled \$63.5 million at March 31, 2016, a decrease of \$11.3 million, or 15%, from December 31, 2015, primarily as a result of principal paydowns and accelerated loan payoffs.

The following table illustrates loan growth with selected specialized lending detail:

(in thousands)	March 31,	December 31,	Increase	
	2016	2015	(decrease)	
Enterprise value lending	\$359,862	\$350,266	\$9,596	2.7 %
C&I - general	759,330	732,186	27,144	3.7 %
Life insurance premium financing	272,450	265,184	7,266	2.7 %
Tax credits	153,338	136,691	16,647	12.2 %
CRE, Construction, and land development	948,859	932,084	16,775	1.8 %
Residential	202,255	196,498	5,757	2.9 %
Other	136,522	137,828	(1,306)	(0.9)%
Portfolio loans	\$2,832,616	\$2,750,737	\$81,879	3.0 %

Our specialty lending products, especially Enterprise value lending, Life insurance premium financing, and Tax credits, consists of primarily C&I loans, and have contributed significantly to the Company's loan growth. These loans are sourced through relationships developed with estate planning firms and private equity funds, and are not bound geographically by our traditional three markets. These specialized loan products offer opportunities to expand and diversify geographically by entering into new markets. The Company continues to focus on originating high-quality C&I relationships as they typically have variable interest rates and allow for cross selling opportunities involving other banking products. C&I loan growth also supports our efforts to maintain the Company's asset sensitive interest rate risk position. The Company continues to expect loan growth at or above 10% for 2016.

Provision and Allowance for Loan Losses

The following table summarizes changes in the allowance for loan losses arising from loans charged off and recoveries on loans previously charged off, by loan category, and additions to the allowance charged to expense.

(in thousands)	Three months ended March	
	31, 2016	2015
Allowance at beginning of period, for portfolio loans	\$33,441	\$30,185
Loans charged off:		
Commercial and industrial	(68)	(1,484)
Real estate:		
Commercial	—	—
Construction and land development	—	—
Residential	—	(1,073)
Consumer and other	(5)	(11)
Total loans charged off	(73)	(2,568)
Recoveries of loans previously charged off:		
Commercial and industrial	53	769
Real estate:		
Commercial	75	156
Construction and land development	6	60
Residential	34	26
Consumer and other	4	80
Total recoveries of loans	172	1,091
Net loan recoveries (chargeoffs)	99	(1,477)
Provision for portfolio loan losses	833	1,580
Allowance at end of period, for portfolio loans	\$34,373	\$30,288
Allowance at beginning of period, for purchased credit impaired loans	\$10,175	\$15,410
Loans charged off	(488)	3
Other	(45)	(518)
Net loan chargeoffs	(533)	(515)
Provision reversal for PCI loan losses	(73)	(3,270)
Allowance at end of period, for purchased credit impaired loans	\$9,569	\$11,625
Total allowance at end of period	\$43,942	\$41,913
Portfolio loans, average	\$2,777,456	\$2,425,962
Portfolio loans, ending	2,832,616	2,435,559
Net chargeoffs to average portfolio loans	(0.01)%	0.25 %
Allowance for portfolio loan losses to loans	1.21	1.24

The provision for loan losses on portfolio loans for the three months ended March 31, 2016 was \$0.8 million, compared to \$1.6 million for the comparable 2015 period. The provision for loan losses for the three month period ended March 31, 2016 was primarily to provide for first quarter loan growth.

For PCI loans, the Company remeasures contractual and expected cash flows periodically. When the remeasurement process results in a decrease in expected cash flows, typically due to an increase in expected credit losses, impairment is recorded through provision for loan losses. Similarly, when expected credit losses decrease in the remeasurement process, prior recorded impairment is reversed before the yield is increased prospectively. There was \$0.1 million of provision reversal for loan losses on PCI loans for the three months ended March 31, 2016, compared to provision reversal of \$3.3 million for the comparable 2015 period.

