ENTERPRISE FINANCIAL SERVICES CORP
Form 10-K
February 22, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
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: 001-15373

ENTERPRISE FINANCIAL SERVICES CORP
(Exact name of registrant as specified in its charter)

Incorporated in the State of Delaware
I.R.S. Employer Identification # 43-1706259
Address: 150 North Meramec Avenue, Clayton, MO 63105
Telephone: (314) 725-5500

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value $.01 per share	NASDAQ Global Select Market
(Title of each class)	(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:
None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 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 x No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes x No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨
	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the Registrant was approximately $1,226,174,000 based on the closing price of the common stock of $53.95 as of the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2018) as reported by the NASDAQ Global Select Market.

As of February 20, 2019, the Registrant had 22,875,876 shares of outstanding common stock.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K is incorporated by reference to the Registrant’s Definitive Proxy Statement for its 2019 Annual Meeting of Shareholders, which will be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

ENTERPRISE FINANCIAL SERVICES CORP
2018 ANNUAL REPORT ON FORM 10-K
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PART 1

Forward-Looking Information

Some of the information in this Annual Report on Form 10-K 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, and by Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements typically are identified with use of terms such as "may," "might," "will, "would," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential," "could," "continue" and the neg terms and similar words, although some forward-looking statements may be expressed differently. Forward-looking statements also include, but are not limited to, statements regarding plans, objectives, expectations or consequences of announced transactions, and statements about future performance, operations, products and services. The ability to predict results or the actual effect of future plans or strategies is inherently uncertain. You should be aware that actual results could differ materially from those contained in the forward-looking statements due to a number of factors, including, but not limited to: the ability to efficiently integrate acquisitions into our operations, retain the customers of these businesses and grow the acquired operations; 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; the 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" in Item 1A of this Annual Report on Form 10-K, all of which could cause actual results to differ from those set forth in the forward-looking statements.

Readers are cautioned not to place undue reliance on 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 the Company's website at www.enterprisebank.com under "Investor Relations."

ITEM 1: BUSINESS

General

Enterprise Financial Services Corp (the "Company," "Enterprise," "we," "us," or "our"), a Delaware corporation, is a financial holding company headquartered in Clayton, Missouri incorporated in December 1994. We are the holding company for Enterprise Bank & Trust (the "Bank"), a full-service financial institution offering banking and wealth management services to individuals and corporate customers primarily located in the St. Louis, Kansas City, and Phoenix metropolitan markets. Our executive offices are located at 150 North Meramec Avenue, Clayton, Missouri 63105, and our telephone number is (314) 725-5500.

Available Information

Various reports provided to the Securities and Exchange Commission (the "SEC"), including our annual reports, quarterly reports, current reports, proxy statements, and amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge on our website at www.enterprisebank.com under the "Investor Relations" link. These reports are made available as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. Our filings with the SEC are also available on the SEC's website at www.sec.gov.

Business Strategy

Our stated mission is “Guiding people to a lifetime of financial success.” We have established an accompanying corporate vision, “To be a company where our associates are proud, our customers find easy to navigate, our investors value and our communities flourish.” These tenets are fundamental to our business strategies and operations.

Our business strategy is to generate shareholder returns by providing comprehensive financial services primarily to privately-held businesses, their owner families, and other success-minded individuals. The Company has one segment for purposes of its financial reporting.

The Company offers a broad range of business and personal banking services, including wealth management services. Lending services include commercial and industrial, commercial real estate, real estate construction and development, residential real estate, and consumer loans. A wide variety of deposit products and a complete suite of treasury management and international trade services complement our lending capabilities. Tax credit brokerage activities consist of the acquisition of Federal and State tax credits and the sale of these tax credits to clients. Enterprise Trust, a division of the Bank ("Enterprise Trust" or "Trust"), provides financial planning, estate planning, investment management, and trust services to businesses, individuals, institutions, retirement plans, and non-profit organizations.

Key components of our strategy include a focused and relationship-oriented distribution and sales approach, with an emphasis on growing fee income and niche businesses, while maintaining prudent credit and interest rate risk management, appropriate supporting technology, and controlled expense growth.

Building long-term client relationships - Our growth strategy is first and foremost client relationship driven. We continuously seek to add clients who fit our target market of businesses, business owners, professionals, and associated relationships. Those relationships are maintained, cultivated, and expanded over time by trained, experienced banking officers and other professionals. We fund loan growth primarily with core deposits from our business and professional clients in addition to consumers in our branch market areas. This is supplemented by borrowing or other deposit sources, including advances from Federal Home Loan Bank of Des Moines (the "FHLB"), and brokered certificates of deposits.

Specialized lending and product niches - We have focused our lending activities in specialty markets where we believe our expertise and experience as a commercial lender provides advantages over other competitors. In addition, we have developed expertise in certain product niches. These specialty niche activities focus on the following areas:

- Enterprise Value Lending/Senior Debt Financing. We support mid-market company mergers and acquisitions in many domestic markets. We market directly to targeted private equity firms, principally Small Business Investment Companies ("SBICs"), and provide primarily senior debt financing to portfolio companies.
- Life Insurance Premium Finance. We specialize in financing whole life insurance premiums utilized in high net worth estate planning, through relationships with boutique estate planners throughout the United States.
- Tax Credit Related Lending. We are a secured lender on affordable housing projects funded through the use of federal and state low income housing tax credits. In addition, we provide leveraged and other loans on projects funded through the U.S. Department of the Treasury Community Development Financial Institution ("CDFI") New Markets Tax Credit Program. In prior years, we were selected to distribute New Markets Tax Credits, and we continue to participate in the application process, as well as serve as a secured lender to other allocatees.
- Tax Credit Brokerage. We acquire 10-year streams of Missouri state tax credits from affordable housing development funds and sell the tax credits to clients and other individuals for tax planning purposes. We also have a minority ownership in a partnership that acquires, invests and sells, state low income housing tax credits. We lend the partnership money with 6 - 12 year terms and receive interest income and partnership income when projects close and when credits are sold.
- Agriculture. We engage in lending to agricultural businesses, including farms, for both real estate loans and operational loans principally in Missouri, Illinois, and Kansas.
- Enterprise Aircraft Finance. In 2016, we acquired a unit specializing in financing and leasing solutions for the acquisition of owner-operator fixed and rotor wing aircraft. We understand the unique complexities of financing private aircraft, allowing us to tailor a loan structure to meet even the most demanding aircraft leasing and lending requirements.

Fee income business - We offer a broad range of Treasury Management products and services that benefit businesses ranging from large national clients to local merchants. Customized solutions and special product bundles are available to clients of all sizes. In response to ever increasing needs for data/information security and functional efficiency, we

continue to offer robust cash management systems that employ mobile technology and fraud detection/mitigation services. Enterprise Trust offers a wide range of fiduciary, investment management, and financial advisory services. We employ attorneys, certified financial planners, estate planning professionals, and other investment professionals. Enterprise Trust representatives assist clients in defining lifetime goals and designing plans to achieve them, consistent with our long-term relationship strategy. Our card services include debit cards, credit cards, and merchant services. We also offer international banking, and tax credit businesses that generate fee income.

Capitalizing on technology - Our client technology product offerings include, but are not limited to, internet banking, mobile banking, cash management products, remote deposit capture, positive pay services, fraud detection and prevention, automated payables, check image, and statement and document imaging. Additional service offerings currently supported by the Bank include controlled disbursements, repurchase agreements, and sweep investment accounts. Our cash management suite of products blends technology and personal service, which we believe often creates a competitive advantage over our competition. Technology products are also extensively utilized within the organization by associates in all lines of business including operations and support, customer service, and financial reporting for internal management purposes and for external compliance.

Maintaining asset quality - We monitor asset quality through formal, ongoing, multiple-level reviews of loans in each market and specialized lending niche. These reviews are overseen by the Bank’s credit administration department. In addition, the loan portfolio is subject to ongoing monitoring by a loan review function that reports directly to the Credit Committee of the Bank’s Board of Directors.

Expense management - We manage expenses carefully through detailed budgeting and expense approval processes. We measure the “efficiency ratio” as a benchmark for improvement. The efficiency ratio is equal to noninterest expense divided by total revenue (net interest income plus noninterest income).

Acquisitions and Divestitures

On November 1, 2018, the Company and the Bank entered into a definitive agreement with Trinity Capital Corporation (“Trinity”) and its wholly-owned bank subsidiary, Los Alamos National Bank (“LANB”), pursuant to which the Company will acquire Trinity and LANB. Pursuant to the terms of the definitive agreement, upon consummation of the proposed transaction, Trinity shareholders will receive 0.1972 shares of the Company’s common stock and $1.84 in cash for each share of Trinity common stock they hold. Headquartered in Los Alamos, New Mexico, Trinity recorded approximately $1.2 billion in total assets as of December 31, 2018 and serves businesses and residents in Northern New Mexico and the Albuquerque metro area through its six full-service locations. The proposed transaction has been approved by the Federal Deposit Insurance Corporation (the “FDIC”), the Federal Reserve Bank of St. Louis, and the Missouri Division of Finance. The closing of the proposed transaction, which is anticipated to occur during the first quarter of 2019, remains subject to the approval of Trinity’s shareholders and the satisfaction or waiver, as applicable, of all closing conditions.

On February 10, 2017, the Company closed its acquisition of Jefferson County Bancshares, Inc. (“JCB”). JCB merged with and into the Company, and Eagle Bank and Trust Company of Missouri, JCB’s wholly-owned subsidiary bank, merged with and into the Bank. As part of the acquisition, approximately 3.3 million shares of the Company’s common stock were issued and approximately $29.3 million in cash was paid to JCB shareholders and holders of JCB stock options, for total transaction value of approximately $171 million. The conversion of JCB’s core systems was completed late in the second quarter of 2017.

Between December 2009 and August 2011, the Bank entered into four agreements with the FDIC to acquire certain assets and assume certain liabilities of four failed banks: Valley Capital Bank, Home National Bank, Legacy Bank, and The First National Bank of Olathe. In conjunction with each of these transactions, the Bank entered into loss share

agreements with the FDIC, all of which were terminated before or during 2015. Since the termination of these loss share agreements, the Bank has fully recognized recoveries, losses, and expenses related to the assets formerly covered by the agreements, and the FDIC no longer shares in those amounts.

Subordinated Notes
On November 1, 2016, the Company issued $50 million of 4.75% fixed-to-floating rate subordinated notes with a maturity date of November 1, 2026. The subordinated notes initially bear interest at an annual rate of 4.75%, with interest payable semiannually. Beginning November 1, 2021, the interest rate resets quarterly to the three-month London Interbank Offered Rate ("LIBOR") plus a spread of 338.7 basis points, payable quarterly. The Company used a portion of the proceeds from the issuance to pay the cash consideration at the closing of the acquisition of JCB.

Market Areas and Approach to Geographic Expansion
We operate in the St. Louis, Kansas City, and Phoenix metropolitan areas and expect to expand to northern New Mexico upon consummation of our pending acquisition of Trinity and LANB. The Company, as part of its expansion effort, plans to continue its strategy of operating branches with larger average deposits, and employing experienced staff who are compensated based on performance and customer service.

St. Louis - As of December 31, 2018, we operated 19 banking facilities and three limited service facilities in the St. Louis metropolitan area. We are ranked 4th in deposit market share in the St. Louis metropolitan statistical area. The St. Louis market enjoys a stable, diverse economic base, and is ranked the 21st largest metropolitan statistical area in the United States. It is an attractive market with nearly 132,000 privately held businesses and more than 68,000 households with investable assets of $1.0 million or more.

Kansas City - We operated in seven banking facilities in the Kansas City market as of December 31, 2018. We are ranked 17th in deposit market share in the Kansas City metropolitan statistical area. Kansas City is an attractive private company market with over 104,000 privately held businesses and more than 49,000 households with investable assets of $1.0 million or more. It is the 30th largest metropolitan statistical area in the U.S.

Phoenix - We operated two banking facilities in the Phoenix metropolitan area as of December 31, 2018. We are ranked 29th in deposit market share in the Phoenix metropolitan statistical area. Phoenix is the nation's 11th largest metropolitan statistical area, and has more than 232,000 privately held businesses and more than 96,000 households with investable assets over $1.0 million. We believe Phoenix is a dynamic growth market and offers attractive prospects for our business.

New Mexico - Upon consummation of our pending acquisition of Trinity and LANB, we will expand our operations to northern New Mexico. Headquartered in Los Alamos, New Mexico, Trinity serves businesses and residents in northern New Mexico and the Albuquerque metropolitan area through its six full-service locations.

Competition
The Company and its subsidiaries operate in highly competitive markets. Our geographic markets are served by multiple large financial and bank holding companies with substantial capital resources and lending capacity.

The banking business is highly competitive with respect to virtually all products and services. The industry continues to consolidate, and unregulated competitors in the banking markets have focused products targeted at highly profitable customer segments. Many largely unregulated competitors are able to compete across geographic boundaries, and provide customers increasing access to meaningful alternatives to nearly all significant banking services and products.

Many of the larger banks dominating the banking business have established specialized units, which target private businesses and high net worth individuals and have many offices operating over a wide geographic area. These banks have, among other advantages, the ability to finance wide-ranging and effective advertising campaigns, and to allocate their resources to regions of highest yield and demand. Many of the national or super-regional banks operating in our primary market areas offer certain services that we do not offer. By virtue of their greater total capitalization, national or super-regional banks also have substantially higher lending limits than us. Further, the St. Louis, Kansas City, and

Phoenix markets have numerous small community banks with which we compete.

In addition to other financial holding companies and commercial banks, our competitors include credit unions, thrifts, investment managers, insurers, brokerage firms, technology companies, and other providers of financial services and products. Strong competition for deposit and loan products affects the rates of those products, as well as the terms on which they are offered to customers.

We work to anticipate and adapt to competitive conditions, whether developing and marketing innovative products and services, adopting or developing new technologies that differentiate our products and services, or providing highly personalized banking services. We strive to distinguish ourselves from other community banks and financial services providers in our marketplace by providing a high level of service to enhance customer loyalty and to attract and retain business. However, no assurances can be given that our efforts to compete in our market areas will continue to be successful.

Supervision and Regulation

The following is a summary description of the relevant laws, rules, and regulations governing banks and financial holding companies. The description of, and references to, the statutes and regulations below are brief summaries and do not purport to be complete. The descriptions are qualified in their entirety by reference to the related statutes and regulations.

The regulatory and supervisory structure establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of depositors, the deposit insurance funds and the banking system as a whole, rather than for the protection of shareholders or creditors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies concerning the establishment of deposit insurance assessment fees, classification of assets and establishment of adequate loan loss reserves for regulatory purposes.

Various legislation is from time to time introduced in Congress and Missouri's legislature. Such legislation may change applicable statutes and the operating environment in substantial and unpredictable ways. We cannot determine the ultimate effect that future legislation or implementing regulations would have upon our financial condition or upon our results of operations or the results of operations of any of our subsidiaries.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act"), which contains a comprehensive set of provisions designed to govern the practices and oversight of financial institutions and other participants in the financial markets. The Dodd-Frank Act made extensive changes in the regulation of financial institutions and their holding companies. Some of the changes brought about by the Dodd-Frank Act have been modified by the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018 (the "Regulatory Relief Act"), signed into law on May 24, 2018.

Notwithstanding the regulatory easing brought about by the Regulatory Relief Act, uncertainty remains as to the ultimate impact of the Dodd-Frank Act, which could have a material adverse impact on the financial services industry as a whole and the Bank's business, results of operations, and financial condition. Many aspects of the Dodd-Frank Act have been implemented while other aspects remain subject to further rulemaking. These regulations will take effect over several years, making it difficult to anticipate the overall financial impact on the Company, its customers or the financial industry more generally. However, the Dodd-Frank Act has increased the regulatory burden, compliance costs and interest expense for the Company.

Financial Holding Company

The Company is a financial holding company registered under the Bank Holding Company Act of 1956, as amended ("BHCA"). As a financial holding company, the Company is subject to regulation and examination by the Federal Reserve, and is required to file periodic reports of its operations and such additional information as the Federal Reserve may require. In order to remain a financial holding company, the Company must continue to be considered well managed and well capitalized by the Federal Reserve, and the Bank must continue to be considered well managed and well capitalized by the FDIC, and have at least a "satisfactory" rating under the Community Reinvestment Act. See "Liquidity and Capital Resources" in the Management Discussion and Analysis for more information on our

capital adequacy, and “Bank Subsidiary - Community Reinvestment Act” below for more information on the Community Reinvestment Act.

Stock Repurchase Plans: From time to time the Company may engage in stock repurchases. Formal guidance from the Federal Reserve Board requires that bank and financial holding companies, where certain conditions are triggered, provide prior notice to and consult with the Federal Reserve Board or reserve bank staff prior to implementing a stock repurchase plan. In addition to the formal guidance, the Federal Reserve Board appears to have adopted an informal policy of requiring bank and financial holding companies to seek a safety and soundness “non-objection” from the appropriate regulatory staff prior to implementing a stock repurchase plan, regardless of the financial or capital position of the holding company. In some cases, examiners following this informal policy have required the holding company to produce additional information and materials for review.

Acquisitions: With certain limited exceptions, the BHCA requires every financial holding company or bank holding company to obtain the prior approval of the Federal Reserve before (i) acquiring substantially all the assets of any bank, (ii) acquiring direct or indirect ownership or control of any voting shares of any bank if, after such acquisition, it would own or control more than 5% of the voting shares of such bank (unless it already owns or controls the majority of such shares), or (iii) merging or consolidating with another bank holding company. Additionally, the BHCA provides that the Federal Reserve may not approve any of these transactions if it would result in or tend to create a monopoly, substantially lessen competition, or otherwise function as a restraint of trade, unless the anti-competitive effects of the proposed transaction are clearly outweighed by the public interest in meeting the convenience and needs of the community to be served. The Federal Reserve is also required to consider the financial and managerial resources and future prospects of the bank holding companies and banks concerned and the convenience and needs of the community to be served. The Federal Reserve’s consideration of financial resources generally focuses on capital adequacy, which is described below.

