ENTERPRISE FINANCIAL SERVICES CORP
Form 10-K
March 11, 2011

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

FORM 10-K

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934
For the fiscal year ended December 31, 2010

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934
For the transition period from to

Commission file number 001-15373

ENTERPRISE FINANCIAL SERVICES CORP

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

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

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

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by checkmark 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, and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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. [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its website, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-7 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) Yes [ ] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer: [ ]	Accelerated filer: [X]	Non-accelerated filer: [ ] (Other than a smaller reporting company)	Smaller Reporting Company: [ ]

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

The aggregate market value of the common stock held by non-affiliates of the Registrant was approximately $175,674,752 based on the closing price of the common stock of $12.81 on March 1, 2011, as reported by the NASDAQ Global Select Market.

As of March 1, 2011, the Registrant had 14,928,324 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required for Part III of this report is incorporated by reference to the Registrant's Proxy Statement for the 2011 Annual Meeting of Shareholders, which will be filed within 120 days of December 31, 2010.

ENTERPRISE FINANCIAL SERVICES CORP
2010 ANNUAL REPORT ON FORM 10-K

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

Some of the information in this report contains forward-looking statements within the meaning of the federal securities laws. Forward-looking statements typically are identified with use of terms such as “may,” “expect,” “anticipate,” “estimate,” “potential,” “could” and similar words, although so forward-looking statements are expressed differently. You should be aware that the Company’s actual results could differ materially from those contained in the forward-looking statements due to a number of factors, including: burdens imposed by federal and state regulation, changes in accounting regulations or standards of banks; credit risk; exposure to general and local economic conditions; risks associated with rapid increase or decrease in prevailing interest rates; consolidation within the banking industry; competition from banks and other financial institutions; our ability to attract and retain relationship officers and other key personnel; or technological developments; and other risks discussed in more detail in Item 1A: “Risk Factors”, all of which could cause the Company’s actual results to differ from those set forth in the forward-looking statements.

Readers are cautioned not to place undue reliance on our forward-looking statements, which reflect management’s analysis only as of the date of the statements. The Company does not intend to publicly revise or update forward-looking statements to reflect events or circumstances that arise after the date of this report. Readers should carefully review all disclosures we file from time to time with the Securities and Exchange Commission (the “SEC”) which are available on our website at www.enterprisebank.com.

PART I

ITEM 1: BUSINESS

General

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

Acquisitions and Divestitures

Since December 2009, the Bank has entered into three agreements with the Federal Deposit Insurance Corporation (“FDIC”) to acquire certain assets and assume certain liabilities of three failed banks: Valley Capital Bank, Home National Bank and Legacy Bank. In conjunction with each of these, the Bank entered into loss share agreements, under which the FDIC has agreed to reimburse the Bank for a percentage of losses on certain loans and other real estate acquired (“Covered Assets”). The reimbursable losses from the FDIC are based on the book value of the acquired loans and foreclosed assets as determined by the FDIC as of the date of each acquisition.

- Valley Capital Bank (“Valley Capital”) – On December 11, 2009, the Bank acquired certain assets and assumed certain liabilities of Valley Capital, a full service community bank that was headquartered in Mesa, Arizona. Under the terms of the purchase and assumption agreement, the Bank acquired tangible assets of approximately $44.1 million and assumed liabilities of approximately $43.4 million. The FDIC will reimburse the Bank for 80% of the losses on Covered Assets up to $11.0 million and 95% of the losses on Covered Assets exceeding $11.0 million.

- Home National Bank (“Home National”) – On July 9, 2010, the Bank acquired approximately $256.0 million in Arizona-originated assets from the FDIC in connection with the failure of Home National, an Oklahoma bank with operations in Arizona. Under the terms of the loan sale agreement, the Bank acquired the loans originated and other real estate at a discount of 12.5%. The Bank did not assume any deposits or acquire any branches or other assets of Home National in the transaction. The FDIC will reimburse the Bank for 80% of all losses on Covered Assets.

- Legacy Bank (“Legacy”) – On January 7, 2011, the Bank acquired certain assets and assumed certain liabilities of Legacy, a full service community bank that was headquartered in Scottsdale, Arizona. Under the terms of the purchase and assumption agreement, the Bank acquired tangible assets of approximately $131.9 million and assumed liabilities of approximately $130.0 million. In addition, the Bank also acquired approximately $55.6 million of discretionary and $13.6 million of non-discretionary trust assets. The FDIC will reimburse the Bank for 80% of all losses on Covered Assets.

  In conjunction with the Legacy acquisition, the Company provided the FDIC with a Value Appreciation Instrument (“VAI”) whereby 372,500 units were awarded to the FDIC at an exercise price of $10.63 per unit. The units were exercisable at any time from January 14, 2011 until January 6, 2012. The FDIC exercised the units on January 20, 2011 at a settlement price of $11.8444. A cash payment of $452,364 was made to the FDIC on January 21, 2011.

  Results of Legacy will be reflected in our financial results beginning in 2011. See Note 24 – Subsequent Events for more information.

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On January 20, 2010, we sold our life insurance subsidiary, Millennium Brokerage Group, LLC ("Millennium"), for $4.0 million in cash. We acquired 60% of Millennium in October 2005 and acquired the remaining 40% in December 2007. As a result of the sale, Millennium is reported as a discontinued operation for all periods presented herein.

2010 Capital Raise

On January 25, 2010, we completed the sale of 1,931,610 shares, or $15.0 million, of our common stock in a private placement offering. In the first quarter of 2010, the proceeds of the offering were injected into the Bank to further strengthen the Bank's capital position.

Available Information

Our website is www.enterprisebank.com. Various reports provided to the SEC including our annual reports, quarterly reports, current reports and proxy statements are available free of charge on our website. These reports are made available as soon as reasonably practicable after they are filed with or furnished to the SEC. Our filings with the SEC are also available on the SEC's website at http://www.sec.gov.

Business Strategy

Our stated mission is "to guide our clients to a lifetime of financial success." We have established an accompanying corporate vision "to build an exceptional company that clients value, shareholders prize and where our associates flourish." These tenets are fundamental to our business strategies and operations.

Our general business strategy is to generate superior shareholder returns by providing comprehensive financial services primarily to private businesses, their owner families, and other success-minded individuals through banking and wealth management lines of business.

Our banking line of business offers a broad range of business and personal banking services. Lending services include commercial, commercial real estate, financial and industrial development, 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.