The allowance for loan losses on portfolio loans was 1.21% of total loans at March 31, 2016 compared to 1.24% at March 31, 2015. Management believes the allowance for loan losses is adequate to absorb inherent losses in the loan portfolio and coverage trends reflect relatively steady improvements in credit quality measures and classified loan levels. The reduction in the ratio of allowance for loan losses to total loans over the prior year period is due to lower levels of nonperforming loans, as well as continued improvement in loss migration results.

Nonperforming assets

The following table presents the categories of nonperforming assets and other ratios as of the dates indicated.

(in thousands)	March 31, 2016	December 31, 2015	March 31, 2015		
Non-accrual loans	\$9,226	\$8,797	\$13,805		
Restructured loans	287	303	1,338		
Total nonperforming loans (1)	9,513	9,100	15,143		
Other real estate from originated loans	2,813	3,218	—		
Other real estate from acquired loans	7,067	5,148	2,024		
Total nonperforming assets (1) (2)	\$19,393	\$17,466	\$17,167		
Total assets	\$3,709,905	\$3,608,483	\$3,275,295		
Portfolio loans	2,832,616	2,750,737	2,435,559		
Portfolio loans plus other real estate	2,842,496	2,759,103	2,437,583		
Nonperforming loans to portfolio loans (1)	0.34	% 0.33	% 0.62	%	
Nonperforming assets to total loans plus other real estate (1) (2)	0.68	0.63	0.70		
Nonperforming assets to total assets (1) (2)	0.52	0.48	0.52		
Allowance for portfolio loans to nonperforming loans (1)	361	% 367	% 200	%	

(1) Excludes PCI loans, except for their inclusion in total assets.

(2) Other real estate from PCI loans included in Nonperforming assets beginning with the year ended December 31, 2015 due to termination of all existing FDIC loss share agreements.

Nonperforming loans

Nonperforming loans exclude PCI loans that are accounted for on a pool basis, as the pools are considered to be performing. See Item 1, Note 5 – Purchased Credit Impaired Loans for more information on these loans.

Nonperforming loans based on loan type were as follows:

(in thousands)	March 31, 2016	December 31, 2015	March 31, 2015
Commercial and industrial	\$5,209	\$ 4,514	\$4,250
Commercial real estate	973	1,105	1,872
Construction and land development	2,652	2,800	6,366
Residential real estate	679	681	2,655
Consumer and other	—	—	—
Total	\$9,513	\$ 9,100	\$15,143

The following table summarizes the changes in nonperforming loans:

(in thousands)	Three months ended March 31,	
	2016	2015
Nonperforming loans beginning of period	\$9,100	\$22,244
Additions to nonaccrual loans	2,933	9,796
Additions to restructured loans	—	—
Chargeoffs	(35)	(2,556)
Other principal reductions	(2,202)	(13,891)
Moved to other real estate	(283)	(450)
Moved to performing	—	—
Loans past due 90 days or more and still accruing interest	—	—
Nonperforming loans end of period	\$9,513	\$15,143

Nonperforming loans at March 31, 2016 decreased by \$5.6 million, or 37%, when compared to March 31, 2015.

Other real estate

Other real estate at March 31, 2016, was \$9.9 million, compared to \$5.6 million at March 31, 2015.

The following table summarizes the changes in Other real estate:

(in thousands)	Three months ended March 31,	
	2016	2015
Other real estate beginning of period	\$8,366	\$7,840
Additions and expenses capitalized to prepare property for sale	2,203	890
Writedowns in value	—	(224)
Sales	(689)	(2,922)
Other real estate end of period	\$9,880	\$5,584

The writedowns in fair value were recorded in Loan legal and other real estate expense based on current market activity shown in the appraisals. In the three months ended March 31, 2016, the Company realized a net gain of \$0.1

million on the sale of other real estate and recorded these gains as part of Noninterest income.

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Liabilities

Liabilities totaled \$3.4 billion at March 31, 2016, compared to \$3.3 billion at December 31, 2015. The increase in liabilities was largely due to a \$147 million increase in total deposits, offset by a decrease of \$77 million in other borrowings.