Change in Bank Control: Subject to various exceptions, the BHCA and the Change in Bank Control Act, together with related regulations, require Federal Reserve approval prior to any person or company acquiring “control” of a bank or financial holding company. Control is conclusively presumed to exist if an individual or company acquires 25% or more of any class of voting securities of the Company. Control is rebuttably presumed to exist if a person or company acquires 10% or more, but less than 25%, of any class of voting securities of the Company. The regulations provide a procedure for challenging rebuttable presumptions of control.

Permitted Activities: The BHCA has generally prohibited a bank holding company from engaging in activities other than banking or managing or controlling banks or other permissible subsidiaries and from acquiring or retaining direct or indirect control of any company engaged in any activities other than those determined by the Federal Reserve to be closely related to banking or managing or controlling banks as to be a proper incident thereto. Provisions of the Gramm-Leach-Bliley Act have expanded the permissible activities of a bank holding company that qualifies as a financial holding company. Under the regulations implementing the Gramm-Leach-Bliley Act, a financial holding company may engage in additional activities that are financial in nature or incidental or complementary to financial activities. Those activities include, among other activities, certain insurance, advisory and securities activities.

Support of Bank Subsidiaries: Under Federal Reserve policy, the Company is expected to act as a source of financial strength for the Bank and to commit resources to support the Bank. In addition, pursuant to the Dodd-Frank Act, this longstanding policy has been given the force of law, and additional regulations promulgated by the Federal Reserve to further implement the statute are possible; however, the bank subsidiary support provisions of the statute are fully effective even absent implementing regulations. As in the past, such financial support from the Company may be required at times when, without this legal requirement, the Company may not be inclined to provide it.

Capital Adequacy: The Company is also subject to capital requirements applied on a consolidated basis, which are substantially similar to those required of the Bank (summarized below).

Dividend Restrictions: Under Federal Reserve policies, financial holding companies may pay cash dividends on common stock only out of income available over the past year if prospective earnings retention is consistent with the organization's expected future needs and financial condition and if the organization is not in danger of not meeting its minimum regulatory capital requirements. Federal Reserve policy also provides that financial holding companies

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should not maintain a level of cash dividends that undermines the financial holding company's ability to serve as a source of strength to its banking subsidiaries.

Bank Subsidiary
At December 31, 2018, Enterprise Bank & Trust was our only bank subsidiary. The Bank is a Missouri trust company with banking powers and is subject to supervision and regulation by the Missouri Division of Finance. In addition, as a Federal Reserve non-member bank, it is subject to supervision and regulation by the FDIC. The Bank is a member of the FHLB of Des Moines.

The Bank is subject to extensive federal and state regulatory oversight. The various regulatory authorities regulate or monitor all areas of the banking operations, including security devices and procedures, adequacy of capitalization and loss reserves, loans, investments, borrowings, deposits, mergers, issuance of securities, payment of dividends, interest rates payable on deposits, interest rates or fees chargeable on loans, establishment of branches, corporate reorganizations, maintenance of books and records, and adequacy of staff training to carry on safe lending and deposit gathering practices. The Bank must maintain certain capital ratios and is subject to limitations on aggregate investments in real estate, bank premises, low income housing projects, and furniture and fixtures. In connection with their supervision and regulation responsibilities, the Bank is subject to periodic examination by the FDIC and Missouri Division of Finance.

Capital Adequacy: The Bank is required to comply with the FDIC's capital adequacy standards for insured banks. The FDIC has issued risk-based capital and leverage capital guidelines for measuring capital adequacy, and all applicable capital standards must be satisfied for the Bank to be considered in compliance with regulatory capital requirements.

On July 2, 2013, the Federal Reserve approved a final rule to establish a new comprehensive regulatory capital framework for all U.S. banking organizations. This regulatory capital framework, commonly referred to as Basel III, implements several changes to the U.S. regulatory capital framework required by the Dodd-Frank Act.

The Basel III final rule, effective January 1, 2015, established a new common equity tier 1 capital ("CET1") requirement and increased the tier 1 capital requirement to 6.0%. In addition, all banking organizations must maintain a "capital conservation buffer" consisting of CET1 capital in an amount equal to 2.5% of risk-weighted assets in order to avoid restrictions on their ability to make capital distributions and to pay certain discretionary bonus payments to executive officers. In order to avoid these restrictions, the capital conservation buffer, which has been phased in over the four-year period that began January 1, 2016 with the final incremental increase occurring effective January 1, 2019, effectively increases the minimum CET1 capital, tier 1 capital, and total capital ratios for U.S. banking organizations to 7.0%, 8.5%, and 10.5%, respectively, as of January 1, 2019.

As required by the Basel III final rule, capital instruments such as trust preferred securities and cumulative preferred shares have been phased out of tier 1 capital for banking organizations that had $15 billion or more in total consolidated assets as of December 31, 2009, and grandfathered as tier 1 capital such instruments issued by smaller entities prior to May 19, 2010 (provided they do not exceed 25% of tier 1 capital). The Company's trust preferred securities currently are grandfathered under this provision.

Prompt Corrective Action: The Bank's capital categories are determined for the purpose of applying the "prompt corrective action" rules described below and may be taken into consideration by banking regulators in evaluating proposals for expansion or new activities. They are not necessarily an accurate representation of a bank's overall financial condition or prospects for other purposes. A failure to meet the capital guidelines could subject the Bank to a variety of enforcement actions under those rules, including the issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on the taking of brokered deposits, and other restrictions on its business. As described below, the FDIC also can impose other substantial restrictions on banks that fail to meet applicable

capital requirements.

Federal law establishes a system of prompt corrective action to resolve the problems of undercapitalized banks. Under this system, the FDIC has established five capital categories ("well capitalized," "adequately capitalized,"

"undercapitalized," "significantly undercapitalized," and "critically undercapitalized") and is required to take various mandatory supervisory actions, and is authorized to take other discretionary actions with respect to banks in the three undercapitalized categories. The severity of any such actions taken will depend upon the capital category in which a bank is placed. Generally, subject to a narrow exception, current federal law requires the FDIC to appoint a receiver or conservator for a bank that is critically undercapitalized.

Under the FDIC's prompt corrective action rules, a bank that (1) has a total capital to risk-weighted assets ratio (the "Total Capital Ratio") of 10.0% or greater, a tier 1 capital to risk-weighted assets ratio (the "Tier 1 Capital Ratio") of 8.0% or greater, a CET1 capital to risk-weighted assets ratio (the "CET1 Capital Ratio") of 6.5% or greater, and a tier 1 capital to average assets (the "Leverage Ratio") of 5.0% or greater, and (2) is not subject to any written agreement, order, capital directive, or prompt corrective action directive issued by the FDIC, is considered to be "well capitalized." A bank with a Total Capital Ratio of 8.0% or greater, a Tier 1 Capital Ratio of 6.0% or greater, a CET1 Capital Ratio of 4.5% or greater, and a Leverage Ratio of 4.0% or greater, is considered to be "adequately capitalized." A bank that has a Total Capital Ratio of less than 8.0%, a Tier 1 Capital Ratio of less than 6.0%, a CET1 Capital Ratio of less than 4.5%, or a Leverage Ratio of less than 4.0%, is considered to be "undercapitalized." A bank that has a Total Capital Ratio of less than 6.0%, a Tier 1 Capital Ratio of less than 3.0%, a CET1 Capital Ratio of less than 3.0%, or a Leverage Ratio of less than 4.0%, is considered to be "significantly undercapitalized," and a bank that has a tangible equity capital to total assets ratio equal to or less than 2.0% is deemed to be "critically undercapitalized." A bank may be considered to be in a capitalization category lower than indicated by its actual capital position if it receives an unsatisfactory examination rating or is subject to a regulatory action that requires heightened levels of capital.
A bank that becomes "undercapitalized," "significantly undercapitalized," or "critically undercapitalized" is required to submit an acceptable capital restoration plan to the FDIC. An "undercapitalized" bank also is generally prohibited from increasing its average total assets, making acquisitions, establishing new branches, or engaging in any new line of business, except in accordance with an accepted capital restoration plan or with the approval of the FDIC. Also, the FDIC may treat an "undercapitalized" bank as being "significantly undercapitalized" if it determines that those actions are necessary to carry out the purpose of the law.
All of the Bank's capital ratios were at levels that qualify it to be "well capitalized" for regulatory purposes as of December 31, 2018.
Bureau of Consumer Financial Protection: The Dodd-Frank Act centralized responsibility for consumer financial protection including implementing, examining and enforcing compliance with federal consumer financial laws with the Bureau of Consumer Financial Protection (the "BCFP"). Depository institutions with less than $10 billion in assets, such as our Bank, will be subject to rules promulgated by the BCFP, but will continue to be examined and supervised by federal banking regulators for consumer compliance purposes.
The Bank is also subject to other laws and regulations intended to protect consumers in transactions with depository institutions, as well as other laws or regulations affecting customers of financial institutions generally. While the list set forth herein is not exhaustive, these laws and regulations include the Truth in Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Real Estate Settlement and Procedures Act, the Fair Credit Reporting Act and the Federal Trade Commission Act, among others. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits or making loans to such customers. The Bank must comply with the applicable provisions of these consumer protection laws and regulations as part of its ongoing customer relations.
UDAP and UDAAP: Banking regulatory agencies have increasingly used a general consumer protection statute to address "unethical" or otherwise "bad" business practices that may not necessarily fall directly under the purview of a specific banking or consumer finance law. The law of choice for enforcement against such business practices has been Section 5 of the Federal Trade Commission Act - the primary federal law that prohibits unfair or deceptive acts or practices and unfair methods of competition in or affecting commerce ("UDAP" or "FTC Act"). "Unjustified consumer injury" is the principal focus of the FTC Act. Moreover, the UDAP provisions have been expanded under the Dodd-Frank Act to apply to "unfair, deceptive or abusive acts or practices" ("UDAAP"), which has been delegated

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to the BCFP for supervision. The BCFP has brought a variety of enforcement actions for violations of UDAAP provisions and BCFP guidance continues to evolve.
Mortgage Reform: The BCFP has adopted final rules implementing minimum standards for the origination of residential mortgages, including standards regarding a customer's ability to repay, restricting variable rate lending by requiring the ability to repay variable-rate loans be determined by using the maximum rate that will apply during the first five years of a variable-rate loan term, and making more loans subject to provisions for higher cost loans, new disclosures, and certain other revisions. While the Dodd-Frank Act allows borrowers to raise certain defenses to foreclosure if they receive any loan other than a "qualified mortgage" as defined by the BCFP, the Regulatory Relief Act provided certain presumptions of qualified mortgage status for banks with assets of less than $10 billion, subject to certain documentation and product issues.
Dividends by the Bank Subsidiary: Under Missouri law, the Bank may pay dividends to the Company only from a portion of its undivided profits and may not pay dividends if its capital is impaired. As an insured depository institution, federal law prohibits the Bank from making any capital distributions, including the payment of a cash dividend if it is "undercapitalized" or after making the distribution would become undercapitalized. If the FDIC believes the Bank is engaged in, or about to engage in, an unsafe or unsound practice, the FDIC may require, after notice and hearing, that the bank cease and desist from that practice. The FDIC has indicated that paying dividends that deplete a depository institution's capital base to an inadequate level would be an unsafe and unsound banking practice. The FDIC has issued policy statements that provide that insured banks generally should pay dividends only from their current operating earnings. The Bank's payment of dividends also could be affected or limited by other factors, such as events or circumstances which lead the FDIC to require that it maintain capital in excess of regulatory guidelines.

Transactions with Affiliates and Insiders: The Bank is subject to the provisions of Regulation W promulgated by the Federal Reserve, which encompasses Sections 23A and 23B of the Federal Reserve Act. Regulation W places limits and conditions on the amount of loans or extensions of credit to, investments in, or certain other transactions with, affiliates and on the amount of advances to third parties collateralized by the securities or obligations of affiliates. Regulation W also prohibits, among other things, an institution from engaging in certain transactions with certain affiliates unless the transactions are on terms substantially the same, or at least as favorable to such institution or its subsidiaries, as those prevailing at the time for comparable transactions with nonaffiliated companies. Federal law also places restrictions on the Bank's ability to extend credit to its executive officers, directors, principal shareholders and their related interests. These extensions of credit must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated third parties; and must not involve more than the normal risk of repayment or present other unfavorable features.

Community Reinvestment Act: The Community Reinvestment Act ("CRA") requires that, in connection with examinations of financial institutions within its jurisdiction, the FDIC shall evaluate the record of the financial institutions in meeting the credit needs of their local communities, including low and moderate income neighborhoods, consistent with the safe and sound operation of those institutions. These factors are also considered in evaluating mergers, acquisitions, and applications to open a branch or facility. The Bank has a satisfactory rating under CRA.

USA PATRIOT Act: The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act") requires each financial institution to: (i) establish an anti-money laundering program; (ii) establish due diligence policies, procedures and controls with respect to its private banking accounts and correspondent banking accounts involving foreign individuals and certain foreign banks; and (iii) implement certain due diligence policies, procedures and controls with regard to correspondent accounts in the United States for, or on behalf of, a foreign bank that does not have a physical presence in any country. In addition, the USA PATRIOT Act contains a provision encouraging cooperation among financial institutions, regulatory authorities and law enforcement authorities with respect to individuals, entities and organizations engaged in, or reasonably suspected of engaging in, terrorist acts or money laundering activities.

Commercial Real Estate Lending: The Bank's lending operations may be subject to enhanced scrutiny by federal banking regulators based on its concentration of commercial real estate loans. On December 6, 2006, the federal banking regulators issued final guidance to remind financial institutions of the risk posed by commercial real estate

(“CRE”) lending concentrations. CRE loans generally include land development, construction loans, and loans secured by multifamily property, and non-farm, nonresidential real property where the primary source of repayment is derived from rental income associated with the property. The guidance prescribes the following guidelines for its examiners to help identify institutions that are potentially exposed to significant CRE risk, including concentrations in certain types of CRE that may warrant greater supervisory scrutiny: total reported loans for construction, land development, and other land represent 100% or more of the institutions total capital; or total commercial real estate loans represent 300% or more of the institution’s total capital, and the outstanding balance of the institution’s commercial real estate loan portfolio has increased by 50% or more.

Volcker Rule: On December 10, 2013, the federal regulators adopted final regulations to implement the proprietary trading and private fund prohibitions of the Volcker Rule under the Dodd-Frank Act. Under the final regulations, banking entities are generally prohibited, subject to significant exceptions from: (i) short-term proprietary trading as principal in securities and other financial instruments, and (ii) sponsoring or acquiring or retaining an ownership interest in private equity and hedge funds. The Regulatory Relief Act provided an exemption from the above restrictions for banks with less than $10 billion in assets.

Governmental Policies

The operations of the Company and its subsidiaries are affected not only by general economic conditions, but also by the policies of various regulatory authorities. In particular, the Federal Reserve Board (“FRB”) regulates monetary policy and interest rates in order to influence general economic conditions. These policies have a significant influence on overall growth and distribution of loans, investments and deposits and affect interest rates charged on loans or paid for deposits. FRB monetary policies have had a significant effect on the operating results of all financial institutions in the past and may continue to do so in the future.

The current U.S. administration has put in place changes to the financial services industry, including changes to policies and regulations that implement current federal law, including the Dodd-Frank Act, as well as a focus on reviewing and revising regulations promulgated during the prior administration. These changes were furthered by the enactment of the Regulatory Relief Act. At this point we are unable to determine what impact potential policy changes might have on the Company or its subsidiaries.

Employees

As of December 31, 2018, we had approximately 650 full-time equivalent employees. Our employees are not covered by a collective bargaining agreement. We believe our relationship with our employees is good.

ITEM 1A: RISK FACTORS

An investment in our common shares is subject to risks inherent to our business. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this report. The value of our common shares could decline due to any of these risks, and you could lose all or part of your investment.

Risks Relating to Our Business

Our allowance for loan losses may not be adequate to cover actual loan losses.

We maintain an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expense, that represents management's estimate of probable losses within the existing portfolio of loans. The allowance, in the judgment of management, is sufficient to reserve for estimated loan losses and risks inherent in the loan portfolio. We continue to monitor the adequacy of our loan loss allowance and may need to increase it if economic conditions deteriorate. In addition, bank regulatory agencies periodically review our allowance for loan losses and may require an increase in the provision for loan losses or the recognition of further loan charge-offs, based on judgments that can differ somewhat from those of our own management. In addition, if charge-offs in future periods exceed the allowance for loan losses (i.e., if the loan allowance is inadequate), we may need additional loan loss provisions to increase the allowance for loan losses. Additional provisions to increase the allowance for loan losses, should they become necessary, would result in a decrease in net income and a reduction in capital, and may have a material adverse effect on our financial condition and results of operations.

A new accounting standard may require us to increase our allowance for loan losses and may have a material adverse effect on our financial condition and results of operations.

The Financial Accounting Standards Board has adopted a new accounting standard that will be effective for the Company beginning January 1, 2020. This standard, referred to as Current Expected Credit Loss ("CECL"), will require financial institutions to determine periodic estimates of lifetime expected credit losses on loans, and recognize the expected credit losses as allowances for loan losses in the period when the loans are booked. This will change the current method of providing allowances for loan losses that are probable, which may require us to increase our allowance for loan losses and increase the types of data we would need to collect and review to determine the appropriate level of the allowance for loan losses. Any increase in our allowance for loan losses would result in a decrease in net income and may have a material adverse effect on our financial condition and results of operations.

An economic downturn could adversely affect our financial condition, results of operations or cash flows.

If the communities in which we operate do not grow, or if prevailing economic conditions locally or nationally are unfavorable, our business may not succeed. Unpredictable economic conditions may have an adverse effect on the quality of our loan portfolio and our financial performance. Economic recession or other economic problems in our market areas could have a material adverse impact on the quality of the loan portfolio and the demand for our products and services. Adverse changes in the economies in our market areas may have a material adverse effect on our financial condition, results of operations or cash flows. As a community bank, we bear increased risk of unfavorable local economic conditions. Moreover, we cannot give any assurance that we will benefit from any market growth or favorable economic conditions in our primary market areas even if they do occur.