The wealth management line of business includes the Company's trust operations and Missouri state tax credit brokerage activities. Enterprise Trust, a division of the Bank ("Enterprise Trust" or "Trust") provides financial planning, advisory, investment management and trust services to businesses, individuals, institutions and non-profit organizations. Business financial services are focused in the areas of retirement plans, management compensation and management succession planning. Personal advisory services include estate planning, financial planning, business succession planning and retirement planning services. State tax credit brokerage activities consist of the acquisition of Missouri state tax credits and sale of these tax credits to clients.

Key success factors in pursuing our strategy include a focused and relationship-oriented distribution and sales approach, emphasis on growing wealth management revenues, prudent credit and interest rate risk management, advanced technology and tightly managed expense growth.

Building long-term client relationships – Our growth strategy is largely client relationship driven. We continuously seek to add clients who fit our target market of business owners and associated relationships. Those relationships are maintained, cultivated and expanded over time by banking officers who generally are highly experienced. 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 from the Federal Home Loan Bank of Des Moines (the "FHLB"), the Federal Reserve, and by issuing brokered certificates of deposits, priced at or below alternative cost of funds.

Growing Wealth Management business – 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 the Company's long-term relationship strategy.

Capitalizing on technology – We view our technological capabilities to be a competitive advantage. Our systems provide Internet banking, expanded treasury management products, check and document imaging, as well as a 24-hour voice response system. Other services currently offered by the Bank include controlled disbursements, repurchase agreements and sweep investment accounts. Our treasury management suite of products blends advanced technology and personal service, often creating a competitive advantage over larger, nationwide banks. Technology is also extensively utilized in internal systems, operational support functions to improve customer service, and management reporting and analysis.

Maintaining asset quality – The Company monitors asset quality through ongoing, multiple-level formal reviews of loans in each market. These reviews are overseen by the Company's credit administration department. In addition, the Bank's loan portfolio is subject to ongoing monitoring by a loan review function that reports directly to the audit committee of our board of directors.

Expense management –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). Continued improvement is targeted to increase earnings per share and generate higher returns on equity.

Market Areas and Approach to Geographic Expansion

We operate in the St. Louis, Kansas City and Phoenix metropolitan areas. 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 on the basis of performance and customer service.

St. Louis –We have four Enterprise banking facilities in the St. Louis metropolitan area. The St. Louis region enjoys a stable, diverse economic base and is ranked the 18th largest metropolitan statistical area in the United States. It is an attractive market for us with nearly 70,000 privately held businesses and 53,000 households with investable assets of $1.0 million or more. We are the largest publicly-held, locally headquartered bank in this market.

Kansas City –At December 31, 2010, we had seven banking facilities in the Kansas City Market. Kansas City is also an attractive private company market with over 50,000 privately held businesses and 38,000 households with investible assets of $1.0 million or more.

Phoenix –As described above, since December 2009, we have completed three FDIC-assisted transactions in the Phoenix market. At December 31, 2010, we had two full service branches in the Phoenix metropolitan area. In conjunction with the Legacy Bank acquisition, two additional Bank branches opened in Scottsdale in January 2011. See Note 2 – Acquisitions and Divestitures and Note 24 – Subsequent Events for more information.

We believe the Phoenix market offers substantial long-term growth opportunities for the Company. The underlying demographic and geographic factors that propelled Phoenix into one of the fastest growing and most dynamic markets in the country still exist, and we believe these factors should drive continued growth in that market long after the current real estate slump is over. Today, Phoenix has more than 90,000 privately held businesses and 79,000 households with investable assets over $1.0 million each.

Competition

The Company and its subsidiaries operate in highly competitive markets. Our geographic markets are served by a number of large multi-bank holding companies with substantial capital resources and lending capacity. Many of the larger banks have established specialized units, which target private businesses and high net worth individuals. Also, the St. Louis, Kansas City and Phoenix markets have numerous small community banks. In addition to other financial holding companies and commercial banks, we compete with credit unions, thrifts, investment managers, brokerage firms, and other providers of financial services and products.

Supervision and Regulation

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 Board, 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 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 Community Reinvestment.

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. The BHCA also prohibits a financial holding company generally from engaging directly or indirectly in activities other than those involving banking, activities closely related to banking that are permitted for a bank holding company, securities, insurance or merchant banking. Federal legislation permits bank holding companies to acquire control of banks throughout the United States.

United States Department of the Treasury Capital Purchase Program: On December 19, 2008, the Company received an investment of approximately $35.0 million from the U.S. Treasury under the Capital Purchase Program ("CPP" or the "Capital Purchase Program"). In exchange for the investment, the Company issued and sold to the U.S. Treasury (i) 35,000 shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series A, par value $.01 per share, having a liquidation preference of $1,000 per share (the "Series A Preferred Stock"), and (ii) a ten-year warrant to purchase up to 324,074 shares of common stock, par value $.01 per share, of the Company's common stock, at an initial exercise price of $16.20 per share, subject to certain anti-dilution and other adjustments (the "CPP Warrant").

Pursuant to the terms of the purchase agreement with the U.S. Treasury, our ability to declare or pay dividends or distributions on, or purchase, redeem or otherwise acquire for consideration, shares of junior stock and parity stock is subject to restrictions, including a restriction against increasing dividends from the last quarterly cash dividend per share ($0.0525) declared on the common stock prior to December 19, 2008. The redemption, purchase or other acquisition of trust preferred securities of the Company or our affiliates is also restricted. These restrictions will terminate on the earlier of (a) the third anniversary of the date of issuance of the Series A Preferred Stock and (b) the date on which the Series A Preferred Stock has been redeemed in whole or U.S. Treasury has transferred all of the Series A Preferred Stock to third parties.

In addition, the ability of the Company to declare or pay dividends or distributions on, or repurchase, redeem or otherwise acquire for consideration, shares of its other classes of stock is subject to restrictions in the event that the Company fails to declare and pay full dividends (or declare and set aside a sum sufficient for payment thereof) on its Series A Preferred Stock.

We are also subject to restrictions on the amount and type of compensation that we can pay our employees and are required to provide monthly reports to the U.S. Treasury regarding our lending activity during the time that the U.S. Treasury owns shares of the Series A Preferred Stock.

Dividend Restrictions: In addition to the restrictions imposed by the CPP on our ability to pay dividends to holders of our common stock, under Federal Reserve Board policies, bank holding companies may pay cash dividends on common stock only out of income available over the past year and only 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 Board policy also provides that bank holding companies should not maintain a level of cash dividends that undermines the bank holding company's ability to serve as a source of strength to its banking subsidiaries.