Deposits

(in thousands)	March 31, 2016	December 31, 2015	Increase (decrease)		
Demand deposits	\$719,652	\$717,460	2,192	0.3	%
Interest-bearing transaction accounts	589,635	564,420	25,215	4.5	%
Money market accounts	1,061,407	1,053,662	7,745	0.7	%
Savings	100,203	92,861	7,342	7.9	%
Certificates of deposit:					
Brokered	157,939	39,573	118,366	299.1	%
Other	302,910	316,615	(13,705)	(4.3)	%
Total deposits	\$2,931,746	\$2,784,591	147,155	5.3	%
Non-time deposits / total deposits	84	% 87			%
Demand deposits / total deposits	25	% 26			%

Total deposits at March 31, 2016 were \$2.9 billion, an increase of \$147 million, or 5.3%, from December 31, 2015. The increase in deposits within our brokered certificates of deposit was to provide for significant loan growth in the quarter. The composition of our noninterest bearing deposits remained relatively stable at 25% of total deposits at March 31, 2016 compared to December 31, 2015. Lower rates on time deposit balances and a change in composition modestly improved deposit costs during the first three months of 2016 to 0.34%, as compared to 0.36% in the linked quarter, and 0.40% for the prior year period.

Core deposits, defined as total deposits excluding time deposits, were \$2.5 billion at March 31, 2016, an increase of \$42 million, or 7% on an annualized basis, from the linked quarter, and \$362 million, or 17%, when compared to the prior year period.

Shareholders' Equity

Shareholders' equity totaled \$359 million at March 31, 2016, a decrease of \$8.6 million from December 31, 2015. Significant activity during the three months ended March 31, 2016:

- Net income of \$11.0 million,
- Other comprehensive income of \$3.7 million from the change in unrealized gains on investment securities,
- Repurchase of 160,100 common shares for \$4.2 million,
- Dividends paid on common shares of \$1.8 million.

Liquidity and Capital Resources

Liquidity

The objective of liquidity management is to ensure we have the ability to generate sufficient cash or cash equivalents in a timely and cost-effective manner to meet our commitments as they become due. Typical demands on liquidity are run-off from demand deposits, maturing time deposits which are not renewed, and fundings under credit commitments

to customers. Funds are available from a number of sources, such as from the core deposit base and from loans and securities repayments and maturities.

Additionally, liquidity is provided from sales of the securities portfolio, fed fund lines with correspondent banks, borrowings from the Federal Reserve and the FHLB, the ability to acquire large and brokered deposits, and the ability to sell loan participations to other banks. These alternatives are an important part of our liquidity plan and provide flexibility and efficient execution of the asset-liability management strategy.

The Bank's Asset-Liability Management Committee oversees our liquidity position, the parameters of which are approved by the Bank's Board of Directors. Our liquidity position is monitored monthly by producing a liquidity report, which measures the amount of liquid versus non-liquid assets and liabilities. Our liquidity management framework includes measurement of several key elements, such as the loan to deposit ratio, a liquidity ratio, and a dependency ratio. The Company's liquidity framework also incorporates contingency planning to assess the nature and volatility of funding sources and to determine alternatives to these sources. While core deposits and loan and investment repayments are principal sources of liquidity, funding diversification is another key element of liquidity management and is achieved by strategically varying depositor types, terms, funding markets, and instruments.

Parent Company liquidity

The parent company's liquidity is managed to provide the funds necessary to pay dividends to shareholders, service debt, invest in subsidiaries as necessary, and satisfy other operating requirements. The parent company's primary funding sources to meet its liquidity requirements are dividends and payments from the Bank and proceeds from the issuance of equity (i.e. stock option exercises, stock offerings). Another source of funding for the parent company includes the issuance of subordinated debentures and other debt instruments.

The parent company currently has a senior unsecured revolving credit agreement ("Revolving Agreement") with another bank allowing for borrowings up to \$20 million. As of March 31, 2016, there are no outstanding balances under the Revolving Agreement. Additionally, the Company received a dividend from the Bank of \$2.5 million in the quarter as part of the Company's ongoing capital management. Management believes the current level of cash at the holding company of \$10.1 million will be sufficient to meet projected cash needs for at least the next year.

As of March 31, 2016, the Company had \$56.8 million of outstanding subordinated debentures as part of eight Trust Preferred Securities Pools. These securities are classified as debt but are included in regulatory capital and the related interest expense is tax-deductible, which makes them an attractive source of funding.