Our loan portfolio is concentrated in certain markets which could result in increased credit risk.

A majority of our loans are to businesses and individuals in the St. Louis, Kansas City, and Phoenix metropolitan areas. The regional economic conditions in areas where we conduct our business have an impact on the demand for our products and services as well as the ability of our clients to repay loans, the value of the collateral securing loans, and the stability of our deposit funding sources. Consequently, a decline in local economic conditions may adversely affect our earnings.

There are material risks involved in commercial lending that could adversely affect our business.

Our business plan calls for continued efforts to increase our assets invested in commercial loans. Our credit-rated commercial loans include commercial and industrial loans to our privately-owned business clients along with loans to commercial borrowers that are secured by real estate (commercial property, multi-family residential property, 1 - 4

family residential property, and construction and land). Commercial loans generally involve a higher degree of credit risk than residential mortgage loans due, in part, to their larger average size and less readily-marketable collateral. In addition, unlike residential mortgage loans, commercial loans generally depend on the cash flow of the borrower's business to service the debt. Adverse economic conditions or other factors affecting our target markets may have a greater adverse effect on us than on other financial institutions that have a more diversified client base. Increases in non-performing commercial loans could result in operating losses, impaired liquidity and erosion of our capital, and could have a material adverse effect on our financial condition and results of operations. Credit market tightening could adversely affect our commercial borrowers through declines in their business activities and adversely impact their overall liquidity through the diminished availability of other borrowing sources or otherwise.

Our loan portfolio includes loans secured by real estate, which could result in increased credit risk.
A portion of our portfolio is secured by real estate, and thus we face a high degree of risk from a downturn in our real estate markets. If real estate values would decline in our markets, our ability to recover on defaulted loans for which the primary reliance for repayment is on the real estate collateral by foreclosing and selling that real estate would then be diminished, and we would be more likely to suffer losses on defaulted loans.

Additionally, Kansas and Arizona have foreclosure laws that may hinder our ability to timely or fully recover on defaulted loans secured by property in their states. Kansas is a judicial foreclosure state, therefore all foreclosures must be processed through the Kansas state courts. Due to this process, it takes approximately one year for us to foreclose on real estate collateral located in the State of Kansas. Our ability to recover on defaulted loans secured by Kansas property may be delayed and our recovery efforts are lengthened due to this process. Arizona has an anti-deficiency statute with regards to certain types of residential mortgage loans. Our ability to recover on defaulted loans secured by residential mortgages may be limited to the fair value of the real estate securing the loan at the time of foreclosure.

Our commercial and industrial loans, enterprise value lending / senior debt financing transactions are underwritten based primarily on cash flow, profitability and enterprise value of the client and are not fully covered by the value of tangible assets or collateral of the client. Consequently, if any of these transactions becomes non-performing, we could experience significant losses.
Cash flow lending involves lending money to a client based primarily on the expected cash flow, profitability and enterprise value of a client, with the value of any tangible assets as secondary protection. In some cases, these loans may have more leverage than traditional bank debt. In the case of our senior cash flow loans, we generally take a lien on substantially all of a client's assets, but the value of those assets is typically substantially less than the amount of money we advance to the client under a cash flow transaction. In addition, some of our cash flow loans may be viewed as stretch loans, meaning they may be at leverage multiples that exceed traditional accepted bank lending standards for senior cash flow loans. Thus, if a cash flow transaction becomes non-performing, our primary recourse to recover some or all of the principal of our loan or other debt product would be to force the sale of all or part of the company as a going concern. Additionally, we may obtain equity ownership in a borrower as a means to recover some or all of the principal of our loan. The risks inherent in cash flow lending include, among other things:

- reduced use of or demand for the client's products or services and, thus, reduced cash flow of the client to service the loan and other debt product as well as reduced value of the client as a going concern;
- inability of the client to manage working capital, which could result in lower cash flow;
- inaccurate or fraudulent reporting of our client's positions or financial statements; and
- our client's poor management of their business.

Additionally, many of our clients use the proceeds of our cash flow transactions to make acquisitions. Poorly executed or poorly conceived acquisitions can burden management, systems and the operations of the existing business, causing a decline in both the client's cash flow and the value of its business as a going concern. In addition, many acquisitions involve new management teams taking over day-to-day operations of a business. These new management teams may

fail to execute at the same level as the former management team, which could reduce the cash flow of the client available to service the loan or other debt product, as well as reduce the value of the client as a going concern.

Widespread financial difficulties or downgrades in the financial strength or credit ratings of life insurance providers could lessen the value of the collateral securing our life insurance premium finance loans and impair our financial condition and liquidity.

One of the specialized products we offer is financing whole life insurance premiums utilized in high net worth estate planning. These loans are primarily secured by the insurance policies financed by the loans, i.e., the obligations of the life insurance providers under those policies. Nationally Recognized Statistical Rating Organizations ("NRSROs") such as Standard & Poor's, Moody's and A.M. Best evaluate the life insurance providers that are the payors on the life insurance policies that we finance. The value of our collateral could be materially impaired in the event there are widespread financial difficulties among life insurance providers or the NRSROs downgrade the financial strength ratings or credit ratings of the life insurance providers, indicating the NRSROs' opinion that the life insurance provider's ability to meet policyholder obligations is impaired, or the ability of the life insurance provider to meet the terms of its debt obligations is impaired. The value of our collateral is also subject to the risk that a life insurance provider could become insolvent. In particular, if one or more large nationwide life insurance providers were to fail, the value of our portfolio could be significantly negatively impacted. A significant downgrade in the value of the collateral supporting our premium finance business could impair our ability to create liquidity for this business, which, in turn could negatively impact our ability to expand.

Our construction and land development loans are based upon estimates of costs and value associated with the completed project. These estimates may be inaccurate and we may be exposed to more losses on these projects than on other loans.

Construction, land acquisition and development lending involves additional risks because funds are advanced based upon the projected value of the project, which is inherently uncertain prior to the project's completion. Because of the uncertainties inherent in estimating construction costs, as well as the fair value of the completed project and the effects of governmental regulation of real property and the general effects of the national and local economies, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. As a result, construction loans often involve the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project and the ability of the borrower to sell or lease the property, rather than the ability of the borrower or guarantor to repay principal and interest. If our appraisal of the value of the completed project proves to be overstated, we may have inadequate security for the repayment of the loan upon completion of construction of the project. If we are forced to foreclose on a project prior to or at completion due to a default, there can be no assurance that we will be able to recover all of the unpaid balance of, and accrued interest on, the loan or the related foreclosure, sale and holding costs. In addition, we may be required to fund additional amounts to complete the project and may have to hold the property for an unspecified period of time. If any of these events occur, our financial condition, results of operations and cash flows could be materially and adversely affected.

Our loan portfolio includes agricultural loans, and the ability of the borrower to repay may be affected by many factors outside of the borrowers' control.

We engage in lending to agricultural businesses, including farms, for both real estate loans and operational loans. Agricultural markets are highly sensitive to real and perceived changes in the supply and demand of agricultural products. The agricultural economy in our states has been affected by declines in prices and the rates of price growth for various crops and other agricultural commodities. Farm income has seen recent declines, and in line with the downturn in farm income, farmland prices are coming under pressure. We monitor and review our agriculture portfolio to identify loans potentially affected by declines in agricultural commodity prices and lower collateral values. Any extended period of low commodity prices, drought conditions, significantly reduced yields on crops and/or reduced levels of government assistance to the agricultural industry could result in an increase in the level of problem agriculture loans and potentially result in additional provisions to increase our allowance for loan losses, and may have a material adverse effect on our financial condition and results of operations. The imposition of tariffs and retaliatory tariffs or other trade restrictions on agriculture products and materials that our customers import or export, could negatively impact our customers, their financial results and ability to service debt, which, in turn, could

adversely affect our financial condition and results of operations.

We engage in aircraft financing transactions, in which high-value collateral is susceptible to potential catastrophic loss. Consequently, if any of these transactions becomes non-performing, we could suffer a loss of some or all of our value in the assets.
In January 2016, we acquired an aircraft financing platform and the associated portfolio of aircraft loans. These transactions are secured by the aircraft financed by the loans. Aircraft as collateral presents unique risks: it is high-value, but susceptible to rapid movement across different locations and potential catastrophic loss. Although the loan documentation for these transactions includes insurance covenants and other provisions to protect the lender against risk of loss, there can be no assurance that, in the event of a catastrophic loss, the insurance proceeds would be sufficient to ensure our full recovery of the aircraft loan. Moreover, a relatively small number of non-performing aircraft loans could have a significant negative impact on the value of our portfolio. If we must make additional provisions to increase our allowance for loan losses, we could experience a decrease in net income and possibly a reduction in capital, which could have a material adverse effect on our financial condition and results of operations.

We may be obligated to indemnify certain counterparties in financing transactions we enter into pursuant to the New Markets Tax Credit Program.
We participate in and are an “Allocatee” of the New Markets Tax Credit Program of the U.S. Department of the Treasury Community Development Financial Institutions Fund. Through this program, we provide our allocation to certain projects, which in turn for an equity investment from an Investor in the project generate federal tax credits to those investors. This equity, coupled with any debt or equity from the project sponsor is in turn invested in a certified community development entity for a period of at least seven years. Community development entities must use this capital to make loans to, or other investments in, qualified businesses in low-income communities in accordance with New Markets Tax Credit Program criteria. Investors receive an overall tax credit equal to 39% of their total equity investment, credited at a rate of five percent in each of the first three years and six percent in each of the final four years. However, after the exhaustion of all cure periods and remedies, the entire credit is subject to recapture if the certified community development entity fails to maintain its certified status, or if substantially all of the equity investment proceeds associated with the tax credits we allocate are no longer continuously invested in a qualified business that meets the New Markets Tax Credit Program criteria, or if the equity investment is redeemed prior to the end of the minimum seven-year term. As part of these financing transactions, we as the parent to Enterprise Financial CDE, LLC (“CDE”), provide customary indemnities to the tax credit investors, which require us to indemnify and hold harmless the investors in the event a credit recapture event occurs, unless the recapture is a result of action or inaction of the investor. No assurance can be given that these counterparties will not call upon us to discharge these obligations in the circumstances under which they are owed. If this were to occur, the amount we may be required to pay a bank investor could be substantial and could have a material adverse effect on our results of operations and financial condition.

If we fail to comply with requirements of the federal New Markets Tax Credit program, the U.S. Department of the Treasury Community Development Financial Institutions Fund could seek any remedies available under its Allocation Agreement with us, and we could suffer significant reputational harm and be subject to greater scrutiny from banking regulators.
Because we have been designated as an “Allocatee” under the New Markets Tax Credit Program, we are required to provide allocation fund qualifying projects under the New Markets Tax Credit Program, and we are responsible for monitoring those projects, ensuring their ongoing compliance with the requirements of the New Markets Tax Credit Program and satisfying the various recordkeeping and reporting requirements under the New Markets Tax Credit Program. If we default in our obligations under the New Markets Tax Credit Program, the U.S. Department of the Treasury may revoke our participation in any other CDFI Fund programs, reallocate the new market tax credits that were originally allocated to us, and take any other remedial actions that it is empowered to take under the Allocation Agreement they have entered into with us with respect to the New Markets Tax Credit Program, with the full range of such remedies being unknown. If we were to default under the New Markets Tax Credit Program, we could suffer negative publicity in the communities in which we operate, and we could face greater scrutiny from federal and state

bank regulators, especially with regard to our compliance with the Community Reinvestment Act. These developments could have a material adverse impact on our reputation, business, financial condition, results of operations and liquidity.

We face potential risks from litigation brought against the Company or its subsidiaries.
We are involved in various lawsuits and legal proceedings. Pending or threatened litigation against the Company or the Bank, litigation-related costs and any legal liability as a result of an adverse determination with respect to one or more of these legal proceedings could have a material adverse effect on our business, cash flows, financial position or results of operations and/or could cause us significant reputational harm, including without limitation as a result of negative publicity the Company may face even if it prevails in such legal proceedings, which could adversely affect our business prospects.

Liquidity risk could impair our ability to fund operations and meet debt coverage obligations, and jeopardize our financial condition.
Liquidity is essential to our business. We are a holding company and depend on our subsidiaries for liquidity needs, including debt coverage requirements. An inability to raise funds through deposits, borrowings, the sale of investment securities and other sources could have a substantial material adverse effect on our liquidity. Our access to funding sources in amounts that are adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could detrimentally impact our access to liquidity sources include but are not limited to a decrease in the level of our business activity due to a market downturn, our failure to remain well capitalized, or adverse regulatory action against us. Our ability to acquire deposits or to borrow could also be impaired by factors that are not specific to us, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole.

Costs and levels of deposits are affected by competition and environmental factors that could increase our funding costs or liquidity risk.
We rely on bank deposits to be a low cost and stable source of funding. We compete with banks and other financial services companies for deposits. If our competitors raise the rates they pay on deposits, our funding costs may increase, either because we raise our rates to avoid losing deposits or because we lose deposits and must rely on more expensive sources of funding. Higher funding costs could reduce our net interest margin and net interest income and could have a material adverse effect on our business, financial condition and results of operations.

Our utilization of brokered deposits could adversely affect our liquidity and results of operations.
Since our inception, we have utilized both brokered and non-brokered deposits as a source of funds to support our growing loan demand and other liquidity needs. As a bank regulatory supervisory matter, reliance upon brokered deposits as a significant source of funding is discouraged. Brokered deposits may not be as stable as other types of deposits, and, in the future, those depositors may not renew their deposits when they mature, or we may have to pay a higher rate of interest to keep those deposits or may have to replace them with other deposits or with funds from other sources. Additionally, if the Bank ceases to be categorized as “well capitalized” for bank regulatory purposes, it would not be able to accept, renew or roll over brokered deposits without a waiver from the FDIC. Our inability to maintain or replace these brokered deposits as they mature could adversely affect our liquidity and results of operations. Further, paying higher interests rates to maintain or replace these deposits could adversely affect our net interest margin and results of operations.

We may need to raise additional capital in the future, and such capital may not be available to us or may only be available on unfavorable terms.
We may need to raise additional capital in the future in order to support growth or manage adverse developments such as any additional provisions for loan losses, to maintain our capital ratios, or for other reasons. The condition of the financial markets may be such that we may not be able to obtain additional capital, or the additional capital may only be available on terms that are not attractive to us.

No assurance can be given that the subordinated notes will continue to qualify as Tier 2 capital.

We treat the 4.75% fixed-to-floating rate subordinated notes as “Tier 2 capital” under the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”) regulatory rules and guidelines. If the subordinated notes are no longer qualified as Tier 2 capital, it could have an adverse effect on our capital requirements under the Federal Reserve Board rules and guidelines.

Our business is subject to interest rate risk and variations in interest rates may negatively affect our financial performance.
A substantial portion of our income is derived from the differential or "spread" between the interest earned on loans, investment securities, and other interest-earning assets, and the interest paid on deposits, borrowings, and other interest-bearing liabilities. Because of the differences in the maturities and repricing characteristics of our interest-earning assets and interest-bearing liabilities, changes in interest rates may not produce equivalent changes in interest income earned on interest-earning assets and interest paid on interest-bearing liabilities. Our assets and liabilities may react differently to changes in overall interest rates or conditions. Significant fluctuations in market interest rates could materially and adversely affect not only our net interest spread, but also our asset quality and loan origination volume, deposits, funding availability, and/or net income.

We face potential risk from changes in governmental monetary policies.
The Bank's earnings are affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The Federal Reserve's monetary policies have had, and are likely to continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The monetary policies of the Federal Reserve affect the levels of bank loans, investments, and deposits through its control over the issuance of United States government securities, its regulation of the discount rate applicable to member banks, and its influence over reserve requirements to which member banks are subject. The Bank cannot predict the nature or impact of future changes in monetary and fiscal policies.

The ability of our borrowers to repay their loans may be adversely affected by an increase in market interest rates which could result in increased credit losses. These increased credit losses, where the Bank has retained credit exposure, could decrease our assets, net income and cash available.
The loans we make to our borrowers may bear interest at a variable or floating interest rate. When market interest rates increase, the amount of revenue borrowers need to service their debt also increases. Some borrowers may be unable to make their debt service payments. As a result, an increase in market interest rates will increase the risk of loan default. An increase in non-performing loans could result in a net loss of earnings from these loans, an increase in the provision for loan and covered loan losses, and an increase in loan charge-offs, all of which could have a material adverse effect on our business, financial condition and results of operations.

By engaging in derivative transactions, we are exposed to additional credit and market risk in our banking business.
We use interest rate swaps to help manage our interest rate risk in our banking business from recorded financial assets and liabilities when they can be demonstrated to effectively hedge a designated asset or liability and the asset or liability exposes us to interest rate risk or risks inherent in client related derivatives. We may use other derivative financial instruments to help manage other economic risks, such as liquidity and credit risk, including exposures that arise from business activities that result in the receipt or payment of future known or uncertain cash amounts, the value of which are determined by interest rates. We also have derivatives that result from a service we provide to certain qualifying clients approved through our credit process, and therefore, these derivatives are not used to manage interest rate risk in our assets or liabilities. Hedging interest rate risk is a complex process, requiring sophisticated models and routine monitoring. As a result of interest rate fluctuations, hedged assets and liabilities will appreciate or depreciate in market value. The effect of this unrealized appreciation or depreciation will generally be offset by income or loss on the derivative instruments that are linked to the hedged assets and liabilities. By engaging in derivative transactions, we are exposed to credit and market risk. If the counterparty fails to perform, credit risk exists to the extent of the fair value gain in the derivative. Market risk exists to the extent that interest rates change in ways that are significantly different from what we expected when we entered into the derivative transaction. The existence of credit and market risk associated with our derivative instruments could adversely affect our net interest income and, therefore, could have a material adverse effect on our business, financial condition, results of operations and future prospects.