Bank Subsidiary

At December 31, 2010, 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, and furniture and fixtures. The Bank is subject to periodic examination by the FDIC and Missouri Division of Finance.

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.

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.

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.

Limitations on Loans and Transactions: The Federal Reserve Act generally imposes certain limitations on extensions of credit and other transactions by and between banks that are members of the Federal Reserve and other affiliates (which includes any holding company of which a bank is a subsidiary and any other non-bank subsidiary of such holding company). Banks that are not members of the Federal Reserve are also subject to these limitations. Further, federal law prohibits a bank holding company and its subsidiaries from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property or the furnishing of services.

Deposit Insurance Fund: The FDIC establishes rates for the payment of premiums by federally insured banks for deposit insurance. The Deposit Insurance Fund (“DIF”) is maintained for commercial banks, with insurance premiums from the industry used to offset losses from insurance payouts when banks and thrifts fail.

To fund this program, pursuant to the Federal Deposit Insurance Reform Act of 2005, the FDIC adopted a new risk-based deposit insurance premium system that provides for quarterly assessments. To restore its reserve ratio, the FDIC raised the base annual assessment rate for all institutions in 2009. As a result of this increase, institutions pay an assessment of between 12 and 77.5 basis points depending on the institution’s risk classification. Under the new assessment structure, the Bank’s average annual assessment during 2010 was 15.48 basis points. An institution’s risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to the regulators. Institutions assigned to higher-risk classifications pay assessments at higher rates than institutions that pose a lower risk. Each institution’s assessment rate is further adjusted based on the institution’s reliance on brokered deposits and/or other secured liabilities and the amount of unsecured debt.

On November 12, 2009, the FDIC adopted a final rule imposing a 13-quarter prepayment of FDIC premiums. As a result, the Bank prepaid $11.5 million in December 2009. Approximately $3.5 million of this prepayment was expensed in 2010.

Employees

At December 31, 2010, we had approximately 331 full-time equivalent employees. None of the Company's employees are covered by a collective bargaining agreement. Management believes that its relationship with its 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 risks and uncertainties described below are not the only ones we face. Although we have significant risk management policies, procedures and verification processes in place, additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also materially and adversely impair our business operations. 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 Related To Our Business

Various factors may cause our allowance for loan losses to increase.

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 continue to 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 will 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 or an increase in net loss and a reduction in capital, and may have a material adverse effect on our financial condition and results of operations.

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

Substantially all 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 customers to repay loans, the value of the collateral securing loans and the stability of our deposit funding sources.

Our loan portfolio mix, which has a concentration of loans secured by real estate, could result in increased credit risk.

A significant portion of our portfolio is secured by real estate and thus we have a high degree of risk from a downturn in our real estate markets. If real estate values continue to decline further in our markets, the value of real estate collateral securing our loans could be significantly reduced. Our ability to recover on defaulted loans where 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, because Kansas is a judicial foreclosure state, 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.

Liquidity risk could impair our ability to fund operations and jeopardize our financial condition.

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a substantial material adverse effect on our liquidity. Our access to funding sources in amounts 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 a decrease in the level of our business activity due to a market downtown, our failure to remain well capitalized, or adverse regulatory action against us. Our ability to acquire deposits or 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 as the recent turmoil faced by banking organizations in the domestic and worldwide credit markets deteriorates.

We believe the level of liquid assets at the Bank is sufficient to meet our current and anticipated funding needs. In addition, we believe our current level of cash at the holding company will be sufficient to meet all projected cash needs in 2011. See “Liquidity and Capital Resources” for more information.

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 do not produce equivalent changes in interest income earned on interest-earning assets and interest paid on interest-bearing liabilities. 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.

If our business does not perform well, we may be required to establish a valuation allowance against the deferred income tax asset, which could have a material adverse effect on our results of operations and financial condition.

Deferred income taxes represent the tax effect of the differences between the book and tax basis of assets and liabilities. Deferred tax assets are assessed periodically by management to determine if they are realizable. If based on available information, it is more likely than not that the deferred income tax asset will not be realized, then a valuation allowance must be established with a corresponding charge to net income. As of December 31, 2010, the Company did not carry a valuation allowance against its deferred tax asset balance of $16.1 million. Future facts and circumstances may require a valuation allowance. Charges to establish a valuation allowance could have a material adverse effect on our results of operations and financial position.

If the Bank incurs 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 and the Federal Reserve, and separately the FDIC as insurer of the Bank’s deposits, have authority to compel or restrict certain actions if 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 it 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 and closing and liquidating the Bank. See “Supervision and Regulation”.

Changes in government regulation and supervision may increase our costs.

Our operations are subject to extensive regulations by federal, state and local governmental authorities. Banking regulations are primarily intended to protect depositors’ funds, federal deposit insurance funds and the banking system as a whole, not stockholders. We are now also subject to supervision, regulation and investigation by the U.S. Treasury and the Office of the Special Inspector General for the Troubled Asset Relief Program (“TARP”) by virtue of our participation in the Capital Purchase Program. Changes to statutes, regulations or regulatory policies; changes in the interpretation or implementation of statutes, regulations or policies could subject us to additional costs, limit the types of financial services and products that we may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things.

Any future increases in FDIC insurance premiums might adversely impact our earnings.

In 2009, the FDIC charged a “special assessment” on each insured depository institution’s assets minus Tier 1 capital. Our special assessment amounted to $$1.1 million. In 2009, the FDIC also raised our annual assessment rate by 9.11 basis points to an average of 15.43 basis points. Our average annual assessment rate in 2010 was 15.48 basis points. It is possible that the FDIC may impose additional 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 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.

We have engaged in and may continue to engage in further expansion through acquisitions, including FDIC-assisted transactions, which could negatively affect our business and earnings.

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 cost savings. Any cost savings which are realized may be offset by losses in revenues or other charges to earnings.

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. Acquisitions may involve the payment of a premium over book value, and, therefore, some dilution of our tangible book value per common share may occur in connection with any future transaction. Furthermore, failure to realize the expected revenue increases, cost savings, reimbursements of losses from the FDIC, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on our financial condition and results of operations. Finally, to the extent that we issue capital stock in connection with transactions, such transactions and related stock issuances may have a dilutive effect on earnings per share of our common stock and share ownership of our stockholders.