Bank liquidity

The Bank has a variety of funding sources available to increase financial flexibility. In addition to amounts currently borrowed, at March 31, 2016 the Bank has borrowing capacity of \$233.5 million from the FHLB of Des Moines under blanket loan pledges, and has an additional \$847.3 million available from the Federal Reserve Bank under a pledged loan agreement. The Bank has unsecured federal funds lines with five correspondent banks totaling \$60.0 million.

Investment securities are another important tool to the Bank's liquidity objectives. Of the \$461.8 million of the securities available for sale at March 31, 2016, \$271.1 million was pledged as collateral for deposits of public institutions, treasury, loan notes, and other requirements. The remaining \$190.8 million could be pledged or sold to enhance liquidity, if necessary.

In the normal course of business, the Bank enters into certain forms of off-balance sheet transactions, including unfunded loan commitments and letters of credit. These transactions are managed through the Bank's various risk management processes. Management considers both on-balance sheet and off-balance sheet transactions in its evaluation of the Company's liquidity. The Bank has \$1.1 billion in unused commitments as of March 31, 2016. While this commitment level would exhaust the majority the Company's current liquidity resources, the nature of these commitments is such that the likelihood of funding them in the aggregate at any one time is low.

Capital Resources

The Company and the Bank are subject to various regulatory capital requirements administered by the Federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and its bank affiliate must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The banking affiliate's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total, Tier 1, and Common equity tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. To be categorized as "well capitalized", banks must maintain minimum total risk-based (10%), Tier 1 risk-based (8%), Common equity tier 1 risk-based (6.5%), and Tier 1 leverage ratios (5%). As of March 31, 2016, and December 31, 2015, the Company and the Bank met all capital adequacy requirements to which they are subject.

The Bank continues to exceed regulatory standards and met the definition of "well-capitalized" (the highest category) at March 31, 2016. The Company adopted the Regulatory Capital Framework (Basel III) in 2015, and has implemented the necessary processes and procedures to comply.

The following table summarizes the Company's various capital ratios at the dates indicated:

(in thousands)	March 31, 2016	December 31, 2015		
Total capital to risk-weighted assets	12.02	% 11.85	%	
Tier 1 capital to risk-weighted assets	10.77	% 10.61	%	
Common equity tier 1 capital to risk-weighted assets	9.20	% 9.05	%	
Leverage ratio (Tier 1 capital to average assets)	10.51	% 10.71	%	
Tangible common equity to tangible assets ¹	8.87	% 8.88	%	
Tier 1 capital	\$379,231	\$374,676		
Total risk-based capital	423,248	418,367		

¹ Not a required regulatory capital ratio

The Company believes the tangible common equity ratio and the common equity tier 1 capital ratio are important measures of capital strength even though they are considered to be non-GAAP measures. The tables further within MD&A reconcile these ratios to U.S. GAAP.

Use of Non-GAAP Financial Measures:

The Company's accounting and reporting policies conform to generally accepted accounting principles ("GAAP") in the U.S. and the prevailing practices in the banking industry. However, the Company provides other financial measures, such as Core net interest margin, tangible common equity ratio and common equity tier 1 capital ratio, in this filing that are considered "non-GAAP financial measures." Generally, a non-GAAP financial measure is a numerical measure of a company's financial performance, financial position or cash flows that exclude (or include) amounts included in (or excluded from) the most directly comparable measure calculated and presented in accordance

with U.S. GAAP.

The Company believes these non-GAAP financial measures and ratios, when taken together with the corresponding U.S. GAAP measures and ratios, provide meaningful supplemental information regarding the Company's performance and capital strength. The Company's management uses, and believes investors benefit from referring to, these non-

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GAAP measures and ratios in assessing the Company's financial and operating results and related trends and when planning and forecasting future periods. However, these non-GAAP measures and ratios should be considered in addition to, and not as a substitute for or preferable to, ratios prepared in accordance with U.S. GAAP. The Company has provided a reconciliation of, where applicable, the most comparable GAAP financial measures and ratios to the non-GAAP financial measures and ratios, or a reconciliation of the non-GAAP calculation of the financial measure. The Company believes the tangible common equity and common equity tier 1 capital ratios are important financial measures of capital strength even though they are considered to be non-GAAP measures and provide useful information about the Company's capital adequacy. The tables below contain reconciliations of these ratios to the most comparable measure under U.S. GAAP.