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If the Company or the Bank incur losses that erode its capital, it may become subject to enhanced regulation or supervisory action.
Under federal and state laws and regulations pertaining to the safety and soundness of insured depository institutions, the Missouri Division of Finance, the Federal Reserve Board, and the FDIC have the authority to compel or restrict certain actions if the Company's or the Bank's capital should fall below adequate capital standards as a result of future operating losses, or if its bank regulators determine that it has insufficient capital. Among other matters, the corrective actions include but are not limited to requiring affirmative action to correct any conditions resulting from any violation or practice; directing an increase in capital and the maintenance of specific minimum capital ratios; restricting the Bank's operations; limiting the rate of interest the bank may pay on brokered deposits; restricting the amount of distributions and dividends and payment of interest on its trust preferred securities; requiring the Bank to enter into informal or formal enforcement orders, including memoranda of understanding, written agreements and consent or cease and desist orders to take corrective action and enjoin unsafe and unsound practices; removing officers and directors and assessing civil monetary penalties; and taking possession of and closing and liquidating the Bank. These actions may limit the ability of the Bank or Company to execute its business plan and thus can lead to an adverse impact on the results of operations or financial position.

Changes in government regulation and supervision may increase our costs, or impact our ability to operate in certain lines of business.
Our operations are subject to extensive regulation by federal, state and local governmental authorities and are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of our operations. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, not shareholders. Because our business is highly regulated, the laws, rules, regulations and supervisory guidance and policies applicable to us are subject to regular modification and change and could result in an adverse impact on our results of operations.

Any future increases in FDIC insurance premiums might adversely impact our earnings.
Over the past several years, the FDIC has adopted several rules which have resulted in a number of changes to the FDIC assessments, including modification of the assessment system and a special assessment. It is possible that the FDIC may impose special assessments in the future or further increase our annual assessment, which could adversely affect our earnings.

We may be adversely affected by the soundness of other financial institutions.
Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to different institutions and counterparties, and we execute transactions with various counterparties in the financial industry, including federal home loan banks, commercial banks, brokers and dealers, investment banks and other institutional clients. Defaults by financial services institutions, and even rumors or questions about one or more financial services institutions or the financial services industry in general, have led to market-wide liquidity problems in prior years and could lead to losses or defaults by us or by other institutions. Any such losses could materially and adversely affect our results of operations or financial position.

We face significant competition.
The financial services industry, including but not limited to, commercial banking, mortgage banking, consumer lending, and home equity lending, is highly competitive, and we encounter strong competition for deposits, loans, and other financial services in all of our market areas in each of our lines of business. Our principal competitors include other commercial banks, savings banks, savings and loan associations, mutual funds, money market funds, finance companies, trust companies, technology companies, insurers, credit unions, and mortgage companies among others. Many of our non-bank competitors are not subject to the same degree of regulation as us and have advantages over us in providing certain services. Many of our competitors are significantly larger than us and have greater access to capital and other resources. Also, our ability to compete effectively in our business is dependent on our ability to adapt

successfully to regulatory and technological changes within the banking and financial services industry, generally. If we are unable to compete effectively, we will lose market share and our income from loans and other products may diminish.

Our ability to compete successfully depends on a number of factors, including, among other things:

- the ability to develop, maintain, and build upon long-term client relationships based on top quality service and high ethical standards;
- the scope, relevance, and pricing of products and services, including technological innovations to those products and services, offered to meet client needs and demands;
- the rate at which we introduce new products and services relative to our competitors;
- client satisfaction with our level of service; and/or
- industry and general economic trends.

Failure to perform in any of these areas could significantly weaken our competitive position, and could adversely affect our growth and profitability, which, in turn, could have a material adverse effect on our financial condition and results of operations.

We have engaged in and may continue to engage in further expansion through acquisitions, including our pending acquisition of Trinity and LANB, and these acquisitions present a number of risks related both to the acquisition transactions and to the integration of the acquired businesses.
The acquisition of other financial services companies or assets present risks to the Company in addition to those presented by the nature of the business acquired. Our earnings, financial condition, and prospects after a merger or acquisition depend in part on our ability to successfully integrate the operations of the acquired company. We may be unable to integrate operations successfully or to achieve expected results or cost savings.

Acquiring other banks or businesses, including our pending acquisition of Trinity and LANB, involves various risks commonly associated with acquisitions, including, among other things:

- potential exposure to unknown or contingent liabilities of the target company;
- exposure to potential asset quality issues of the target company;
- difficulty and expense of integrating the operations and personnel of the target company;
- potential disruption to our business;
- potential diversion of our management's time and attention;
- the possible loss of key employees and clients of the target company;
- difficulty in estimating the value of the target company;
- payment of a premium over book and market values that may dilute our tangible book value and earnings per share in the short- and long-term;
- inability to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits; and/or
- potential changes in banking or tax laws or regulations that may affect the target company.

We periodically evaluate merger and acquisition opportunities and conduct due diligence activities related to possible transactions with other financial institutions and financial services companies. As a result, merger or acquisition discussions and, in some cases, negotiations may take place, and future mergers or acquisitions involving cash, debt or equity securities may occur at any time. In addition to the risks noted above, potential acquisitions may incur additional costs for diligence or break-up fees, even if the transaction is not consummated.

We may be unable to successfully integrate new business lines into our existing operations.
From time to time, we may implement other new lines of business or offer new products or services within existing lines of business. There can be substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. Although we continue to expend substantial managerial, operating and financial resources as our business grows, we may be unable to successfully continue the integration of new business lines, and price and profitability targets may not prove feasible. External factors such as compliance

with regulations, competitive alternatives and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and new product or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on our business, financial condition and results of operations.

We may not be able to maintain our historical rate of growth or profitability, which could have a material adverse effect on our ability to successfully implement our business strategy.
Successful growth requires that we follow adequate loan underwriting standards, balance loan and deposit growth without increasing interest rate risk or compressing our net interest margin, maintain adequate capital at all times, produce investment performance results competitive with our peers and benchmarks, further diversify our revenue sources, meet the expectations of our clients and hire and retain qualified employees. If we do not manage our growth successfully, then our business, results of operations or financial condition may be adversely affected.

We may not be able to attract and retain skilled people.
Our success depends, in large part, on our ability to attract and retain key people. Competition for the best people in most activities in which we are engaged can be intense, and we may not be able to hire or retain the people we want and/or need. Although we maintain employment agreements with certain key employees, and have incentive compensation plans aimed, in part, at long-term employee retention, the unexpected loss of services of one or more of our key personnel could still occur, and such events may have a material adverse impact on our business because of the loss of the employee’s skills, knowledge of our market, and years of industry experience and the difficulty of promptly finding qualified replacement personnel.

Additionally, executive leadership transitions and succession planning can be inherently difficult to manage and may cause disruption to our business. Executive leadership transitions inherently cause some loss of institutional knowledge, which can negatively affect strategy and execution, and our results of operations and financial condition could suffer as a result. The loss of services of one or more members of senior management could have a material adverse effect on our business.

Loss of key employees may disrupt relationships with certain clients.
Our client relationships are critical to the success of our business, and loss of key employees with significant client relationships may lead to the loss of business if the clients follow that employee to a competitor. While we believe our relationships with our key personnel are strong, we cannot guarantee that all of our key personnel will remain with us, which could result in the loss of some of our clients and could have an adverse impact on our business, financial condition and results of operations.

We may incur impairments to goodwill.
As of December 31, 2018, we had $117 million recorded as goodwill. Upon completion of the pending acquisition of Trinity and LANB, the balance of goodwill will increase. We evaluate our goodwill for impairment at least annually. Significant negative industry or economic trends, including the lack of recovery in the market price of our common stock, or reduced estimates of future cash flows or disruptions to our business, could result in impairments to goodwill. Our valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and to rely on projections of future operating performance. We operate in competitive environments and projections of future operating results and cash flows may vary significantly from actual results. If our analysis results in impairment to goodwill, we would be required to record an impairment charge to earnings in our financial statements during the period in which such impairment is determined to exist. Any such change could have a material adverse effect on our results of operations and stock price.

Financial deregulation measures may create regulatory uncertainty for the financial sector and increase competition.
The Regulatory Relief Act, signed into law in May 2018, made changes in several keys areas that affect financial institutions. Notwithstanding the partial regulatory easing brought about by the Regulatory Relief Act, most of the provisions of the Dodd-Frank Act remain in effect, such as those concerning Volcker Rule, the U.S. Risk Retention Rules, Basel III capital requirements, the FSOC’s authority, the role, responsibilities and enforcement strategies of the BCFP, capital issues, and implementing regulations promulgated pursuant to the Dodd-Frank Act. Measures focused

on deregulation of the U.S. financial services industry may have the effect of increasing competition for our credit-focused businesses or otherwise reducing investment opportunities. Increased competition from banks and other financial institutions in the credit markets could have the effect of reducing credit spreads, which may adversely affect the revenues of our credit and other businesses whose strategies including the provision of credit to borrowers.

Determining the full extent of the impact on us of any such potential financial reform legislation, or whether any such particular proposal will become law, is highly speculative. However, any such changes may impose additional costs on us, require the attention of our senior management or result in limitations on the manner in which business is conducted.

The BCFP may reshape the consumer financial laws through rulemaking and enforcement of unfair, deceptive or abusive acts or practices, which may directly impact the business operations of depository institutions offering consumer financial products or services, including the Bank.
The Dodd-Frank Act, which was enacted in 2010, imposed significant regulatory and compliance changes, and represents a comprehensive overhaul of the financial services industry within the United States. Among other things, key provisions of the Dodd-Frank Act establish the BCFP and require the BCFP and other federal agencies to implement many new rules. While several provisions of the Dodd-Frank Act became effective immediately upon its enactment and others have come into effect over the last few years, many provisions still require regulations to be promulgated by various federal agencies in order to be implemented. Some of these regulations have been proposed by the applicable federal agencies but not yet finalized.

The BCFP has broad powers to supervise and enforce consumer protection laws. The BCFP has broad rule-making authority for a wide range of consumer protection laws that apply to all banks, including the authority to prohibit unfair, deceptive or abusive acts and practices. In addition, the Dodd-Frank Act enhanced the regulation of mortgage banking and gave to the BCFP oversight of many of the core laws which regulate the mortgage industry and the authority to implement mortgage regulations. Any new regulations adopted by the BCFP may significantly impact consumer mortgage lending and servicing.

We are subject to numerous laws designed to protect consumers, including the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions.
The Community Reinvestment Act, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The BCFP, the U.S. Department of Justice and other federal agencies are responsible for enforcing these laws and regulations. A successful regulatory challenge to an institution's performance under the Community Reinvestment Act or fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion, and restrictions on entering new business lines. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition, results of operations and future prospects.

We are subject to compliance with the Bank Secrecy Act and other anti-money laundering statutes and regulations, and failure to comply with these laws could lead to a wide variety of sanctions.
The Bank Secrecy Act, the USA PATRIOT Act of 2001, and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports when appropriate. In addition to other bank regulatory agencies, the federal Financial Crimes Enforcement Network of the Department of the Treasury is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the state and federal banking regulators, as well as the U.S. Department of Justice, BCFP, Drug Enforcement Administration, and Internal Revenue Service. We are also subject to increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control of the Department of the Treasury regarding, among other things, the prohibition of transacting business with, and the need to freeze assets of, certain persons and organizations identified as a threat to the national security, foreign policy or economy of the United States. If our policies, procedures and systems are deemed deficient, we would be subject to liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to

proceed with certain aspects of our business plan, including any acquisition plans. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could have a material adverse effect on our business, financial condition, results of operations and future prospects.

Declines in asset values may result in impairment charges and adversely impact the value of our investments and our financial performance and capital.
We hold an investment portfolio that includes, but is not limited to, government securities and agency mortgage-backed securities. Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. These factors include, but are not limited to, rating agency actions in respect to the securities, defaults by the issuer or with respect to the underlying securities, changes in market interest rates and/or spread, and instability and other factors impacting the capital markets. Any of these factors, among others, could cause other-than-temporary impairments and realized or unrealized losses in future periods and declines in other comprehensive income (loss), which could have a material adverse effect on our business, results of operations, financial condition and future prospects. The process for determining whether impairment of a security is other-than-temporary often requires complex, subjective judgments about whether there has been significant deterioration in the financial condition of the issuer, whether management has the intent or ability to hold a security for a period of time sufficient to allow for any anticipated recovery in fair value, the future financial performance and liquidity of the issuer and any collateral underlying the security and other relevant factors.

Our investment portfolio includes capital stock of the FHLB of Des Moines. This stock ownership is required for us to qualify for membership in the FHLB system, which enables us to borrow funds under the FHLB advance program. If the FHLB experiences a capital shortfall, it could suspend its quarterly cash dividend, and possibly require its members, including us, to make additional capital investments in the FHLB. If the FHLB were to cease operations, or if we were required to write-off our investment in the FHLB, our financial condition, and results of operations may be materially and adversely affected.

The Volcker Rule limits the permissible strategies for managing our investment portfolio.
On December 10, 2013, federal banking and securities regulators issued final rules to implement Section 619 of the Dodd-Frank Act (the “Volcker Rule”). Generally, subject to a transition period and certain exceptions, the Volcker Rule restricts insured depository institutions and their affiliated companies from, among other things: (i) short-term proprietary trading securities, derivatives, commodity futures and options on these instruments for their own account, and (ii) owning, sponsoring, or having certain relationships with “covered funds,” including hedge funds or private equity funds. After the transition period, the Volcker Rule prohibitions and restrictions will apply to banking entities, unless an exception applies. The Volcker Rule limits or excludes covered institutions from holding certain investment securities, which they could otherwise use to diversify their assets and for asset/liability management. The Regulatory Relief Act included an exemption from the Volcker Rule for financial institutions with under $10 billion in assets.

We primarily invest in mortgage-backed obligations and such obligations have been, and are likely to continue to be, impacted by market dislocations, declining home values and prepayment risk, which may lead to volatility in cash flow and market risk and declines in the value of our investment portfolio.
Our investment portfolio largely consists of mortgage-backed obligations primarily secured by pools of mortgages on single-family residences. The value of mortgage-backed obligations in our investment portfolio may fluctuate for several reasons, including (i) delinquencies and defaults on the mortgages underlying such obligations, due in part to high unemployment rates, (ii) falling home prices, (iii) lack of a liquid market for such obligations, (iv) uncertainties in respect of government-sponsored enterprises such as the Federal National Mortgage Association (“Fannie Mae”) or the Federal Home Loan Mortgage Corporation (“Freddie Mac”), which guarantee such obligations, and (v) the expiration of government stimulus initiatives. If the value of homes were to materially decline, the fair value of the mortgage-backed obligations in which we invest may also decline. Any such decline in the fair value of mortgage-backed obligations, or perceived market uncertainty about their fair value, could adversely affect our financial position and results of operations. In addition, when we acquire a mortgage-backed security, we anticipate that the underlying mortgages will prepay at a projected rate, thereby generating an expected yield. Prepayment rates generally increase as interest rates fall and decrease when rates rise, but changes in prepayment rates are difficult to predict. In light of historically low interest rates, many of our mortgage-backed securities have a higher interest rate

than prevailing market rates, resulting in a premium purchase price. In accordance with applicable accounting standards, we amortize the premium over the expected life of the mortgage-backed security. If the mortgage loans securing the mortgage-backed security prepay more rapidly than anticipated, we would have to amortize the premium on an accelerated basis, which would thereby adversely affect our profitability.

Technology is continually changing and we must effectively implement new innovations in providing services to our customers.
The financial services industry is undergoing rapid technological changes with frequent innovations in technology-driven products and services. In addition to better serving customers, the effective use of technology increases our efficiency and enables us to reduce costs. Our future success will depend, in part, upon our ability to address the needs of our customers using innovative methods, processes and technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in our operations as we continue to grow and expand our market areas. Many national vendors provide turn-key services to community banks, such as Internet banking and remote deposit capture, that allow smaller banks to compete with institutions that have substantially greater resources to invest in technological improvements. We may not be able, however, to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers.

A failure in or breach, or the inability to recognize a potential breach of our operational or security systems, or those of our third party service providers, including as a result of cyber-attacks, could disrupt our business, result in unintentional disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and adversely impact our earnings.
As a financial institution, our operations rely heavily on the secure processing, storage and transmission of confidential and other information on our computer systems and networks. Any failure, interruption or breach in security or operational integrity of these systems could result in failures or disruptions in our internet banking system, treasury management products, check and document imaging, remote deposit capture systems, general ledger, and other systems. The security and integrity of our systems could be threatened by a variety of interruptions or information security breaches, including those caused by computer hacking, cyber-attacks, electronic fraudulent activity or attempted theft of financial assets. We cannot assure any such failures, interruption or security breaches will not occur, or if they do occur, that they will be adequately addressed. While we have certain protective policies and procedures in place, the nature and sophistication of the threats continue to evolve. We may be required to expend significant additional resources in the future to modify and enhance our protective measures. Additionally, we face the risk of operational disruption, failure, termination or capacity constraints of any of the third parties that facilitate our business activities, including exchanges, clearing agents, clearing houses or other financial intermediaries. Such parties could also be the source of an attack on, or breach of, our operational systems. Any failures, interruptions or security breaches in our information systems could damage our reputation, result in a loss of client business, result in a violation of privacy or other laws, or expose us to civil litigation, regulatory fines or losses not covered by insurance.

We rely on third-party vendors to provide key components of our business infrastructure.
We rely heavily on third-party service providers for much of our communications, information, operating and financial control systems technology, including relationship management, mobile banking, general ledger, investment, deposit, loan servicing and loan origination systems. While we have selected these third-party vendors carefully and perform ongoing monitoring, we do not control their actions. Any problems caused by these third parties, including as a result of inadequate or interrupted service, could adversely affect our ability to deliver products and services to our clients and otherwise conduct our business. Financial or operational difficulties of a third-party vendor could also hurt our operations if those difficulties interfere with the vendor’s ability to serve us, and replacing these third-party vendors could result in significant delay and expense. Accordingly, use of such third parties creates an unavoidable inherent risk to our business operations as well as reputational risk.