Loss of our key employees could adversely affect our business.

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, business relationships and the difficulty of promptly finding qualified replacement personnel.

Pursuant to our participation in the CPP, we adopted certain standards for executive compensation and corporate governance for the period during which the U.S. Treasury holds the equity issued pursuant to our participation in the CPP. These standards generally apply to our Chief Executive Officer, Chief Financial Officer and the three next most highly compensated senior executive officers, although certain restrictions apply to as many as twenty-five (25) of our most highly compensated employees. The restrictions severely limit the amount and types of compensation we can pay our executive officers and key employees, including a complete prohibition on any severance or other compensation upon termination of employment, significant caps on bonuses and retention payments. Such restrictions may impede our ability to attract and retain skilled people in our top management ranks.

We may need to raise additional capital in the future, which 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 any additional provisions for loan losses and loan charge-offs, to maintain our capital ratios or for a number of 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.

Risks Associated With Our Shares

Our share price can be volatile.

The trading price of our common stock has fluctuated significantly and may do so in the future. These fluctuations may result from a number of factors, many of which are outside of our control. The stock market and, in particular, the market for financial institution stocks, has experienced significant volatility recently. In addition, the trading volume in our common stock is lower than for many other publicly traded companies. As a result of these factors, the market price of our common stock may be volatile.

An investment in our common stock is not an insured deposit.

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 are not insured against loss by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in our common stock is inherently risky for the reasons described in this "Risk Factors" section and elsewhere in this report and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire our common shares, 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, which is also limited by various statutes and regulations.

Enterprise depends on payments from the Bank, including dividends, management fees and payments under tax sharing agreements, for substantially all of its revenue. Federal and state regulations limit the amount of dividends and the amount of payments that the Bank may make to Enterprise under tax sharing agreements. In certain circumstances, the Missouri Division of Finance, FDIC or Federal Reserve 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 Enterprise or make payments under the tax sharing agreement, Enterprise may not be able to service its debt, pay dividends on our Series A Preferred Stock or pay dividends on its common stock. If we are unable or determine not to pay dividends on our common stock, the market price of the common stock could be materially adversely affected.

The terms of our outstanding preferred stock limit our ability to pay dividends on and repurchase our common stock.

The terms of our Series A Preferred Stock provide that prior to the earlier of (i) December 19, 2011 and (ii) the date on which all of the shares of the Series A Preferred Stock have been redeemed by us or transferred by the U.S. Treasury to third parties, we may not, without the consent of the U.S. Treasury, (a) increase the cash dividend on our common stock above $0.0525 per share per quarter or (b) subject to limited exceptions, redeem, repurchase or otherwise acquire shares of our common stock or preferred stock other than shares of our Series A Preferred Stock. These restrictions could have a negative effect on the value of our common stock.

Our outstanding preferred stock impacts net income available to our common stockholders and earnings per common share.

The dividends declared and the accretion of discount on our outstanding Series A Preferred Stock reduce the net income available to common stockholders and our earnings per common share. Our outstanding Series A Preferred Stock will also receive preferential treatment in the event of liquidation, dissolution or winding up of the Company.

Holders of the Series A Preferred Stock may, under certain circumstances, have the right to elect two directors to our board of directors.

In the event that we fail to pay dividends on the Series A Preferred Stock for an aggregate of six or more quarters (whether or not consecutive), the authorized number of directors then constituting our board of directors will be increased by two. Holders of the Series A Preferred Stock, together with the holders of any outstanding parity stock with like voting rights voting as a single class, will be entitled to elect the two additional directors at the next annual meeting (or at a special meeting called for the purpose of electing the preferred stock directors prior to the next annual meeting) and at each subsequent annual meeting until all accrued and unpaid dividends for all past dividend periods have been paid in full.

Holders of the Series A Preferred Stock have voting rights in certain circumstances.

Except as otherwise required by law and in connection with the rights to elect directors as described above, holders of the Series A Preferred Stock have voting rights in certain circumstances. So long as shares of the Series A Preferred Stock are outstanding, in addition to any other vote or consent of shareholders required by law or our amended and restated charter, the vote or consent of holders owning at least 66 2/3% of the shares of Series A Preferred Stock outstanding is required for (1) any authorization or issuance of shares ranking senior to the Series A Preferred Stock; (2) any amendment to the rights of the Series A Preferred Stock so as to adversely affect the rights, preferences, privileges or voting power of the Series A Preferred Stock; or (3) consummation of any merger, share exchange or similar transaction unless the shares of Series A Preferred Stock remain outstanding, or if we are not the surviving entity in such transaction, are converted into or exchanged for preference securities of the surviving entity and the shares of Series A Preferred Stock remaining outstanding or such preference securities have such rights, preferences, privileges and voting power as are not materially less favorable to the holders than the rights, preferences, privileges and voting power of the shares of Series A Preferred Stock.

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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. The Company's board of directors has broad discretion regarding the type and price of such securities. A variety of factors, including financial market conditions, may influence the timing of any such issuance. To allow us to timely respond to opportunities to raise capital, we filed a shelf registration statement on Form S-3 which became effective on July 1, 2009. Under Rule 415 of the Securities Act of 1933, we have until July 1, 2012 to issue securities pursuant to this registration statement.

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, or the perception that such sales could occur. Holders of our common stock do not have anti-dilution or preemptive rights under the Delaware General Corporation Law, as amended ("DGCL"), the Company's certificate of incorporation (as amended and together with all certificates of designations) or by-laws. Shares of our common stock are not redeemable and have no subscription or conversion rights.

Additionally, the ownership interest of holders of our common stock could be diluted to the extent the CPP Warrant is exercised for up to 324,074 shares of our common stock. Although the U.S. Treasury has agreed not to vote any of the shares of common stock it receives upon exercise of the CPP Warrant, a transferee of any portion of the CPP Warrant or of any shares of common stock acquired upon exercise of the CPP Warrant is not bound by this restriction. In addition, to the extent options to purchase common stock under our employee stock option plans are exercised, 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 stockholders.

The terms of the CPP Warrant include an anti-dilution adjustment, which provides that, if we issue common stock or securities convertible into or exercisable, or exchangeable for, common stock at a price that is less than ninety percent (90%) of the market price of such shares on the last trading day preceding the date we agree to sell such shares, the number of shares of our common stock to be issued would increase and the per share price of the common stock to be purchased pursuant to the warrant would decrease.