Core Performance Measures

(in thousands)	For the Quarter ended			
	March 31, 2016	December 31, 2015	March 31, 2015	
CORE PERFORMANCE MEASURES				
Net interest income	\$32,428	\$ 32,079	\$29,045	
Less: Incremental accretion income	2,834	3,412	3,458	
Core net interest income	29,594	28,667	25,587	
Total noninterest income	6,005	6,557	3,583	
Less: Change in FDIC loss share receivable	—	(580)	(2,264)	
Less: Gain (loss) on sale of other real estate from PCI loans	—	81	(15)	
Less: Gain on sale of investment securities	—	—	23	
Core noninterest income	6,005	7,056	5,839	
Total core revenue	35,599	35,723	31,426	
Provision for portfolio loans	833	543	1,580	
Total noninterest expense	20,762	22,886	19,950	
Less: FDIC clawback	—	—	412	
Less: Other expenses related to PCI loans	327	423	470	
Less: FDIC loss share termination	—	2,436	—	
Core noninterest expense	20,435	20,027	19,068	
Core income before income tax expense	14,331	15,153	10,778	
Total income tax expense	5,886	5,445	5,022	
Less: Income tax expense of PCI assets	989	372	1,375	
Core income tax expense	4,897	5,073	3,647	
Core net income	\$9,434	\$ 10,080	\$7,131	
Core earnings per share	\$0.47	\$ 0.49	\$0.35	
Core efficiency ratio	57.40	% 56.06	% 60.67	%
Core return on average assets	1.04	% 1.13	% 0.88	%
Core return on average common equity	10.66	% 11.46	% 8.99	%
Core return on average tangible common equity	11.76	% 12.68	% 10.06	%

The Company believes Core performance measures are important measures of financial performance, even though they are non-GAAP. Core performance measures include contractual interest on PCI loans, but exclude incremental accretion on these loans, and exclude the Change in the FDIC receivable, gain or loss on the sale of other real estate from PCI loans, and certain other income and expense items the Company believes are not indicative of or useful to measure the Company's operating performance on an ongoing basis. The table below reconciles Core net interest margin to the most comparable number under U.S. GAAP.

Net Interest Margin to Core Net Interest Margin

(in thousands)	Three months ended March 31,		
	2016	2015	
Net interest income (fully tax equivalent)	\$32,887	\$29,467	
Less: Incremental accretion income	2,834	3,458	
Core net interest income (fully tax equivalent)	\$30,053	\$26,009	
Average earning assets	\$3,413,792	\$3,047,815	
Reported net interest margin (fully tax equivalent)	3.87	% 3.92	%
Core net interest margin (fully tax equivalent)	3.54	% 3.46	%

Tangible common equity ratio

(in thousands)	March 31,	December 31,	
	2016	2015	
Total shareholders' equity	\$359,384	\$350,829	
Less: Goodwill	30,334	30,334	
Less: Intangible assets	2,832	3,075	
Tangible common equity	\$326,218	\$317,420	
Total assets	\$3,709,905	\$3,608,483	
Less: Goodwill	30,334	30,334	
Less: Intangible assets	2,832	3,075	
Tangible assets	\$3,676,739	\$3,575,074	
Tangible common equity to tangible assets	8.87	% 8.88	%

Common equity tier 1 ratio

(in thousands)	March 31, 2016	December 31, 2015		
Total shareholders' equity	\$359,384	\$350,829		
Less: Goodwill	30,334	30,334		
Less: Intangible assets, net of deferred tax liabilities	1,048	759		
Less: Unrealized gains	3,929	218		
Plus: Qualifying trust preferred securities	55,100	55,100		
Plus: Other	58	58		
Total tier 1 capital	379,231	374,676		
Less: Qualifying trust preferred securities	55,100	55,100		
Less: Other	35	23		
Common equity tier 1 capital	\$324,096	\$319,553		
Total risk-weighted assets determined in accordance with prescribed regulatory requirements	\$3,521,433	\$3,530,521		
Common equity tier 1 capital to risk-weighted assets	9.20	% 9.05		%