We are subject to environmental risks associated with owning real estate or collateral.
When a borrower defaults on a loan secured by real property, the Company may purchase the property in foreclosure or accept a deed to the property surrendered by the borrower. We may also take over the management of commercial properties whose owners have defaulted on loans. We may also own and lease premises where branches and other facilities are located. While we have lending, foreclosure and facilities guidelines intended to exclude properties with an unreasonable risk of contamination, hazardous substances could exist on some of the properties that the Company may own, manage or occupy. We face the risk that environmental laws could force us to clean up the properties at the Company's expense. The cost of cleaning up or paying damages and penalties associated with environmental problems could increase our operating expenses. It may cost much more to clean a property than the property is worth. We could also be liable for pollution generated by a borrower's operations if the Company takes a role in managing those operations after a default. The Company may also find it difficult or impossible to sell these properties.

Risks Relating to Our Common Stock
The price of our common stock may be volatile or may decline.
The trading price of our common stock may fluctuate widely as a result of a number of factors, many of which are outside our control. In addition, the stock market is subject to fluctuations in the share prices and trading volumes that affect the market prices of the shares of many companies. These broad market fluctuations could make it more difficult for you to resell your common stock when you want and at prices you find attractive.

Our stock price can fluctuate significantly in response to a variety of factors including, among other things:

- actual or anticipated quarterly fluctuations in our operating results and financial condition;
- changes in revenue or earnings estimates or publication of research reports and recommendations by financial analysts;
- failure to meet analysts' revenue or earnings estimates;
- speculation in the press or investment community;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- actions by institutional shareholders;
- fluctuations in the stock prices and operating results of our competitors;
- general market conditions and, in particular, developments related to market conditions for the financial services industry;
- proposed or adopted regulatory changes or developments;
- anticipated or pending investigations, proceedings or litigation that involve or affect us; and/or
- domestic and international economic factors unrelated to our performance.

The stock market and, in particular, the market for financial institution stocks, has historically experienced significant volatility. As a result, the market price of our common stock may be volatile. In addition, the trading volume in our common stock may fluctuate more than usual and cause significant price variations to occur. The trading price of the shares of our common stock and the value of our other securities will depend on many factors, which may change from time to time, including, without limitation, our financial condition, performance, creditworthiness and prospects, future sales of our equity or equity related securities, and other factors identified in this annual report and other reports by the Company. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers' underlying financial strength or operating results. A significant decline in our stock price could result in substantial losses for individual shareholders and could lead to costly and disruptive securities litigation.

The trading volume in our common stock is less than that of other larger financial institutions.
Although our common stock is listed for trading on the NASDAQ Global Select Market, its trading volume may be less than that of other, larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of our

common stock at any given time, a factor over which we have no control. During any period of lower trading volume of our common stock, significant sales of shares of our common stock or the expectation of these sales could cause our common stock price to fall.

An investment in our common stock is not insured and you could lose the value of your entire investment.
An investment in our common stock is not a savings account, deposit or other obligation of our bank subsidiary, any non-bank subsidiary or any other bank, and such investment is not insured or guaranteed by the FDIC or any other governmental agency. As a result, if you acquire our common stock, you may lose some or all of your investment.

Our ability to pay dividends is limited by various statutes and regulations and depends primarily on the Bank’s ability to distribute funds to us, and is also limited by various statutes and regulations. The Company depends on payments from the Bank, including dividends, management fees and payments under tax sharing agreements, for substantially all of the Company’s liquidity requirements. Federal and state regulations limit the amount of dividends and the amount of payments that the Bank may make to the Company under tax sharing agreements. In certain circumstances, the Missouri Division of Finance, FDIC, or Federal Reserve Board could restrict or prohibit the Bank from distributing dividends or making other payments to us. In the event that the Bank was restricted from paying dividends to the Company or making payments under the tax sharing agreement, the Company may not be able to service its debt, pay its other obligations or pay dividends on its common stock. If we are unable or determine not to pay dividends on our outstanding equity securities, the market price of such securities could be materially adversely affected.

There can be no assurance of any future dividends on our common stock.
Holders of our common stock are entitled to receive dividends only when, as and if declared by the Company’s Board of Directors (the “Board of Directors”). Although we have historically paid cash dividends on our common stock, we are not required to do so.
There may be future sales or other dilution of our equity, which may adversely affect the market price of our common stock.
We are not restricted from issuing additional common stock or preferred stock, including any securities that are convertible into or exchangeable for, or that represent the right to receive, common stock or preferred stock or any substantially similar securities. For example, we issued 3.3 million new shares of common stock in 2017 at the closing of the merger with JCB, which resulted in dilution to our shareholders.

In addition, to the extent awards to issue common stock under our employee equity compensation plans are exercised, or shares are issued, holders of our common stock could incur additional dilution. Further, if we sell additional equity or convertible debt securities, such sales could result in increased dilution to our shareholders. The market price of our common stock could decline as a result of sales of a large number of shares of common stock or preferred stock or similar securities in the market after an offering or the perception that such sales could occur.

Pending acquisitions may dilute stockholder value.
We are expected to issue 4,025,472 shares of the Company’s common stock upon consummation of the pending transaction with Trinity and LANB. If Trinity’s shareholders subsequently sell substantial amounts of our common stock, it may cause the market price of our common stock to decrease.

We continue to evaluate merger and acquisition opportunities and conduct due diligence activities related to possible transactions with other financial institutions on an ongoing basis. As a result, merger or acquisition discussions and, in some cases, negotiations may take place and future mergers or acquisitions involving cash, debt or equity securities may occur at any time. In the current market environment, acquisitions frequently involve the payment of a premium over book and market values, and, therefore, some dilution of our stock’s tangible book value and net income per common share may occur in connection with any pending or future transaction. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from recent or future acquisitions could have a material adverse effect on our financial condition and results of operations.

Our outstanding debt securities, related to our trust preferred securities, restrict our ability to pay dividends on our capital stock.

We have outstanding subordinated debentures issued to statutory trust subsidiaries, which have issued and sold preferred securities in the Trusts to investors.

If we are unable to make payments on any of our subordinated debentures for more than 20 consecutive quarters, we would be in default under the governing agreements for such securities and the amounts due under such agreements would be immediately due and payable. Additionally, if for any interest payment period we do not pay interest in respect of the subordinated debentures (which will be used to make distributions on the trust preferred securities), or if for any interest payment period we do not pay interest in respect of the subordinated debentures, or if any other event of default occurs, then we generally will be prohibited from declaring or paying any dividends or other distributions, or redeeming, purchasing or acquiring, any of our capital securities, including the common stock, during the next succeeding interest payment period applicable to any of the subordinated debentures, or next succeeding interest payment period, as the case may be.

Moreover, any other financing agreements that we enter into in the future may limit our ability to pay cash dividends on our capital stock, including the common stock. In the event that our existing or future financing agreements restrict our ability to pay dividends in cash on the common stock, we may be unable to pay dividends in cash on the common stock unless we can refinance amounts outstanding under those agreements. In addition, if we are unable or determine not to pay interest on our subordinated debentures, the market price of our common stock could be materially or adversely affected.

Anti-takeover provisions could negatively impact our shareholders.
Provisions of Delaware law and of our certificate of incorporation, as amended, and bylaws, as well as various provisions of federal and Missouri state law applicable to bank and bank holding companies, could make it more difficult for a third party to acquire control of us or have the effect of discouraging a third party from attempting to acquire control of us. We are subject to Section 203 of the Delaware General Corporation Law, which would make it more difficult for another party to acquire us without the approval of our Board of Directors. Additionally, our certificate of incorporation, as amended, authorizes our Board of Directors to issue preferred stock which could be issued as a defensive measure in response to a takeover proposal. In the event of a proposed merger, tender offer or other attempt to gain control of the Company, our Board of Directors would have the ability to readily issue available shares of preferred stock as a method of discouraging, delaying or preventing a change in control of the Company. Such issuance could occur regardless of whether our shareholders favorably view the merger, tender offer or other attempt to gain control of the Company. These and other provisions could make it more difficult for a third party to acquire us even if an acquisition might be in the best interests of our shareholders. Although we have no present intention to issue any shares of our authorized preferred stock, there can be no assurance that the Company will not do so in the future.

ITEM 1B: UNRESOLVED STAFF COMMENTS

None.

ITEM 2: PROPERTIES

Our executive offices are located at 150 North Meramec Avenue, Clayton, Missouri, 63105. As of December 31, 2018, we had 19 banking locations, and three limited service facilities in the St. Louis metropolitan area, seven banking locations in the Kansas City metropolitan area, and two banking locations in the Phoenix metropolitan area. We own 16 of the facilities and lease the remainder. Most of the leases expire between 2019 and 2024 and include one or more renewal options of up to five years. One lease expires in 2030. All the leases are classified as operating leases. We believe all of our properties are in good condition.

ITEM 3: LEGAL PROCEEDINGS

The Company and its subsidiaries are, from time to time, parties to various legal proceedings arising out of their businesses. Management believes that there are no such legal proceedings pending or threatened against the Company or its subsidiaries in the ordinary course of business, directly, indirectly, or in the aggregate that, 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 4: MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5: MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Common Stock Market Prices
The Company’s common stock trades on the NASDAQ Global Select Market under the symbol “EFSC.” Listed below are the per-share dividends paid by quarter along with the high and low sales prices for the common stock for the periods indicated, as reported by the NASDAQ Global Select Market. There may have been other transactions at prices not known to the Company. As of February 20, 2019, the Company had 421 registered shareholders of common stock and a market price of $46.65 per share. The number of holders of record does not represent the actual number of beneficial owners of our common stock because securities dealers and others frequently hold shares in “street name” for the benefit of individual owners who have the right to vote shares.

Year	Quarter	High	Low	Dividends Paid Per Share
2017	First Quarter	$46.25	$38.20	$ 0.11
	Second Quarter	45.35	39.10	0.11
	Third Quarter	42.70	36.65	0.11
	Fourth Quarter	46.25	41.45	0.11
2018	First Quarter	$49.97	$42.90	$ 0.11
	Second Quarter	57.05	45.85	0.11
	Third Quarter	58.15	52.70	0.12
	Fourth Quarter	55.61	36.09	0.13

Dividends
The holders of shares of our common stock are entitled to receive dividends when declared by our Board of Directors out of funds legally available for the purpose of paying dividends. Our ability to pay dividends is substantially dependent upon the ability of our subsidiaries to pay cash dividends to us. Information on regulatory restrictions on our ability to pay dividends is set forth in “Part I, Item 1. Business - Supervision and Regulation - Financial Holding Company - Dividend Restrictions.” The amount of dividends, if any, that may be declared by the Company also depends on many other factors, including future earnings, bank regulatory capital requirements and business conditions as they affect the Company and its subsidiaries. As a result, no assurance can be given that dividends will be paid in the future with respect to our common stock.

Securities Authorized for Issuance Under Equity Compensation Plans
For more information on our equity compensation plans, see “Item: 8. Note 15 – Compensation Plans” and “Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” in this report, which are incorporated herein by reference.

Recent Sales of Unregistered Securities and Use of Proceeds
None.

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 December 31, 2018.

Period	Total number of shares purchased	Weighted-average price paid per share	Total number of shares purchased as part of publicly announced plans or programs (a)	Maximum number of shares that may yet be purchased under the plans or programs (a)
October 1 - 31, 2018	18,457	$ 52.61	18,457	1,229,948
November 1- 30, 2018	29,987	44.38	29,987	1,199,961
December 1- 31, 2018	251,066	40.81	251,066	948,895
Total	299,510	$ 41.89	299,510	

(a) In May 2015, the Company’s Board of Directors authorized the repurchase of up to two million shares of the Company’s common stock, pursuant to a publicly announced Company share repurchase program. 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.

Stock Performance Graph

The following graph* compares the cumulative total shareholder return on the Company’s common stock from December 31, 2013 through December 31, 2018. The graph compares the Company’s common stock with the NASDAQ Composite Index (U.S. companies), and the SNL Bank $5B-$10B Index. The graph assumes an investment of $100.00 in the Company’s common stock and each index at the respective closing price on December 31, 2013 and reinvestment of all quarterly dividends. The investment is measured as of each subsequent fiscal year end. There is no assurance that the Company’s common stock performance will continue in the future with the same or similar results as shown in the graph. The Company’s total cumulative gain was 94.83% over the five-year period ending December 31, 2018, compared to gains of 68.30% and 51.57% for the NASDAQ Composite Index and SNL Bank $5B-$10B Index, respectively.

	Period Ending December 31,					
Index	2013	2014	2015	2016	2017	2018
Enterprise Financial Services Corp	100.00	97.73	141.99	218.20	231.52	194.83
NASDAQ Composite Index	100.00	114.75	122.74	133.62	173.22	168.30
SNL Bank $5B-$10B Index	100.00	103.01	117.34	168.11	167.48	151.57

*Source: S&P Global Market Intelligence. Used with permission. All rights reserved.

ITEM 6: SELECTED FINANCIAL DATA

The following consolidated selected financial data is derived from the Company's audited financial statements as of and for each of the five years ended presented. This information should be read in connection with our audited consolidated financial statements as of December 31, 2018 and 2017, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Consolidated Financial Statements and related Notes contained in "Item 8. Financial Statements and Supplementary Data," appearing elsewhere in this report.

	Years ended December 31,				
($ in thousands, except per share data)	2018	2017	2016	2015	2014
EARNINGS SUMMARY:					
Interest income	$237,802	$202,539	$149,224	$132,779	$131,754
Interest expense	45,897	25,235	13,729	12,369	14,386
Net interest income	191,905	177,304	135,495	120,410	117,368
Provision for loan losses	6,644	10,130	3,605	458	5,492
Noninterest income	38,347	34,394	29,059	20,675	16,631
Noninterest expense	119,031	115,051	86,110	82,226	87,463
Income before income tax expense	104,577	86,517	74,839	58,401	41,044
Income tax expense[1]	15,360	38,327	26,002	19,951	13,871
Net income[1]	$89,217	$48,190	$48,837	$38,450	$27,173
PER SHARE DATA:					
Basic earnings per common share[1]	$3.86	$2.10	$2.44	$1.92	$1.38
Diluted earnings per common share[1]	3.83	2.07	2.41	1.89	1.35
Cash dividends paid on common shares	0.47	0.44	0.41	0.26	0.21
Dividend payout ratio	12.16 %	21.27 %	16.81 %	13.68 %	15.37 %
Book value per common share	$26.47	$23.76	$19.31	$17.53	$15.94
Tangible book value per common share	20.95	18.20	17.69	15.86	14.20
BALANCE SHEET DATA:					
Ending balances:					
Portfolio loans	$4,333,125	$4,066,659	$3,118,392	$2,750,737	$2,433,916
Allowance for portfolio loan losses	42,295	38,166	37,565	33,441	30,185
Non-core acquired loans, net of allowance for loan losses	15,695	25,980	33,925	64,583	83,693
Goodwill	117,345	117,345	30,334	30,334	30,334
Other intangible assets, net	8,553	11,056	2,151	3,075	4,164
Total assets	5,645,662	5,289,225	4,081,328	3,608,483	3,277,003
Deposits	4,587,985	4,156,414	3,233,361	2,784,591	2,491,510
Subordinated debentures and notes	118,156	118,105	105,540	56,807	56,807
FHLB advances	70,000	172,743	—	110,000	144,000
Other borrowings	221,450	253,674	276,980	270,326	239,883
Shareholders' equity	603,804	548,573	387,098	350,829	316,241
Tangible common equity	477,906	420,172	354,613	317,420	281,743
Average balances:					
Portfolio loans	$4,193,685	$3,810,055	$2,915,744	$2,520,734	$2,255,180
Non-core acquired loans	23,611	35,761	55,992	87,940	119,504
Earning assets	5,041,395	4,611,670	3,570,186	3,163,339	2,921,978

Total assets	5,436,963	4,980,229	3,796,478	3,381,831	3,156,994
Interest-bearing liabilities	3,736,523	3,396,382	2,634,700	2,344,861	2,209,188
Shareholders' equity	576,960	532,306	371,587	335,095	301,756
Tangible common equity	449,852	414,458	338,662	301,165	266,655

[1]Includes $12.1 million ($0.52 per share) deferred tax asset revaluation charge for 2017 due to U.S. corporate income tax reform.

	Years ended December 31,				
	2018	2017	2016	2015	2014
SELECTED RATIOS:					
Return on average common equity	15.46 %	9.05 %	13.14 %	11.47 %	9.01 %
Return on average tangible common equity	19.83	11.63	14.42	12.77	10.19
Return on average assets	1.64	0.97	1.29	1.14	0.86
Efficiency ratio	51.70	54.35	52.33	58.28	65.27
Total loan yield[1]	5.16	4.84	4.66	4.72	5.14
Cost of interest-bearing liabilities	1.23	0.74	0.52	0.53	0.65
Net interest spread[1]	3.50	3.69	3.71	3.72	3.91
Net interest margin[1]	3.82	3.88	3.84	3.86	4.07
Nonperforming loans to total loans	0.38	0.38	0.47	0.32	0.88
Nonperforming assets to total assets[2]	0.30	0.31	0.39	0.48	0.74
Net charge-offs to average loans	0.13	0.26	0.05	0.06	0.06
Allowance for loan losses to total loans	1.00	1.04	1.37	1.54	1.80

[1]Fully tax equivalent.
[2]Other real estate from PCI loans is included in nonperforming assets beginning with the year ended December 31, 2015 due to termination of all existing FDIC loss share agreements.

ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

The objective of this section is to provide an overview of the results of operations and financial condition of the Company for the three year period ended December 31, 2018. It should be read in conjunction with the Consolidated Financial Statements and related Notes contained in "Item 8. Financial Statements and Supplementary Data," and other financial data presented elsewhere in this report, particularly the information regarding the Company's business operations described in Item 1.