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

If we are unable to make payments on any of our subordinated debentures for more than twenty (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 adversely affected.

Anti-takeover provisions could negatively impact our stockholders.

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 DGCL, 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 and preferred stock 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 whether or not our stockholders 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 interest of our stockholders. Although we have no present intention to issue any additional shares of its authorized preferred stock, there can be no assurance that the Company will not do so in the future.

ITEM 1B: UNRESOLVED SEC COMMENTS

Not applicable.

ITEM 2: PROPERTIES

Banking facilities

Our executive offices are located at 150 North Meramec, Clayton, Missouri, 63105. As of December 31, 2010, we had four banking locations and a support center 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 four of the facilities and lease the remainder. Most of the leases expire between 2011 and 2022 and include one or more renewal options of 5 years. One lease expires in 2026. All the leases are classified as operating leases. We believe all our properties are in good condition.

Wealth management facilities

Our Wealth Management operations are headquartered in approximately 11,000 square feet of commercial condominium space in Clayton Missouri located approximately two blocks from our executive offices. Enterprise Trust also has offices in one of our banking locations in Kansas City. Expenses related to the space used by Enterprise Trust are allocated to the Wealth Management segment.

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 proceedings pending or threatened against the Company or its subsidiaries which, if determined adversely, would have a material adverse effect on the business, financial condition, results of operations or cash flows of the Company or any of its subsidiaries.

PART II

ITEM 5: MARKET FOR COMMON STOCK AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASE OF EQUITY SECURITIES

Common Stock Market Prices

The Company's common stock trades on the NASDAQ Global Select Market under the symbol "EFSC". Below are the dividends declared by quarter along with what the Company believes are the high and low closing sales prices for the common stock. There may have been other transactions at prices not known to the Company. As of March 1, 2011, the Company had 595 common stock shareholders of record and a market price of $12.81 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.

	2010				2009			
	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr
Closing Price	$ 10.46	$ 9.30	$ 9.64	$ 11.06	$ 7.71	$ 9.25	$ 9.09	$ 9.76
High	10.95	10.82	11.42	11.37	9.25	12.24	11.46	14.81
Low	8.86	7.96	9.12	7.62	7.25	8.96	7.88	7.52
Cash dividends paid on common shares	0.0525	0.0525	0.0525	0.0525	0.0525	0.0525	0.0525	0.0525

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2010, regarding securities issued and to be issued under our equity compensation plans that were in effect during the year ended December 31, 2010:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding shares reflected in column (a)) (c)
Equity compensation plans approved by the Company's shareholders	902,932	$ 15.71	705,194
Equity compensation plans not approved by the Company's shareholders	--	--	--
Total	902,932 (1)	$ 15.71	705,194 (2)

(1) Includes the following:

- 23,590 shares of common stock to be issued upon exercise of outstanding stock options under the 1996 Stock Incentive Plan (Plan III);
- 153,785 shares of common stock to be issued upon exercise of outstanding stock options under the 1999 Stock Incentive Plan (Plan IV);
- 190,670 shares of common stock to be issued upon exercise of outstanding stock options under the 2002 Stock Incentive Plan (Plan V);
- 532,387 shares of common stock used as the base for grants of stock settled stock appreciation rights under the 2002 Stock Incentive Plan (Plan V);
- 2,500 shares of common stock to be issued upon exercise of outstanding stock options under the 1998 Nonqualified Plan.

(2) Includes the following:

- 665,742 shares of common stock available for issuance under the 2002 Stock Incentive Plan (Plan V);
- 39,452 shares of common stock available for issuance under the Non-management Director Stock Plan.

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. Holders of our Series A Preferred Stock originally issued to the U.S. Treasury on December 19, 2008, are entitled to cumulative dividends of 5% per annum. Dividends on the Series A Preferred Stock are currently payable at the rate of $1.8 million per annum. Dividends on the Series A Preferred Stock are prior to and in preference to any dividends payable on our common stock. Pursuant to the terms of the purchase agreement with the U.S. Treasury under the Capital Purchase Program, prior to December 19, 2011 our ability to declare or pay dividends on junior securities is subject to restrictions, including a restriction against increasing the dividend rate on our common stock from the last quarterly cash dividend per share ($0.0525) declared on our common stock prior to December 19, 2008. 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. In addition, the Company currently plans to retain most of its earnings to strengthen our balance sheet given the weak economic environment.

Performance Graph

The following Stock Performance Graph and related information should not be deemed "soliciting material" or to be "filed" with the SEC nor shall such performance be incorporated by reference into any future filings under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that the Company specifically incorporates it by reference into such filing.

The following graph* compares the cumulative total shareholder return on the Company's common stock from December 31, 2005 through December 31, 2010. The graph compares the Company's common stock with the NASDAQ Composite and the SNL $1B-$5B Bank Index. The graph assumes an investment of $100.00 in the Company's common stock and each index on December 31, 2005 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.

	Period Ending					
Index	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10
Enterprise Financial Services Corp	100.00	144.58	106.57	69.02	35.72	49.54
NASDAQ Composite	100.00	110.39	122.15	73.32	106.57	125.91
SNL Bank $1B-$5B	100.00	115.72	84.29	69.91	50.11	56.81

*Source: SNL Financial L.C. 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 the five years ended December 31, 2010. This information should be read in connection with our audited consolidated financial statements, related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this report.