Critical Accounting Policies

The impact and any associated risks related to the Company's critical accounting policies on business operations are described throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations," where such policies affect our reported and expected financial results. For a detailed description on the application of these and other accounting policies, see the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The disclosures set forth in this item are qualified by the section captioned “Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995” included in Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations of this report and other cautionary statements set forth elsewhere in this report.

Interest Rate Risk

Our interest rate risk management practices are aimed at optimizing net interest income, while guarding against deterioration that could be caused by certain interest rate scenarios. Interest rate sensitivity varies with different types of interest-earning assets and interest-bearing liabilities. We attempt to maintain interest-earning assets, comprised primarily of both loans and investments, and interest-bearing liabilities, comprised primarily of deposits, maturing or repricing in similar time horizons in order to minimize or eliminate any impact from market interest rate changes. In order to measure earnings sensitivity to changing rates, the Company uses an earnings simulation model.

The Company determines the sensitivity of its short-term future earnings to a hypothetical plus or minus 100 to 300 basis point parallel rate shock through the use of simulation modeling. The simulation of earnings includes the modeling of the balance sheet as an ongoing entity. Future business assumptions involving administered rate products, prepayments for future rate-sensitive balances, and the reinvestment of maturing assets and liabilities are included. These items are then modeled to project net interest income based on a hypothetical change in interest rates. The resulting net interest income for the next 12-month period is compared to the net interest income amount calculated using flat rates. This difference represents the Company's earnings sensitivity to a plus or minus 100 basis points parallel rate shock.

The following table summarizes the expected impact of interest rate shocks on net interest income (due to the current level of interest rates, the 200 and 300 basis point downward shock scenarios are not shown):

Rate Shock	Annual % change in net interest income
+ 300 bp	4.9%
+ 200 bp	3.4%
+ 100 bp	1.7%
- 100 bp	-3.1%

The Company occasionally uses interest rate derivative financial instruments as an asset/liability management tool to hedge mismatches in interest rate exposure indicated by the net interest income simulation described above. They are used to modify the Company's exposures to interest rate fluctuations and provide more stable spreads between loan yields and the rate on their funding sources. At March 31, 2016, the Company had \$3.5 million in notional amount of outstanding interest rate caps, to help manage interest rate risk.

ITEM 4: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of the Company's Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), management has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15, as of March 31, 2016. Disclosure controls and procedures include without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Based on that evaluation, the CEO and CFO concluded the Company's disclosure controls and procedures were effective as of March 31, 2016 to provide reasonable assurance of the achievement of the objectives described above.

Changes to Internal Controls

There were no changes during the period covered by this Quarterly Report on Form 10-Q in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, those controls.

PART II - OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

The Company and its subsidiaries are, from time to time, parties to various legal proceedings arising out of their businesses. Management believes there are no such proceedings pending or threatened against the Company or its subsidiaries which, if determined adversely, would have a material adverse effect on the business, consolidated financial condition, results of operations or cash flows of the Company or any of its subsidiaries.

ITEM 1A: RISK FACTORS

For information regarding risk factors affecting the Company, please see the cautionary language regarding forward-looking statements in the introduction to Item 2 of Part I of this Report on Form 10-Q, and Part I, Item 1A of our Report on Form 10-K for the fiscal year ended December 31, 2015. There have been no material changes to the risk factors described in such Annual Report on Form 10-K.

ITEM 2: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

The following table provides information on repurchases by the Company of its common stock in each month of the quarter ended March 31, 2016.

Period	Total number of shares purchased (a)	Weighted-average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs (b)
January 1, 2016 through January 31, 2016	160,100	\$ 26.30	160,100	1,839,900
February 1, 2016 through February 29, 2016	2,211	27.74	—	1,839,900
March 1, 2016 through March 31, 2016	—	—	—	1,839,900
Total	162,311	\$ 26.32	160,100	

(a) Includes 2,211 shares of the Company's common stock shares withheld to satisfy tax withholding obligations upon the vesting of awards of restricted stock. These shares were purchased pursuant to the terms of the applicable plan and not pursuant to a publicly announced repurchase plan or program.