Executive Summary

Our Company offers a broad range of business and personal banking services including wealth management services. Lending services include commercial and industrial, commercial real estate, real estate construction and development, residential real estate, and consumer loans. A wide variety of deposit products and a complete suite of treasury management and international trade services complement our lending capabilities. Tax credit brokerage activities consist of the acquisition of Federal and State tax credits and the sale of these tax credits to clients. Enterprise Trust, a division of the Bank, provides financial planning, estate planning, investment management, and trust services to businesses, individuals, institutions, retirement plans, and non-profit organizations. The Company manages expenses carefully through detailed budgeting and expense approval processes. We measure the "efficiency ratio" as a benchmark for improvement. The efficiency ratio is equal to noninterest expense divided by total revenue (net interest income plus noninterest income). The Company's results of operations are also affected by prevailing economic conditions, competition, government policies and other actions of regulatory agencies.

Balance Sheet Highlights

- Loans - Loans totaled $4.4 billion at December 31, 2018, including $16.9 million of non-core acquired loans. Portfolio loans increased $266 million, or 7%, from December 31, 2017. Commercial and industrial ("C&I") loans were the largest component, increasing $202 million, or 11%, since December 31, 2017. See "Item 8. Note 5 – Portfolio Loans" for more information.
- Deposits – Total deposits at December 31, 2018 were $4.6 billion, an increase of $432 million, or 10%, from December 31, 2017. Core deposits, defined as total deposits excluding certificates of deposit, were $3.9 billion at December 31, 2017, an increase of $326 million, or 9%, from the prior year period. Along with normal seasonal deposit growth, the Company continues to strengthen and diversify the funding base across all regions.
- Asset quality – Nonperforming assets totaled $17.2 million at December 31, 2018, an increase of 6% compared to $16.2 million at December 31, 2017. Despite the increase, nonperforming assets represented 0.30% of total assets at December 31, 2018, which is stable when compared to 0.31% of total assets at December 31, 2017.

Provision for loan losses was $6.6 million in 2018, compared to $10.1 million in 2017. The current year included a provision reversal on purchased credit impaired ("PCI") loans of $3.2 million compared to a provision reversal of $0.6 million for the prior year. See "Item 8. Note 5 – Portfolio Loans, and Provision and Allowance for Loan Losses" in this report for more information.

Financial Performance Highlights

Below are highlights of our financial performance for the year ended December 31, 2018 as compared to the years ended December 31, 2017 and 2016.

($ in thousands, except per share data)	For the Years ended December 31,		
	2018	2017	2016
EARNINGS			
Total interest income	$237,802	$202,539	$149,224
Total interest expense	45,897	25,235	13,729
Net interest income	191,905	177,304	135,495
Provision for loan losses	6,644	10,130	3,605
Net interest income after provision for loan losses	185,261	167,174	131,890
Total noninterest income	38,347	34,394	29,059
Total noninterest expense	119,031	115,051	86,110
Income before income tax expense	104,577	86,517	74,839
Income tax expense	15,360	38,327	26,002
Net income	$89,217	$48,190	$48,837
Basic earnings per share	$3.86	$2.10	$2.44
Diluted earnings per share	3.83	2.07	2.41
Return on average assets	1.64 %	0.97 %	1.29 %
Return on average common equity	15.46	9.05	13.14
Return on average tangible common equity	19.83	11.63	14.42
Net interest margin (fully tax equivalent)	3.82	3.88	3.84
Core net interest margin[1]	3.75	3.72	3.51
Efficiency ratio	51.70	54.35	52.33
Core efficiency ratio[1]	52.04	52.93	54.70

	At/ For the Years ended December 31,		
	2018	2017	2016
ASSET QUALITY			
Net charge-offs	$5,683	$10,163	$1,427
Nonperforming loans	16,745	15,687	14,905
Classified assets	70,126	73,239	93,452
Nonperforming loans to total loans	0.38 %	0.38 %	0.47 %
Nonperforming assets to total assets	0.30	0.31	0.39
Allowance for loan losses to total loans	1.00	1.04	1.37
Net charge-offs to average loans	0.13	0.26	0.05

[1]Non-GAAP measures. A reconciliation has been included in this MD&A section under the caption “Use of Non-GAAP Financial Measures.”

The Company noted the following trends during 2018:

- The Company reported net income of $89.2 million, or $3.83 per diluted share for 2018, compared to $48.2 million, or $2.07 per diluted share for 2017. Growth in net interest income, maintaining net interest margin, and fee income expansion drove the pre-tax earnings increase over the prior year. Additionally, the Company

benefited from a reduction in income tax expense as a result of H.R.1, formerly known as "Tax Cuts and Jobs Act," which was signed into law on December 22, 2017, as well as the Company's tax planning initiatives. The Company's income tax expense also declined in 2018 due to the deferred tax asset revaluation charge of $12.1 million incurred in 2017 resulting from the Tax Cuts and Jobs Act.

- Net interest income for 2018 totaled $191.9 million, an increase of $14.6 million, or 8%, compared to $177.3 million for 2017. Core net interest income[1] growth of $18.6 million was due to organic growth in portfolio loan balances funded principally by core deposits, aided by a three basis point expansion of core net interest margin[1] discussed below. Additionally, non-core acquired assets contributed $3.7 million to net interest income during 2018 compared to $7.7 million in 2017.

- Net interest margin decreased six basis points to 3.82% during 2018, compared to 3.88% in 2017. Core net interest margin[1] increased three basis points to 3.75% during 2018. This increase was primarily due to the impact of interest rate increases on the Company's asset sensitive balance sheet. Specifically, the yield on loans, excluding incremental accretion on non-core acquired loans, increased 43 basis points to 5.07% from 4.64% due to the effect of increasing interest rates on the existing variable-rate loan portfolio and higher rates on newly originated loans. The cost of total deposits also increased 35 basis points from the prior year period to 0.79% for the year ended December 31, 2018. The increase in the interest rate paid on deposits reflects market interest rate trends, as the Company continues to defend existing and attract new core deposit relationships. Additionally, the cost of total interest-bearing liabilities increased 49 basis points to 1.23% for the year ended December 31, 2018 from 0.74% for the prior year period.

- Noninterest income increased $3.9 million, or 11%, to $38.3 million in 2018 compared to $34.4 million in 2017. This improvement was primarily due to higher income from deposit service charges, card services, and other miscellaneous income from non-core acquired assets and the sale of an equity partnership.

For the full year:
Deposit service charges increased $0.7 million, or 6%;
income from card services increased $1.3 million, or 23%; and
other income increased $1.7 million, or 24%.

- Noninterest expenses totaled $119.0 million for 2018, an increase of $4.0 million, or 3%, compared to 2017. Increases in employee compensation and benefits and other miscellaneous expenses primarily consisting of tax credit investment amortization expense were partially offset by a reduction in merger related expenses. The Company's efficiency ratio was 51.70% for 2018, compared to 54.35% for the prior year. The Company's core efficiency ratio[1] was 52.04% for 2018, compared to 52.93% for 2017.

- The Company's effective tax rate was 14.7% for the year ended December 31, 2018 compared to 44.3% for the prior year. The lower corporate federal tax rate for 2018 and other tax planning activities reduced income tax expense. Additionally, as a result of changes to U.S. corporate tax laws in 2017, a revaluation of the Company's deferred tax assets resulted in a $12.1 million charge in the prior year period.

Merger Agreement

On November 1, 2018, the Company entered into a definitive merger agreement, pursuant to which Trinity Capital Corporation ("Trinity") will merge with and into the Company, and Los Alamos National Bank ("LANB"), Trinity's wholly-owned bank subsidiary will merge with and into the Bank. Headquartered in Los Alamos, New Mexico, Trinity recorded approximately $1.2 billion in total assets as of December 31, 2018 and serves businesses and residents in Northern New Mexico and the Albuquerque metro area through its six full-service locations.

Pursuant to the terms of the definitive agreement, upon consummation of the proposed transaction, Trinity shareholders will receive 0.1972 shares of the Company's common stock and $1.84 in cash for each share of Trinity common stock they hold. Based on a $43.45 closing price of the Company's common stock on October 31, 2018, the aggregate merger consideration payable to Trinity's shareholders is approximately $38 million in cash and $175 million in the Company's shares of common stock.

[1]Non-GAAP measures. A reconciliation has been included in this MD&A section under the caption "Use of Non-GAAP Financial Measures."

Recent Developments

- The Company's Board of Directors approved an increase in the Company's quarterly cash dividend to $0.14 per common share for the first quarter of 2019, payable on March 29, 2019 to shareholders of record as of March 15, 2019.

- In January 2019, the Company completed five interest rate swap transactions with a total notional amount of $62 million to hedge its exposure to variability in cash flows on a portion of the Company's floating-rate debt. The transactions swapped the variable 90 day LIBOR to a fixed rate of 2.62% on average with terms of five to seven years. These transactions were designated as cash flow hedges for accounting purposes.

- In February 2019, the Company secured a five-year, $40 million term note with another bank to principally fund the cash needs of the pending acquisition of Trinity and LANB. Additionally, the Company increased its revolving line of credit with the same bank by $5 million to $25 million. The interest rate on the note and revolving line of credit is the one-month LIBOR rate plus 125 basis points.

2018 Significant Transactions
During 2018, we announced the following significant transactions:

- On November 1, 2018, the Company entered into a definitive merger agreement to acquire Trinity and its wholly-owned bank subsidiary, LANB, headquartered in Los Alamos, New Mexico, pursuant to which the Company will acquire Trinity and LANB. The proposed transaction has been approved by the FDIC, the Federal Reserve Bank of St. Louis, and the Missouri Division of Finance. The closing of the proposed transaction, which is anticipated to occur during the first quarter of 2019, remains subject to the approval of Trinity's shareholders and the satisfaction or waiver, as applicable, of all closing conditions.

- The Company repurchased 435,432 of its common shares at a weighted-average share price of $44.52, pursuant to its publicly announced share repurchase program. 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 then 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. At December 31, 2018, there were 948,895 shares remaining to be purchased under this share repurchase plan.

- The Company's Board approved two consecutive increases in the Company's quarterly cash dividend to $0.13 per common share for the fourth quarter of 2018, up from $0.11 for the second quarter of 2018, expanding cash dividends paid for the year by 6%.

2017 Significant Transactions
During 2017, we completed the following significant transactions:

- On February 10, 2017, the Company announced the completion of its acquisition of JCB which was merged with and into the Company, and Eagle Bank and Trust Company of Missouri, JCB's wholly-owned subsidiary, merged with and into the Bank. As part of the acquisition, 3.3 million shares of the Company's common stock were issued and approximately $29.3 million in cash was paid to JCB shareholders and holders of JCB stock options. The overall transaction had a value of approximately $171.0 million, including JCB's common stock and stock options.

- The Company repurchased 429,955 of its common shares at a weighted-average share price of $38.69, pursuant to its publicly announced share repurchase program.

2016 Significant Transactions

During 2016, we completed the following significant transactions:

- On October 10, 2016, the Company entered into a definitive merger agreement to acquire JCB headquartered in Jefferson County, Missouri. JCB was the parent holding company of Eagle Bank and Trust Company of Missouri. The transaction closed on February 10, 2017.

- On November 1, 2016, the Company issued $50 million aggregate principal amount of 4.75% fixed-to-floating rate subordinated notes with a maturity date of November 1, 2026. The subordinated notes will initially bear an annual interest rate of 4.75%, with interest payable semiannually. Beginning November 1, 2021, the interest rate resets quarterly to the three-month LIBOR plus a spread of 338.7 basis points, payable quarterly. The Company used a portion of the proceeds from the issuance to pay the cash consideration at the closing of the acquisition of JCB. Regulatory guidance allows for this subordinated debt to be treated as tier 2 regulatory capital for the first five years of its term, subject to certain limitations, and then phased out of tier 2 capital pro rata over the next five years.

- The Company repurchased 185,718 of its common shares at a weighted-average share price of $26.32 pursuant to its publicly announced share repurchase program during the year ended December 31, 2016.

- The Company’s Board approved three consecutive increases in the Company’s quarterly cash dividend to $0.11 per common share for the fourth quarter of 2016, up from $0.09 for the first quarter of 2016, expanding cash dividends paid for the year by 56%.

RESULTS OF OPERATIONS

Net Interest Income

Average Balance Sheet

Non-core acquired loans were those acquired from the FDIC and were previously covered by shared-loss agreements. These loans continue to be accounted for as purchased credit impaired loans. 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.

	For the Years ended December 31,								
	2018			2017			2016		
($ in thousands)	Average Balance	Interest Income/Expense	Average Yield/ Rate	Average Balance	Interest Income/Expense	Average Yield/ Rate	Average Balance	Interest Income/Expense	Average Yield/ Rate
Assets									
Interest-earning assets:									
Taxable portfolio loans[1]	$4,164,377	$210,402	5.05 %	$3,774,484	$173,824	4.61 %	$2,881,071	$120,803	4.19 %
Tax-exempt portfolio loans[2]	34,371	1,889	5.50	40,634	2,652	6.53	41,471	2,512	6.06
Non-core acquired loans - contractual	23,611	1,689	7.15	35,761	2,273	6.36	55,992	3,403	6.08
Non-core acquired loans - incremental		3,700	15.67		7,718	21.58		11,980	21.39
Total loans	4,222,359	217,680	5.16	3,850,879	186,467	4.84	2,978,534	138,698	4.66
Taxable investments in debt and equity securities	712,227	18,375	2.58	634,195	15,000	2.37	476,341	9,816	2.06
Non-taxable investments in debt and equity securities (2)	40,038	1,426	3.56	47,219	2,078	4.40	48,157	2,106	4.37
Short-term investments	66,771	1,141	1.71	79,377	804	1.01	67,154	370	0.55
Total securities and short-term investments	819,036	20,942	2.56	760,791	17,882	2.35	591,652	12,292	2.08
Total interest-earning assets	5,041,395	238,622	4.73	4,611,670	204,349	4.43	3,570,186	150,990	4.23
Noninterest-earning assets:									
Cash and due from banks	87,513			79,189			57,237		
Other assets	352,909			333,185			213,698		
Allowance for loan losses	(44,854)			(43,815)			(44,643)		
Total assets	$5,436,963			$4,980,229			$3,796,478		

Liabilities and Shareholders' Equity												
Interest-bearing liabilities:												
Interest-bearing transaction accounts	$827,155	$3,643	0.44	%	$802,993	$2,195	0.27	%	$606,899	$1,370	0.23	%
Money market accounts	1,488,238	19,361	1.30		1,286,796	8,708	0.68		1,075,055	4,439	0.41	
Savings	206,286	597	0.29		189,516	459	0.24		105,115	262	0.25	
Certificates of deposit	653,486	10,168	1.56		586,115	5,838	1.00		466,326	4,770	1.02	
Total interest-bearing deposits	3,175,165	33,769	1.06		2,865,420	17,200	0.60		2,253,395	10,841	0.48	
Subordinated debentures and notes	118,129	5,798	4.91		116,707	5,095	4.37		64,948	1,894	2.91	
FHLB advances	271,493	5,556	2.05		192,489	2,356	1.22		109,713	555	0.51	
Other borrowed funds	171,736	774	0.45		221,766	584	0.26		206,644	439	0.21	
Total interest-bearing liabilities	3,736,523	45,897	1.23		3,396,382	25,235	0.74		2,634,700	13,729	0.52	
Noninterest bearing liabilities:												
Demand deposits	1,086,863				1,017,660				761,086			
Other liabilities	36,617				33,881				29,105			
Total liabilities	4,860,003				4,447,923				3,424,891			
Shareholders' equity	576,960				532,306				371,587			
Total liabilities & shareholders' equity	$5,436,963				$4,980,229				$3,796,478			
Net interest income		$192,725				$179,114				$137,261		
Net interest spread			3.50	%			3.69	%			3.71	%
Net interest margin (tax equivalent)			3.82				3.88				3.84	
Core net interest margin[3]			3.75				3.72				3.51	

[1]Average balances include non-accrual loans. Loan fees, net of amortization of deferred loan origination fees and costs, included in interest income are approximately $4.0 million, $3.4 million, and $2.2 million for the years ended December 31, 2018, 2017, and 2016 respectively.

[2]Non-taxable income is presented on a fully tax-equivalent basis using a 24.7% tax rate in 2018 and a 38.0% rate in 2017 and 2016, respectively. The tax-equivalent adjustments were $0.8 million for the year ended December 31, 2018, and $1.8 million for the years ended December 31, 2017, and 2016, respectively.

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

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.

	2018 compared to 2017 Increase (decrease) due to			2017 compared to 2016 Increase (decrease) due to		
($ in thousands)	Volume[1]	Rate[2]	Net	Volume[1]	Rate[2]	Net
Interest earned on:						
Taxable portfolio loans	$18,854	$17,724	$36,578	$40,257	$12,764	$53,021
Tax-exempt portfolio loans[3]	(377)	(386)	(763)	(52)	192	140
Non-core acquired loans	(2,991)	(1,611)	(4,602)	(5,648)	256	(5,392)
Taxable investments in debt and equity securities	1,942	1,433	3,375	3,586	1,598	5,184
Non-taxable investments in debt and equity securities[3]	(289)	(363)	(652)	(41)	13	(28)
Short-term investments	(144)	481	337	77	357	434
Total interest-earning assets	16,995	17,278	34,273	38,179	15,180	53,359
Interest paid on:						
Interest-bearing transaction accounts	$68	$1,380	$1,448	$499	$326	$825
Money market accounts	1,546	9,107	10,653	1,006	3,263	4,269
Savings	44	94	138	204	(7)	197
Certificates of deposit	735	3,595	4,330	1,196	(128)	1,068
Subordinated debentures and notes	63	640	703	1,976	1,225	3,201
FHLB advances	1,213	1,987	3,200	625	1,176	1,801
Other borrowed funds	(154)	344	190	34	111	145
Total interest-bearing liabilities	3,515	17,147	20,662	5,540	5,966	11,506
Net interest income	$13,480	$131	$13,611	$32,639	$9,214	$41,853

[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 a 24.7% for 2018, and a 38% tax rate for 2017.
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.