	Year ended December 31,				
(in thousands, except per share data)	2010	2009	2008	2007	2006
EARNINGS SUMMARY:					
Interest income	$ 122,035	$ 118,486	$ 127,021	$ 130,249	$ 98,54
Interest expense	32,411	48,845	60,338	69,242	47,30
Net interest income	89,624	69,641	66,683	61,007	51,23
Provision for loan losses	33,735	40,412	26,510	5,120	2,27
Noninterest income	18,360	19,877	20,341	12,852	9,89
Noninterest expense	62,908	98,427	48,776	44,695	37,75
Income (loss) from continuing operations	11,341	(49,321)	11,738	24,044	21,10
Income tax expense (benefit) from continuing operations	2,221	(2,650)	3,672	8,098	7,35
Net income (loss) from continuing operations	9,120	(46,671)	8,066	15,946	13,75
Net income (loss)	$ 9,120	$ (47,955)	$ 1,848	$ 17,255	$ 15,37
PER SHARE DATA:					
Basic earnings (loss) per common share:					
From continuing operations	$ 0.45	$ (3.82)	$ 0.63	$ 1.30	$ 1.2
Total	0.45	(3.92)	0.14	1.41	1.4
Diluted earnings (loss) per common share:					
From continuing operations	0.45	(3.82)	0.63	1.27	1.2
Total	0.45	(3.92)	0.14	1.37	1.3
Cash dividends paid on common shares	0.21	0.21	0.21	0.21	0.1
Book value per common share	10.13	10.25	14.33	13.91	11.5
Tangible book value per common share	9.91	9.97	10.27	8.81	8.4
BALANCE SHEET DATA:					
Ending balances:					
Portfolio loans not covered under FDIC loss share	1,766,351	1,818,481	2,201,457	1,784,278	1,376,45
Portfolio loans covered under FDIC loss share at fair value	126,711	13,644	-	-	
Allowance for loan losses	42,759	42,995	33,808	22,585	17,47
Goodwill	2,064	2,064	48,512	57,177	29,98
Intangibles, net	1,223	1,643	3,504	6,053	5,78
Assets	2,805,840	2,365,655	2,493,767	2,141,329	1,600,00
Deposits	2,297,721	1,941,416	1,792,784	1,585,013	1,315,50
Subordinated debentures	85,081	85,081	85,081	56,807	35,05
Borrowings	226,633	167,438	392,926	312,427	105,48
Shareholders' equity	183,348	163,912	214,572	172,515	132,68
Average balances:					
Loans not covered under FDIC loss share	1,782,023	2,097,028	2,001,073	1,599,596	1,214,43
Loans covered under FDIC loss share	72,724	1,244	-	-	
Earning assets	2,262,430	2,334,697	2,125,581	1,723,214	1,355,70
Assets	2,455,555	2,462,237	2,298,882	1,856,466	1,440,68
Interest-bearing liabilities	1,957,390	2,025,339	1,883,904	1,469,258	1,110,84

Shareholders' equity	179,896	177,374	182,175	160,783	112,63
SELECTED RATIOS:					
Return on average common equity	4.50%	(34.51) %	0.98 %	10.73 %	13.6
Return on average assets	0.27	(2.05)	0.08	0.93	1.0
Efficiency ratio	58.26	109.95	56.05	60.51	61.7
Average common equity to average assets	6.02	5.92	7.89	8.65	7.7
Yield on average interest-earning assets	5.44	5.15	6.04	7.63	7.3
Cost of interest-bearing liabilities	1.66	2.41	3.20	4.71	4.2
Net interest rate spread	3.78	2.74	2.84	2.92	3.0
Net interest rate margin	4.01	3.06	3.20	3.61	3.8
Nonperforming loans to total loans	2.45	2.10	1.61	0.71	0.4
Nonperforming assets to total assets	2.97	2.69	1.98	0.73	0.5
Net chargeoffs to average loans	1.83	1.42	0.76	0.13	0.1
Allowance for loan losses to total loans	2.26	2.35	1.54	1.27	1.2
Dividend payout ratio - basic	34.22	(5.62)	144.02	15.29	12.8

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 years ended December 31, 2010. It should be read in conjunction with the Consolidated Financial Statements, Notes and other financial data presented elsewhere in this report, particularly the information regarding the Company's business operations described in Item 1.

EXECUTIVE SUMMARY

This overview of management's discussion and analysis highlights selected information in this document and may not contain all of the information that is important to you. For a more complete understanding of trends, events, commitments, uncertainties, liquidity, capital resources and critical accounting estimates, you should carefully read this entire document.

2010 Operating Results

For 2010, we reported net income of $9.1 million compared to a net loss of $48.0 million in 2009. The net loss for 2009 was primarily attributable to a $45.4 million non-cash accounting charge to eliminate goodwill related to the Company's banking segment. After deducting preferred stock dividends, net income available to common shareholders was $6.7 million, or $0.45 per diluted share, compared to a net loss available to common shareholders of $50.4 million, or $3.92 per diluted share in 2009.

On July 9, 2010, the Bank acquired approximately $256.0 million in assets from the FDIC in connection with the failure of Home National Bank, an Oklahoma bank with operations in Arizona. The Company acquired the loans originated and other real estate at a discount of 12.5%. As part of the purchase transaction, the Bank and the FDIC entered into a loss sharing agreement on the assets acquired. The Bank did not assume any deposits or acquire any branches or other assets of Home National in the transaction. The asset purchase contributed approximately $11.8 million to the 2010 pre-tax results. See Note 2 – Acquisitions and Divestitures for more information.

On a pre-tax, pre-provision basis, the Company's operating income from continuing operations was $48.6 million, for the year 2010 compared to $31.9 million in 2009. The pre-tax earnings associated with the Home National asset purchase drove most of the increased earnings from 2009. In addition to the acquisition impact, results for 2010 were favorably impacted by lower provision for loan losses, level loan yields, and decreasing deposit costs. Finally, Wealth management revenues continue to improve, with revenues growing steadily in each of the past four quarters.

We are presenting pre-tax, pre-provision income from continuing operations, which is a non-GAAP (Generally Accepted Accounting Principles) financial measure, because we believe adjusting our results to exclude discontinued operations, loan loss provision expense, impairment charges, special FDIC assessments and unusual gains or losses provide shareholders with a more comparable basis for evaluating period-to-period operating results. A schedule reconciling pre-tax income (loss) from continuing operations to pre-tax, pre-provision income from continuing operations is provided in the following tables.

	For the Quarter Ended				
(In thousands)	Dec 31, 2010	Sep 30, 2010	Jun 30, 2010	Mar 31, 2010	Total Year 2010
Pre-tax income (loss) from continuing operations	$ 8,347	$ 7,233	$ 537	$ (4,776)	$ 11,341
Sales and fair value writedowns of other real estate	2,683	1,606	678	586	5,553
Sale of securities	(781)	(124)	(525)	(557)	(1,987)
Income (loss) before income tax	10,249	8,715	690	(4,747)	14,907
Provision for loan losses	3,325	7,650	8,960	13,800	33,735
Pre-tax, pre-provision income from continuing operations	$ 13,574	$ 16,365	$ 9,650	$ 9,053	$ 48,642

	For the Quarter Ended				
(In thousands)	Dec 31, 2009	Sep 30, 2009	Jun 30, 2009	Mar 31, 2009	Total Year 2009
Pre-tax income (loss) from continuing operations	$ 8	$ 7,003	$ (1,634)	$ (54,698)	$ (49,321)
Goodwill impairment charge	-	-	-	45,377	45,377
Sales and fair value writedowns of other real estate	1,166	602	508	549	2,825
Sale of securities	(3)	-	(636)	(316)	(955)