(b) In May 2015, the Company's board of directors authorized the repurchase of up to two million shares of the Company's common stock. The repurchases may be made in open market or privately negotiated transactions and the repurchase program will remain in effect until fully utilized or until modified, superseded or terminated. The timing and exact amount of common stock repurchases will depend on a number of factors including, among others, market and general economic conditions, economic capital and regulatory capital considerations, alternative uses of capital, the potential impact on our credit ratings, and contractual and regulatory limitations.

ITEM 5. OTHER INFORMATION

Item 5.02: Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers' Compensatory Arrangements of Certain Officers.

Entry Into or Amendment of Material Compensatory Plan, Contract or Arrangement

As previously disclosed, Steven P. Marsh, Executive Vice President, Chairman and Chief Credit Officer of Enterprise Bank & Trust (the "Bank") will retire as a full time executive and shift his role to non-executive chairman of the Bank's board of directors, effective April 30, 2016. In connection with his retirement, the Company and Mr. Marsh entered into a retirement and consulting agreement, effective as of May 1, 2016 (the "Consulting Agreement"). The Consulting Agreement provides, among other things, that Mr. Marsh will provide certain transition, business development, strategic plan implementation and other services for a period beginning on May 1, 2016 and ending on April 30, 2017 (the "Consulting Period"). In exchange for these services, the Company will pay Mr. Marsh \$10,000 per month during the Consulting Period and Mr. Marsh will be entitled to receive restricted stock unit award with a fair market value of \$50,000 which will vest at the end of the Consulting Period.

The foregoing description of the Consulting Agreement is qualified in its entirety by reference to the full and complete copy of the Consulting Agreement listed as Exhibit 10.1 of this quarterly report.

ITEM 6: EXHIBITS

Exhibit No.	Description
	Registrant hereby agrees to furnish to the Commission, upon request, the instruments defining the rights of holders of each issue of long-term debt of Registrant and its consolidated subsidiaries.
10.1	Retirement and Consulting Agreement by and between Registrant and Stephen P. Marsh
*12.1	Computation of Ratio of Earnings to Fixed Charges and Preferred Dividends.
*31.1	Chief Executive Officer's Certification required by Rule 13(a)-14(a).
*31.2	Chief Financial Officer's Certification required by Rule 13(a)-14(a).
**32.1	Chief Executive Officer Certification pursuant to 18 U.S.C. § 1350, as adopted pursuant to section § 906 of the Sarbanes-Oxley Act of 2002.
**32.2	Chief Financial Officer Certification pursuant to 18 U.S.C. § 1350, as adopted pursuant to section § 906 of the Sarbanes-Oxley Act of 2002.
101	Pursuant to Rule 405 of Regulation S-T, the following financial information from the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2016, is formatted in XBRL interactive data files: (i) Consolidated Balance Sheet at March 31, 2016 and December 31, 2015; (ii) Consolidated Statement of Income for the three months ended March 31, 2016 and 2015; (iii) Consolidated Statement of Comprehensive Income for the three months ended March 31, 2016 and 2015; (iv) Consolidated Statement of Changes in Equity for the three months ended March 31, 2016 and 2015; (v) Consolidated Statement of Cash Flows for the three months ended March 31, 2016 and 2015; and (vi) Notes to Financial Statements.

* Filed herewith

** Furnished herewith. Notwithstanding any incorporation of this Quarterly Statement on Form 10-Q in any other filing by the Registrant, Exhibits furnished herewith and designated with two (**) shall not be deemed incorporated by reference to any other filing unless specifically otherwise set forth herein or therein.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Clayton, State of Missouri on the day of April 29, 2016.

ENTERPRISE FINANCIAL
SERVICES CORP

By: /s/ Peter F. Benoist
Peter F. Benoist
Chief Executive Officer

By: /s/ Keene S. Turner
Keene S. Turner
Chief Financial Officer