Comparison of 2018 and 2017

Net interest income (on a tax equivalent basis) was $192.7 million for 2018, compared to $179.1 million for 2017, an increase of $13.6 million, or 8%. Total interest income increased $34.3 million and total interest expense increased $20.7 million. The tax-equivalent net interest margin was 3.82% for 2018, compared to 3.88% for 2017. The increase in net interest income in 2018 was primarily due to organic growth in portfolio loan balances funded principally by core deposits, aided by a three basis point expansion of core net interest margin[1] discussed below. Additionally, non-core acquired assets[1] contributed $3.7 million to net interest income during 2018 compared to $7.7 million in 2017.

Core net interest margin[1] increased three basis points to 3.75% during 2018. This increase was primarily due to the impact of interest rate increases on the Company's asset sensitive balance sheet. Specifically, the yield on loans, excluding incremental accretion on non-core acquired loans, increased 43 basis points to 5.07% from 4.64% due to the

effect of increasing interest rates on the existing variable-rate loan portfolio and higher rates on newly originated loans. The cost of total deposits also increased 35 basis points from the prior year period to 0.79% for the year ended

December 31, 2018. The increase in the interest rate paid on deposits reflects market interest rate trends, as the Company continues to defend existing and attract new core deposit relationships. Additionally, the cost of total interest-bearing liabilities increased 49 basis points to 1.23% for the year ended December 31, 2018 from 0.74% for the year ended December 31, 2017.

Average interest-earning assets increased $430 million, or 9%, to $5.0 billion for the year ended December 31, 2018. The increase was due to growth in average total loans of $371 million, or 10%, due to organic loan growth. Additionally, average securities and short-term investments also increased $58 million, or 8%. Due to the growth in the balance sheet, interest income on earning assets increased $20.0 million which was offset by a $3.0 million decrease from the trends in non-core acquired loans as the balances continue to decline. Additionally, interest income on interest earnings assets increased by $17.3 million primarily due to rising interest rates on the existing variable-rate loan portfolio and higher rates on newly originated loans, as previously discussed.

For the year ended December 31, 2018, average interest-bearing liabilities increased $340 million, or 10%. The increase in average interest-bearing liabilities resulted from $310 million of growth in interest-bearing deposits, which principally funded the balance sheet growth. Average interest-bearing deposits increased as the Company continues to strengthen and diversify the funding base across all regions. This growth in deposits and other borrowing sources utilized to fund the asset growth increased interest expense for 2018 by $3.5 million. Additionally, for the year ended December 31, 2018, interest expense on interest-bearing liabilities increased $17.1 million due to higher rates from market and competitive conditions.

The Company continues to manage its balance sheet to grow net interest income and expects to maintain core net interest margin[1] over the coming quarters; however, pressure on funding costs could negate the expected trends in core net interest margin[1].

Comparison of 2017 and 2016

Net interest income (on a tax equivalent basis) was $179.1 million for 2017, compared to $137.3 million for 2016, an increase of $41.9 million, or 30%. Total interest income increased $53.4 million and total interest expense increased $11.5 million. The tax-equivalent net interest margin was 3.88% for 2017, compared to 3.84% for the prior year period. The increase in net interest income was primarily due to the impact of rising interest rates which increased yields on variable rate loans and to an improved earning asset mix combined with the acquisition of JCB, partially offset by a decline in contributions from non-core acquired assets and higher rates on interest bearing liabilities.

Average interest-earning assets increased $1 billion, or 29%, to $4.6 billion for the year ended December 31, 2017. Average total loans increased $872 million, or 29%, to $3.9 billion for the year ended December 31, 2017, from $3.0 billion for the year ended December 31, 2016, largely due to the JCB acquisition along with organic loan growth. Average securities and short-term investments increased $169 million, or 29%, to $760.8 million for 2017 compared to $591.7 million for 2016. Interest income on earning assets increased $38.2 million due to an increase in volume, which includes an offsetting $5.6 million decrease from the decline in non-core acquired loans as the balances continue to run off. Excluding non-core acquired loans, total interest income increased $43.8 million due to volume, primarily from portfolio loans. Interest income on earnings assets increased $15.2 million due to rising interest rates.

For the year ended December 31, 2017, average interest-bearing liabilities increased $762 million, or 29%, to $3.4 billion, compared to $2.6 billion for the year ended December 31, 2016. The increase in average interest-bearing liabilities resulted from a $612 million increase in average interest-bearing deposits, a $52 million increase in average subordinated debentures and notes, an $83 million increase in FHLB advances, and a $15 million increase in average other borrowed funds. Average interest-bearing deposits increased from the JCB acquisition, and our continued progress across our regions and business lines. The issuance of $50 million of subordinated notes on November 1, 2016 increased the average balance of subordinated debentures and notes for 2017 compared to 2016. Average other

borrowed funds increased due to higher balances in customer repurchase agreements. For the year ended December 31, 2017, interest expense on interest-bearing liabilities increased $6.0 million due to higher rates from market conditions, and $5.5 million due to higher volumes, compared to the year ended December 31, 2016.

[1]Non-GAAP measures. A reconciliation has been included in this MD&A section under the caption "Use of Non-GAAP Financial Measures."

Non-Core Acquired Assets Contribution

The following table illustrates the financial contribution of non-core acquired loans and other assets for the most recent three fiscal years:

	For the Years ended December 31,		
($ in thousands)	2018	2017	2016
Accelerated cash flows and other incremental accretion	$3,699	$7,718	$11,980
Provision reversal for loan losses	3,169	634	1,946
Gain (loss) on sale of other real estate	—	(6)	1,565
Other income from other real estate	1,048	—	621
Other expenses	163	(240)	(1,094)
Non-core acquired assets income before income tax expense	$8,079	$8,106	$15,018

Non-core acquired loans contributed $6.1 million, $5.0 million, and $9.3 million of net income for the years ended December 31, 2018, 2017, and 2016, respectively. At December 31, 2018, the remaining accretable yield on the portfolio was estimated to be $9 million, and the non-accretable difference was $7 million.

Noninterest Income

The following table presents a comparative summary of the major components of noninterest income for each of the years in the three-year period ended December 31, 2018:

($ in thousands)	Years ended December 31, 2018	2017	2016	Change from 2018 vs. 2017	2017 vs. 2016
Service charges on deposit accounts	$11,749	$11,043	$8,615	$706	$2,428
Wealth management revenue	8,241	8,102	6,729	139	1,373
Card services revenue	6,686	5,433	3,130	1,253	2,303
Tax credit activity, net	2,820	2,581	2,647	239	(66)
Gain on sale of other real estate	13	93	1,837	(80)	(1,744)
Gain on sale of securities	9	22	86	(13)	(64)
Miscellaneous income	8,829	7,120	6,015	1,709	1,105
Total noninterest income	$38,347	$34,394	$29,059	$3,953	$5,335

Noninterest income increased $4.0 million , or 11%, in 2018 compared to 2017. This improvement was primarily due to higher income from card services, service charges on deposit accounts, other income from non-core acquired assets, and the sale of an equity partnership included in other income.

Noninterest income increased $5.3 million, or 18%, in 2017 compared to 2016. The increase was primarily due to higher income from deposit service charges, wealth management revenue, and card services from the acquisition of JCB, as well as growth in the client base. This income growth was partially offset by lower gains on the sale of other real estate, which declined $1.7 million from 2016.

The Company expects growth in noninterest income of a high single digit percentage for 2019 over 2018 levels, exclusive of the impact of the pending acquisition of Trinity and LANB.

Noninterest Expense

The following table presents a comparative summary of the major components of noninterest expense for each of the years in the three-year period ended December 31, 2018:

	Years ended December 31,			Change from	
($ in thousands)	2018	2017	2016	2018 vs. 2017	2017 vs. 2016
Employee compensation and benefits	$66,039	$61,388	$49,846	$4,651	$11,542
Occupancy	9,550	9,057	6,889	493	2,168
Data processing	6,321	6,272	4,723	49	1,549
Professional fees	3,134	3,813	3,825	(679)	(12)
FDIC and other insurance	3,272	3,194	3,018	78	176
Loan, legal, and other real estate expense	1,088	2,220	1,635	(1,132)	585
Merger related expenses	1,271	6,462	1,386	(5,191)	5,076
Other expenses	28,356	22,645	14,788	5,711	7,857
Total noninterest expense	$119,031	$115,051	$86,110	$3,980	$28,941
Efficiency ratio	51.70 %	54.35 %	52.33 %	(2.65)%	2.02 %
Core efficiency ratio[1]	52.04	52.93	54.70	(0.89)	(1.77)

[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 increased $4.0 million, or 3%, in 2018 compared to 2017. Increases in employee compensation and benefits and other miscellaneous expenses primarily consisting of tax credit investment amortization expense were partially offset by a reduction in merger related expenses.

Noninterest expenses increased $28.9 million, or 34%, in 2017 compared to 2016. This increase primarily represented the additional operating and run-rate expenses associated with the acquisition of JCB completed in 2017, as well as continued investments in underlying business growth. Other core noninterest expense included $1.4 million of tax credit investment amortization. These investments have a corresponding and higher benefit in the Company's income tax expense line and were consistent with the Company's overall tax planning efforts.

The Company expects to continue to invest in revenue producing associates and other infrastructure that supports additional growth. These investments are expected to result in expense growth, at a rate of 35% - 45% of projected revenue growth for 2019, resulting in continued improvements to the Company's efficiency ratio, exclusive of the impact of the pending acquisition of Trinity and LANB.

Income Taxes

The Company estimates its statutory federal and state tax rate to be 24.7%. Permanent differences between pre-tax income and taxable income along with tax planning initiatives reduced the effective income tax rate. In 2018, the Company recorded income tax expense of $15.4 million on pre-tax income of $104.6 million, resulting in an effective income tax rate of 14.7%.

The following items impacted the 2018 effective tax rate:

- A subsidiary dividend timing election resulting in a reduction of income tax expense of $2.7 million, partially offset by $0.7 million of excise tax included as a component of noninterest expenses; and

- excess tax benefits on stock awards of $1.6 million.

The Company expects its effective tax rate for 2019 to be approximately 18% - 20%.

In 2017, the Company recorded income tax expense of $38.3 million on pre-tax income of $86.5 million, resulting in an effective tax rate of 44.3%. The following items impacted the 2017 effective tax rate:
- $12.1 million deferred tax asset revaluation charge due to the Tax Cuts and Jobs Act,
- tax credit investments made in the year yielded $1.6 million of federal tax credits, and
- excess tax benefits on stock awards totaled $2.1 million.

In 2016, the Company recorded income tax expense of $26.0 million on pre-tax income of $74.8 million, resulting in an effective tax rate of 34.7%. The following items impacted the 2016 effective tax rate:
- interest income on tax exempt mortgages and municipal bonds of $1.0 million, and
- decrease in the tax rate used for deferred tax assets of $0.3 million.

FINANCIAL CONDITION

Summary Balance Sheet

($ in thousands)	December 31,			% Increase (Decrease)	
	2018	2017	2016	2018 vs. 2017	2017 vs. 2016
Total cash and cash equivalents	$196,552	$153,323	$198,802	28.19 %	(22.88)%
Securities	787,048	715,131	541,260	10.06 %	32.12 %
Portfolio loans	4,333,125	4,066,659	3,118,392	6.55 %	30.41 %
Non-core acquired loans	16,876	30,391	39,769	(44.47)%	(23.58)%
Total assets	5,645,662	5,289,225	4,081,328	6.74 %	29.60 %
Deposits	4,587,985	4,156,414	3,233,361	10.38 %	28.55 %
Total liabilities	5,041,858	4,740,652	3,694,230	6.35 %	28.33 %
Total shareholders' equity	603,804	548,573	387,098	10.07 %	41.71 %

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, including the C&I category, is secured by real estate. 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 sets forth the composition of the Company's loan portfolio by type of loans at the dates indicated:

	December 31,				
($ in thousands)	2018	2017	2016	2015	2014
Commercial and industrial	$2,121,446	$1,919,145	$1,632,714	$1,484,327	$1,270,259
Commercial real estate - investor owned	862,672	806,945	544,808	428,064	413,026
Commercial real estate - owner occupied	611,910	556,660	350,148	342,959	357,503
Construction and land development	331,899	305,468	194,542	161,061	144,773
Residential real estate	299,873	342,518	240,760	196,498	185,252
Consumer and other	105,325	135,923	155,420	137,828	63,103
Portfolio loans	$4,333,125	$4,066,659	$3,118,392	$2,750,737	$2,433,916
Non-core acquired loans	16,876	30,391	39,769	74,758	99,103
Total loans	$4,350,001	$4,097,050	$3,158,161	$2,825,495	$2,533,019

	December 31,				
	2018	2017	2016	2015	2014
Commercial and industrial	48.8 %	46.8 %	51.7 %	52.5 %	50.2 %
Commercial real estate - investor owned	19.8	19.7	17.2	15.2	16.3
Commercial real estate - owner occupied	14.1	13.6	11.1	12.1	14.1
Construction and land development	7.6	7.5	6.2	5.7	5.7
Residential real estate	6.9	8.4	7.6	7.0	7.3
Consumer and other	2.4	3.3	4.9	4.9	2.5
Non-core acquired loans	0.4	0.7	1.3	2.6	3.9
Total loans	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

C&I loans are made based on the borrower's ability to generate cash flows for repayment from income sources, general credit strength, experience, and character, even though such loans may also be secured by real estate or other assets. The credit risk related to commercial loans is largely influenced by general economic conditions and the resulting impact on a borrower's operations.

Real estate loans are also based on the borrower's character, but more emphasis is placed on the estimated cash flows from the operation of the property, or the underlying collateral values, or both.

- Our commercial real estate loans, including investor-owned and owner-occupied categories, primarily represent multifamily and other commercial property loans on which the primary source of repayment is income from the property. At December 31, 2018, these loans totaled $1.1 billion, or 77% of the category. These loans are principally located within our St. Louis, Kansas City, and Phoenix markets, and they are underwritten based on the cash flow coverage of the property, the Company's loan to value guidelines, and generally require either the limited or full guaranty of principal sponsors of the credit. Commercial real estate loans also represent owner-occupied C&I loans for which the primary source of repayment is dependent on sources other than the underlying collateral.

- Construction and land development loans relating primarily to residential and commercial properties, represent financing secured by real estate under development for eventual sale or undeveloped ground. $81.9 million of these loans include the use of interest reserves and follow standard underwriting guidelines. Construction projects are monitored by the loan officer and a centralized independent loan disbursement function is employed.

- Residential real estate loans include residential mortgages, which are loans that, due to size or other attributes, do not qualify for conventional home mortgages available for sale in the secondary market, second mortgages

and home equity lines. Residential mortgage loans are usually limited to a maximum of 80% of collateral value at origination.

Consumer and other loans represent loans to individuals, loans to state and political subdivisions, loans to nondepository financial institutions, and loans to purchase or are fully secured by investment securities. Credit risk is managed by thoroughly reviewing the creditworthiness of the borrowers prior to origination and thereafter.

The following table illustrates loan growth, including selected specialized lending detail, at December 31, 2018 and 2017:

	December 31,			
($ in thousands)	2018	2017	Change	% Change
C&I - general	$994,057	$936,588	$57,469	6.1 %
CRE investor owned - general	857,428	801,156	56,272	7.0
CRE owner occupied - general	494,630	468,151	26,479	5.7
Enterprise value lending[a]	465,992	407,644	58,348	14.3
Life insurance premium financing[a]	417,950	364,876	53,074	14.5
Residential real estate - general	299,518	342,140	(42,622)	(12.5)
Construction and land development - general	308,086	294,123	13,963	4.7
Tax credits[a]	262,735	234,835	27,900	11.9
Agriculture	135,849	91,031	44,818	49.2
Consumer and other - general	96,880	126,115	(29,235)	(23.2)
Portfolio loans	4,333,125	4,066,659	266,466	6.6
Non-core acquired	16,876	30,391	(13,515)	(44.5)
Total Loans	$4,350,001	$4,097,050	$252,951	6.2 %

Certain prior period amounts have been reclassified among the categories to conform to the current period presentation.

[a]Specialized categories may include a mix of C&I, CRE, Construction and land development, or Consumer and other loans.

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. For the period ending December 31, 2018, C&I loans increased $202 million, or 11% from 2017. C&I loan growth also supports our efforts to maintain the Company’s asset sensitive interest rate risk position. Additionally, our specialized products, especially Enterprise value lending, Life insurance premium financing, and Tax credit financing/lending, consist of primarily C&I loans, and have contributed significantly to the Company’s C&I loan growth. These loans are sourced through relationships developed with wealth and estate planning firms and private equity funds, and are not bound geographically by our three markets with branch facilities. As a result, these specialized loan products offer opportunities to expand and diversify our overall geographic concentration by entering into new markets.

We expect continued loan growth in 2019 to be a high single digit percentage, exclusive of the impact of the pending acquisition of Trinity and LANB.

The following table presents a breakdown of our loan categories at December 31, 2018 and 2017:

	% of portfolio					
	2018			2017		
	Portfolio Loans	Non-core Acquired Loans	Total Loans	Portfolio Loans	Non-core Acquired Loans	Total Loans
Non-real estate:						
Commercial and industrial	49 %	10 %	49 %	47 %	9 %	47 %
Consumer and other	2	—	2	3	—	3
Total non-real estate	51 %	10 %	51 %	50 %	9 %	50 %
Real estate:						
Commercial - investor owned						
Retail	6 %	18 %	6 %	6 %	10 %	6 %
Commercial office	6	11	6	6	7	6
Multi-family housing	2	—	2	2	—	2
Industrial/ Warehouse	3	—	3	3	—	3
Other	3	—	3	3	—	3
Total commercial real estate - investor owned	20 %	29 %	20 %	20 %	17 %	20 %
Commercial - owner occupied						
Commercial and industrial	8 %	13 %	8 %	8 %	30 %	8 %
Other	6	1	6	6	1	6
Total commercial real estate - owner occupied	14 %	14 %	14 %	14 %	31 %	14 %
Construction and land development	8 %	16 %	8 %	8 %	11 %	8 %
Residential						
Investor owned	2 %	3 %	2 %	6 %	27 %	6 %
Owner occupied	5	28	5	2	5	2
Total residential real estate	7 %	31 %	7 %	8 %	32 %	8 %
Total real estate	49 %	90 %	49 %	50 %	91 %	50 %
Total	100 %	100 %	100 %	100 %	100 %	100 %

The following descriptions focus on portfolio loans at December 31, 2018, and exclude non-core acquired loans.