Gain on extinguishment of debt	(2,062)	(5,326)	-	-	(7,388)
FDIC special assessment (included in Other noninterest expense)	-	(105)	1,100	-	995
Income (loss) before income tax	(891)	2,174	(662)	(9,088)	(8,467)
Provision for loan losses	8,400	6,480	9,073	16,459	40,412
Pre-tax, pre-provision income from continuing operations	$ 7,509	$ 8,654	$ 8,411	$ 7,371	$ 31,945

On January 7, 2011, the Bank continued its expansion into the Arizona market through an FDIC-assisted transaction in which the Bank acquired certain assets and assumed certain liabilities of Legacy Bank of Scottsdale, Arizona. See Item 8, Note 24 – Subsequent Events for more information.

Below are highlights of our Banking and Wealth Management segments. For more information on our segments, see Item 8, Note 20 – Segment Reporting. Unless otherwise noted, this discussion excludes discontinued operations.

Banking

For 2010, the Banking segment recorded net income of $14.0 million compared to a net loss of $43.2 million for 2009. Excluding the non-tax deductible goodwill impairment of $45.4 million, the Banking segment recorded net income of $2.2 million for 2009. Below is a summary of 2010:

- Loan demand – Portfolio loans were $1.893 billion at December 31, 2010, including $126.7 million of loans covered under FDIC loss share agreements. Excluding the loans covered under loss share, portfolio loans decreased $52.1 million, or 3%, from December 31, 2009.

  While loan pipelines strengthened in the last six months, particularly in the St. Louis market, payoffs and paydowns more than offset the new loans generated in the year. In 2010, the Company continued to decrease its exposure to non-owner occupied commercial real estate, Construction, and Residential real estate while slightly increasing the Commercial and Industrial loan category.

	December 31,					
(in thousands)	2010			2009		
Commercial and industrial	$	593,938	31%	$	553,988	30%
Commercial real estate- Non owner occupied		444,724	23%		470,621	26%
Commercial real estate- Owner occupied		331,544	18%		346,711	19%
Construction real estate		190,285	10%		221,397	12%
Residential real estate		189,484	10%		209,743	11%
Consumer and other		16,376	1%		16,021	1%
Portfolio loans covered under FDIC loss share		126,711	7%		13,644	1%
Total loan portfolio	$	1,893,062	100%	$	1,832,125	100%

We expect modest loan growth in 2011 as business activity should improve slightly and additional capacity from new hires and more focused sales teams take effect.

- Deposit growth – During 2010, we focused on growing our core deposit base and increasing our percentage of non-interest bearing deposits. We utilized incentive programs to focus our associates on deposit gathering efforts and aggressively managed deposit rates to achieve this objective.

  Total deposits at December 31, 2010 were $2.298 billion, an increase of $356.3 million, or 18%, over December 31, 2009. Excluding brokered certificates of deposit, “core” deposits increased $355.8 million, or 20%, to $2.1 billion from December 31, 2009. Noninterest-bearing demand deposits increased $76.4 million, or 26%, in 2010 and represented 16% of total deposits at December 31, 2010, up from 15% at December 31, 2009. Management believes a portion of the growth in noninterest-bearing demand deposits is the result of the FDIC deposit guarantee and relatively low rates on non-guaranteed accounts. The Company has maintained a favorable deposit mix, with core deposits representing 93% of total deposits at December 31, 2010, unchanged from the prior year period.

  While the Company historically experiences large increases in fourth quarter core deposits (followed by first quarter reductions), the fourth quarter 2010 growth of $257.9 million was exceptional. Approximately $106.5 million of the fourth quarter growth was related to our new Enterprise Advisory Services initiative, a proprietary deposit platform marketed to registered investment advisory firms. For the year, the Enterprise Advisory Services initiative generated approximately $153.8 million in core deposits.

- Asset quality – Nonperforming loans were $46.4 million, or 2.45%, of portfolio loans at December 31, 2010. The allowance for loan losses was $42.8 million, or 2.26%, of portfolio loans versus $43.0 million, or 2.35% of portfolio loans, at the end of 2009. In 2010, we incurred $34.0 million of net charge-offs, or 1.83% of average loans compared to $29.8 million of net charge-offs, or 1.42% of average loans in 2009.

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Provision for loan losses was $33.7 million for 2010 compared to $40.4 million for 2009. The decrease in provision was due to fewer risk rating downgrades and lack of net loan growth. Excluding the loans under FDIC loss share agreements, the Company's watch list credits as a percentage of total loans have remained relatively flat since year end 2009. The Company continues to monitor loan portfolio risk closely. See Provision for Loan Losses and Nonperforming Assets below for more information.

Excluding the loans under FDIC loss share agreements, the Company expects modest improvement in nonperforming loan levels and loss rates in 2011.

- Net Interest Rate Margin – Our fully tax-equivalent net interest rate margin was 4.01% for 2010 versus 3.06% for 2009. The net interest margin was favorably impacted by lower deposit costs, and the net interest income generated by the loans acquired in the Home National asset purchase. Absent the purchased loans, the net interest margin was 3.57%, a 0.51% improvement over 2009.

  We expect continued wider margins in 2011 based on a better earning asset mix, the full year impact of the Home National asset purchase, the Legacy acquisition and continued discipline on funding costs.

Wealth Management

The Wealth Management segment is comprised of Enterprise Trust and our state tax credit brokerage activities. Wealth Management is a strategic line of business consistent with our Company mission of "guiding our clients to a lifetime of financial success." It is a driver of fee income and is intended to help us diversify our dependency on bank spread income.

For 2010, Wealth Management recorded a $178,000 net loss from continuing operation compared to a $608,000 net loss from continuing operations in 2009.

- Trust revenues – Revenues from the Trust division increased $1.9 million , or 42%, over 2009. The increase in Trust revenue was attributable to higher account asset values, several estate planning-related insurance sales, and generally improving sales momentum in the Trust organization. Trust assets under administration were $1.499 billion at December 31, 2010 compared to $1.280 billion at December 31, 2009, a 17% increase over one year ago.