The commercial and industrial category represents $2.1 billion, or 49%, of portfolio loans. This category includes $743 million in loans secured by general business assets, such as accounts receivable, inventory and equipment. Additionally, $464 million is from the Enterprise value lending portfolio, and $418 million is from the Life insurance premium finance portfolio. Loans secured by general business assets consist of approximately 1,100 relationships with an average outstanding balance of $2 million. The largest loans within this category are a $23 million term loan secured by accounts receivable and inventory and a $22 million term loan secured by the cash surrender value of a life insurance policy.

The Enterprise value lending portfolio comprised 22% of the C&I category as of December 31, 2018. This portfolio primarily consists of loans in the manufacturing sector. As of December 31, 2018, the average outstanding balance of individual loans in this category was $5 million. The largest relationships within this category are a $15 million

relationship in the administrative and support services sector and a $14 million relationship in the the rental and leasing services sector.

Within the investor-owned commercial real estate portfolio, the largest loans are retail and commercial office permanent loans. The Company had $262 million of investor-owned permanent loans secured by retail properties at December 31, 2018. There are approximately 90 loan relationships in this category with an average outstanding loan balance of $3 million. The largest loans within this category are a $17 million loan secured by a multi-tenant retail center in Kansas City, a $14 million loan secured by a hotel in Illinois, and a $13 million loan secured by a multi-tenant retail center in Phoenix. The Company had $251 million of investor-owned permanent loans secured by commercial office properties at December 31, 2018. There are approximately 100 loan relationships with an average outstanding loan balance of $3 million. The largest loans within this category are a $20 million loan secured by a multi-tenant office building in the St. Louis area, a $17 million loan secured by a multi-tenant office condominium complex in Phoenix, and a $14 million loan secured by an office building in the St. Louis region.

Within the owner-occupied commercial real estate portfolio, the largest loans are commercial and industrial loans. The Company had $338 million of owner-occupied loans secured by commercial and industrial properties at December 31, 2018. There are approximately 330 loan relationships in this category with an average outstanding loan balance of $1 million. The largest loans within this category are a $9 million loan secured by an industrial building, an $8 million loan secured by a retail and warehouse building in the St. Louis region, and an $8 million loan secured by an office building in Kansas City.

Significant loan concentrations are considered to exist for a financial institution when there are amounts loaned to numerous borrowers engaged in similar activities that would cause them to be similarly impacted by economic or other conditions. At December 31, 2018, no significant concentrations exceeding 10% of total loans existed in the Company’s loan portfolio, except as described above.

Loans at December 31, 2018 mature or reprice as follows:

($ in thousands)	Loans Maturing or Repricing In One Year or Less	After One Through Five Years	After Five Years	Total	Percent of Total Loans
Fixed Rate Loans (1) (2)					
Commercial and industrial	$76,919	$241,420	$23,454	$341,793	8 %
Real estate:					
Commercial	156,048	769,297	67,901	993,246	23
Construction and land development	40,960	102,143	2,199	145,302	4
Residential	33,804	53,829	10,662	98,295	2
Consumer and other	7,963	18,484	23,231	49,678	1
Non-core acquired loans	6,921	971	57	7,949	—
Total	$322,615	$1,186,144	$127,504	$1,636,263	38 %
Variable Rate Loans (1) (2)					
Commercial and industrial	$1,730,028	$35,219	$14,406	$1,779,653	41 %
Real estate:					
Commercial	400,941	76,143	4,252	481,336	11
Construction and land development	177,773	8,824	—	186,597	4
Residential	105,139	80,322	16,117	201,578	5
Consumer and other	48,994	6,653	—	55,647	1
Non-core acquired loans	7,417	1,510	—	8,927	—
Total	$2,470,292	$208,671	$34,775	$2,713,738	62 %
Loans (1) (2)					
Commercial and industrial	$1,806,947	$276,639	$37,860	$2,121,446	49 %
Real estate:					
Commercial	556,989	845,440	72,153	1,474,582	34
Construction and land development	218,733	110,967	2,199	331,899	8
Residential	138,943	134,151	26,779	299,873	7
Consumer and other	56,957	25,137	23,231	105,325	2
Non-core acquired loans	14,338	2,481	57	16,876	—
Total	$2,792,907	$1,394,815	$162,279	$4,350,001	100 %

(1) Loan balances are net of unearned loan fees.
(2) Not adjusted for impact of interest rate swap agreements.

Fixed rate loans comprise 38% of the total loan portfolio at December 31, 2018, and 62% of the Company’s loans are variable rate loans, most of which are based on the prime rate or LIBOR. In 2018, the Federal Reserve raised the targeted Fed Funds rate 25 basis points on four separate occasions. These increases resulted in a Fed Funds Target rate of 2.25% to 2.50% and a prime rate of 5.50% at December 31, 2018. Most loan originations have one to three year maturities. Management monitors this mix as part of its interest rate risk management. See “Interest Rate Risk” of this MD&A section.

Of the $557 million of commercial real estate loans maturing in one year or less, $337 million, or 61%, represent loans secured by non-owner occupied commercial properties.

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.

	At December 31,				
($ in thousands)	2018	2017	2016	2015	2014
Allowance for portfolio loan losses, at beginning of period	$38,166	$37,565	$33,441	$30,185	$27,289
Loans charged off:					
Commercial and industrial	(6,894)	(9,872)	(2,303)	(3,699)	(3,738)
Real estate:					
Commercial	(313)	(207)	(95)	(702)	(700)
Construction and land development	(56)	(254)	—	(350)	(905)
Residential	(546)	(973)	(25)	(1,313)	(48)
Consumer and other	(167)	(201)	(1,912)	(27)	(165)
Total loans charged off	(7,976)	(11,507)	(4,335)	(6,091)	(5,556)
Recoveries of loans previously charged off:					
Commercial and industrial	1,133	545	674	1,796	1,768
Real estate:					
Commercial	112	235	1,165	1,567	1,101
Construction and land development	459	101	934	674	806
Residential	508	390	123	337	334
Consumer and other	80	73	12	101	34
Total recoveries of loans	2,292	1,344	2,908	4,475	4,043
Net loan charge-offs	(5,684)	(10,163)	(1,427)	(1,616)	(1,513)
Provision for loan losses	9,813	10,764	5,551	4,872	4,409
Allowance for portfolio loan losses, at end of period	$42,295	$38,166	$37,565	$33,441	$30,185
Allowance for PCI loan losses, at beginning of period	$4,411	$5,844	$10,175	$15,410	$15,438
Loans charged off	—	(248)	(1,296)	(25)	(341)
Other	(61)	(551)	(1,089)	(796)	(770)
Net loan charge-offs	(61)	(799)	(2,385)	(821)	(1,111)
Provision (provision reversal) for loan losses	(3,169)	(634)	(1,946)	(4,414)	1,083
Allowance for PCI loan losses, at end of period	$1,181	$4,411	$5,844	$10,175	$15,410
Total allowance for loan losses, at end of period	$43,476	$42,577	$43,409	$43,616	$45,595
Portfolio loans, average	$4,197,875	$3,810,055	$2,915,744	$2,520,734	$2,255,180
Total loans, average	4,221,486	3,845,816	2,971,736	2,608,674	2,374,684
Total loans, ending	4,350,001	4,097,050	3,158,161	2,825,495	2,533,019
Net charge-offs to average loans	0.13 %	0.26 %	0.05 %	0.06 %	0.06 %
Allowance for loan losses to total loans	1.00	1.04	1.37	1.54	1.80

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The following table is a summary of the allocation of the allowance for loan losses for the five-year period ended December 31, 2018:

	December 31, 2018		2017		2016		2015		2014	
($ in thousands)	Allowance	Percent by Category to Total Loans	Allowance	Percent by Category to Total Loans	Allowance	Percent by Category to Total Loans	Allowance	Percent by Category to Total Loans	Allowance	Percent by Category to Total Loans
Commercial and industrial	$29,039	48.8 %	$26,406	46.8 %	$26,996	51.7 %	$22,056	52.5 %	$16,983	50.2 %
Real estate:										
Commercial	8,922	33.9	7,198	33.3	6,310	28.3	6,453	27.3	7,517	30.4
Construction and land development	1,987	7.6	1,487	7.5	1,304	6.2	1,704	5.7	1,715	5.7
Residential	1,616	6.9	2,237	8.4	2,023	7.6	1,796	7.0	2,830	7.3
Consumer and other	731	2.4	838	3.3	932	4.9	1,432	4.9	1,140	2.5
Non-core acquired	1,181	0.4	4,411	0.7	5,844	1.3	10,175	2.6	15,410	3.9
Total allowance	$43,476	100.0 %	$42,577	100.0 %	$43,409	100.0 %	$43,616	100.0 %	$45,595	100.0 %

The provision for loan losses on portfolio loans for the year ended December 31, 2018 was $9.8 million, compared to $10.8 million, and $5.6 million for the comparable 2017 and 2016 periods, respectively. The provision for loan losses for the years ended December 31, 2018 and 2017 was primarily to provide for reserves and charge-offs incurred on impaired loans, as well as organic loan growth in the portfolio.

For PCI loans, the Company remeasures contractual and expected cash flows periodically. When the re-measurement 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 re-measurement process, prior recorded impairment is reversed before the yield is increased prospectively. The provision reversal on PCI loans for the year ended December 31, 2018 was $3.2 million, compared to $0.6 million and $1.9 million for the comparable 2017 and 2016 periods, respectively.

The allowance for loan losses was 1.00% of total loans at December 31, 2018, compared to 1.04%, and 1.37%, at December 31, 2017 and 2016, respectively. The decrease in the allowance to loans over the periods presented was due primarily to non-core acquired trends and JCB acquired loans.

See "Critical Accounting Policies" of this MD&A section for more information on the allowance for loan losses methodology.

Nonperforming assets

Nonperforming loans are defined as loans on non-accrual status, loans 90 days or more past due but still accruing interest, and troubled debt restructured loans where, in the opinion of management, there is reasonable doubt as to the collection of principal and interest. Restructured loans involve the granting of a concession to a borrower due to their financial difficulty and include modification of terms of the loan, such as changes in payment schedule or interest rate. Nonperforming assets include nonperforming loans plus other real estate.

Nonperforming loans exclude PCI loans. PCI loans are accounted for on a pool basis, and the pools are considered to be performing. See "Item 8. Note 5 – Loans" for more information.

The Company's nonperforming loans meet the definition of "impaired loans" in accordance with U.S. GAAP.

The following table presents the categories of nonperforming assets as of the dates indicated:

	December 31,				
($ in thousands)	2018	2017	2016	2015	2014
Non-accrual loans	$16,520	$14,968	$12,585	$8,797	$20,892
Restructured loans	225	719	2,320	303	1,352
Total nonperforming loans	16,745	15,687	14,905	9,100	22,244
Other real estate (1)	469	498	980	8,366	1,896
Total nonperforming assets (1)	$17,214	$16,185	$15,885	$17,466	$24,140
Total assets	$5,645,662	$5,289,225	$4,081,328	$3,608,483	$3,277,003
Total loans	4,303,600	4,022,896	3,118,392	2,825,495	2,533,019
Nonperforming loans to total loans	0.38 %	0.38 %	0.47 %	0.32 %	0.88 %
Nonperforming assets to total assets (1)	0.30	0.31	0.39	0.48	0.74
Allowance for loan losses to nonperforming loans	260	271	291	479	205

(1)The increase in other real estate included in nonperforming assets from 2014 to 2015 resulted from the reclassification of $5.1 million of other real estate previously covered under FDIC loss share agreements that were terminated in 2015.

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 8. Note 5 – Loans” for more information on these loans, delinquent loans and relevant risk ratings related thereto.

Nonperforming loans based on loan type were as follows:

(in thousands)	December 31, 2018		Number of loans	December 31, 2017		Number of loans
Commercial and industrial	$12,950	77 %	13	$12,665	81 %	10
Commercial real estate	1,206	7	6	909	6	4
Construction and land development	—	—	—	136	1	1
Residential real estate	2,277	14	5	1,602	10	3
Consumer and other	312	2	1	375	2	1
Total	$16,745	100%	25	$15,687	100%	19

The following table summarizes the changes in nonperforming loans:

	Year ended December 31,	
(in thousands)	2018	2017
Nonperforming loans, beginning of period	$15,687	$14,905
Additions to nonaccrual loans	15,911	19,092
Additions to restructured loans	354	676
Charge-offs	(7,823)	(11,307)
Other principal reductions	(6,164)	(7,396)
Moved to other real estate	(669)	(283)
Moved to performing	(551)	—
Nonperforming loans, end of period	$16,745	$15,687

Nonperforming loans at December 31, 2018 increased $1.1 million, or 7%, when compared to December 31, 2017. Other principal reductions of $6.2 million includes $0.1 million of proceeds received from sales of collateral, $5.0 million of payments received from borrowers, and $1.1 million of proceeds from other loan settlements.

At December 31, 2018, nonperforming loans were comprised of 19 relationships with the largest being a $3 million C&I relationship, which represented 18% of nonperforming loans. Approximately 56% of nonperforming loans were related to the Company's specialized lending products, 21% were located in the St. Louis market, and 22% were located in the Kansas City market. At December 31, 2018, there were two performing restructured loans, or one relationship, that were excluded from nonperforming loans in the amount of $1 million. Nonperforming loans represented 0.38% of total loans at both December 31, 2018 and 2017.

At December 31, 2017, nonperforming loans were comprised of three relationships with the largest being a $5 million C&I relationship, which represented 34% of nonperforming loans. Approximately 42% of nonperforming loans were related to the Company's specialized lending products, 19% were located in the St. Louis market and 37% in the Kansas City market. At December 31, 2017, there were two performing restructured loans, or one relationship, that were excluded from nonperforming loans in the amount of $2 million. Nonperforming loans represented 0.38% of total loans at December 31, 2017, versus 0.47% at December 31, 2016.

Potential problem loans

Potential problem loans are unimpaired loans with a risk rating of 8-Substandard still accruing interest. See "Item 8. Note 5 – Loans" for the definitions of risk ratings. Potential problem loans, which are not included in nonperforming loans, were $53 million, or 1.2%, of portfolio loans outstanding at December 31, 2018, compared to $59 million, or 1.5%, of portfolio loans outstanding at December 31, 2017. For these loans, payment of principal and interest is current and the loans are performing; however, some doubts exist as to the borrower's ability to continue to comply with repayment terms. Potential problem loans include loans to companies characterized by significant losses or where downward trends in financial performance have been identified, or are in an industry experiencing significant difficulty.

Other real estate

Other real estate at December 31, 2018 and December 31, 2017 was $0.5 million.

At December 31, 2018, other real estate was comprised of one residential real estate property located in the St. Louis region.

The following table summarizes the changes in other real estate:

	Year ended December 31,	
(in thousands)	2018	2017
Other real estate, beginning of period	$498	$980
Additions and expenses capitalized to prepare property for sale	877	2,338
Writedowns in value	(44)	(133)
Sales	(862)	(2,687)
Other real estate, end of period	$469	$498

The writedowns in fair value were recorded in loan, legal, and other real estate expense. For the year ended December 31, 2018, the Company realized a net gain of $13 thousand compared to $93 thousand in 2017 on the sale of other real estate and recorded these gains as part of noninterest income.

Investments

At December 31, 2018, our portfolio of investment securities was $787 million, or 14%, of total assets. The portfolio is primarily comprised of agency mortgage-backed securities, obligations of U.S. Government-sponsored enterprises, as well as municipal bonds. The portfolio is comprised of both available for sale and held to maturity securities.

Other investments, at cost, per the consolidated balance sheets, primarily consist of the FHLB capital stock, common stock investments related to our trust preferred securities, and other investments in private equity funds, primarily SBICs. At December 31, 2018, of the $9.2 million in FHLB capital stock, $6.3 million was required for FHLB membership and $2.9 million was required to support our outstanding advances. Historically, it has been the FHLB's practice to automatically repurchase activity-based stock that became excess because of a member's reduction in advances. The FHLB has the discretion, but is not required, to repurchase any shares a member is not required to hold.

The table below sets forth the carrying value of investment securities held by the Company at the dates indicated:

	December 31,					
	2018		2017		2016	
($ in thousands)	Amount	%	Amount	%	Amount	%
Obligations of U.S. Government sponsored enterprises	$98,498	12.1 %	$99,224	13.4 %	$107,660	19.4 %
Obligations of states and political subdivisions	39,316	4.8	48,674	6.6	51,390	9.2
Agency mortgage-backed securities	639,309	78.6	567,233	76.4	382,210	68.7
U.S. Treasury Bills	9,925	1.2	—	—	—	—
FHLB capital stock	9,158	1.1	12,924	1.7	4,351	0.8
Other investments	17,496	2.2	13,737	1.9	10,489	1.9
Total	$813,702	100.0%	$741,792	100.0%	$556,100	100.0%

The Company had no debt securities classified as trading at December 31, 2018, 2017, or 2016.

The following table summarizes expected maturity and tax equivalent yield information on the investment portfolio at December 31, 2018:

	Within 1 year		1 to 5 years		5 to 10 years		Over 10 years		No Stated Maturity		Total	
($ in thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Obligations of U.S. Government-sponsored enterprises	$19,857	1.64 %	$78,641	1.89 %	$—	%	$—	%	$ —	%	$98,498	1.84 %
Obligations of states and political subdivisions	2,356	3.46	12,390	3.51	22,464	3.34	2,106	3.40	—	—	39,316	3.40
Agency mortgage-backed securities	915	3.43	493,096	2.93	130,810	2.98	14,488	2.82	—	—	639,309	2.93
U.S. Treasury Bills	—	—	9,925	2.47	—	—	—	—	—	—	9,925	2.47
FHLB capital stock	—	—	—	—								