- State tax credit brokerage activities – In 2010, revenue from state tax credit brokerage activities were $2.3 million, a $1.2 million, or 117% increase over 2009. The net effects from fair value adjustments on the tax credit assets and related interest rate caps used to economically hedge the tax credits represents $1.1 million of the increase. Tax credit sales in the fourth quarter of 2010 were lower than expected due to the timing of customer purchases.

RESULTS OF CONTINUING OPERATIONS ANALYSIS

Net Interest Income

Comparison of 2010 vs. 2009

Net interest income is the primary source of the Company's revenue. Net interest income is the difference between interest income on earning assets, such as loans and securities, and the interest expense on interest-bearing deposits and other borrowings used to fund interest earning and other assets. The amount of net interest income is affected by changes in interest rates and by the amount and composition of interest-earning assets and interest-bearing liabilities, such as the mix of fixed vs. variable rate loans. When and how often loans and deposits mature and re-price also impacts net interest income.

Net interest spread and net interest rate margin are utilized to measure and explain changes in net interest income. Interest rate spread is the difference between the yield on interest-earning assets and the rate paid for interest-bearing liabilities that fund those assets. The net interest rate margin is expressed as the percentage of net interest income to average interest-earning assets. The net interest rate margin exceeds the interest rate spread because noninterest-bearing sources of funds (net free funds), principally demand deposits and shareholders' equity, also support earning assets.

Net interest income (on a tax-equivalent basis) increased $19.2 million, or 27%, from $71.4 million for 2009 to $90.7 million for 2010. Total interest income increased $2.8 million while total interest expense decreased $16.4 million.

Average interest-earning assets were $2.262 billion in 2010, a decrease of $72.3 million, or 3%, from 2009. Loans accounted for the majority of the reduction, decreasing by $243.5 million, or 12%, to $1.855 billion. The decrease in loans was partially offset by an increase in securities and short-term investments of $171.3 million, or 72% to $407.7 million. Interest income decreased $11.2 million due to volume declines and increased by $14.0 million due to the impact of rates, for a net increase of $2.8 million versus 2009.

Average interest-bearing liabilities decreased $67.9 million, or 3%, to $1.957 billion compared to $2.025 billion for 2009. The decrease in interest-bearing liabilities resulted from a $199.3 million decrease in borrowed funds. The decrease in borrowed funds was partially offset by a $131.3 million increase in interest-bearing deposits. For 2010, interest expense on interest-bearing liabilities decreased $4.8 million due to volume while the impact of declining rates decreased interest expense on interest-bearing liabilities by $11.6 million, for a net decrease of $16.4 million versus 2009. See “Liquidity and Capital Resources” for more information.

For the year ended December 31, 2010, the tax-equivalent net interest rate margin was 4.01% compared to 3.06% for 2009. The net interest margin was favorably impacted by lower deposit costs and the net interest income generated by the loans acquired in the Home National asset purchase. Approximately 0.26% of the increase is related to the loan participation restatement which decreased the 2009 interest rate margin. See Item 8, Note 2 – Loan Participation Restatement in the Form 10-K for the year ended December 31, 2009 for more information.

Comparison of 2009 vs. 2008

Net interest income (on a tax-equivalent basis) increased $3.3 million, or 5%, from $68.1 million for 2008 to $71.4 million for 2009. Total interest income decreased $8.2 million while total interest expense decreased $11.5 million.

Average interest-earning assets were $2.335 billion in 2009, an increase of $209.1 million, or 10%, from 2008. Securities and short-term investments accounted for the majority of the growth, increasing by $112.0 million, or 90%, to $236.4 million. Loans increased $97.2 million, or 5%, to $2.098 billion. Interest income on loans increased $6.1 million from growth and decreased by $14.6 million due to the impact of rates, for a net decrease of $8.5 million versus 2008.

Average interest-bearing liabilities increased $141.4 million, or 8%, to $2.025 billion compared to $1.884 billion for 2008. The growth in interest-bearing liabilities resulted from a $132.3 million increase in interest-bearing core deposits, a $15.0 million increase in brokered certificates of deposit, and a $26.2 million increase in subordinated debentures. Borrowed funds declined by $32.1 million in 2009. For 2009, interest expense on interest-bearing liabilities increased $6.4 million due to growth while the impact of declining rates decreased interest expense on interest-bearing liabilities by $17.9 million, for a net decrease of $11.5 million versus 2008. See “Liquidity and Capital Resources” for more information.

For the year ended December 31, 2009, the tax-equivalent net interest rate margin was 3.06% compared to 3.20% for 2008. The margin has been compressed as a result of sharply declining interest rates, an increase in securities and short-term investments as a percentage of earning assets, higher levels of nonperforming loans and a change in core deposit mix from money market deposits to higher rate time deposits.

Average Balance Sheet

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

Approximately $30.0 million of deposits associated with a former branch in DeSoto, Kansas are included for seven months of 2008.

	For the years ended December 31,								
	2010			2009			2008		
		Interest	Average		Interest	Average		Interest	Averag
	Average	Income/	Yield/	Average	Income/	Yield/	Average	Income/	Yield/
(in thousands)	Balance	Expense	Rate	Balance	Expense	Rate	Balance	Expense	Rate
Assets									
Interest-earning assets:									
Taxable loans (1)	$ 1,751,459	$ 95,798	5.47%	$ 2,043,202	$ 109,413	5.35%	$ 1,958,806	$ 119,018	6.08%
Tax-exempt loans (2)	30,564	2,621	8.58	53,826	4,868	9.04	42,267	3,850	9.11
Covered loans (3)	72,724	16,565	22.78	1,244	38	3.05	-	-	0.00
Total loans	1,854,747	114,984	6.20	2,098,272	114,319	5.45	2,001,073	122,868	6.14
Taxable investments in debt and equity securities	276,493	7,458	2.70	172,815	5,778	3.34	111,902	5,268	4.71
Non-taxable investments in debt and equity securities (2)	5,132	245	4.77	634	37	5.84	804	48	5.97
Short-term investments	126,058	380	0.30	62,976	136	0.22	11,802	254	2.15
Total securities and short-term investments	407,683	8,083	1.98	236,425	5,951	2.52	124,508	5,570	4.47
Total interest-earning assets	2,262,430	123,067	5.44	2,334,697	120,270	5.15	2,125,581	128,438	6.04
Noninterest-earning assets:									
Cash and due from banks	11,800			23,959			40,349		
Other assets	226,998			146,674			159,832		
Allowance for loan losses	(45,673)			(43,093)			(26,880)		
Total assets	$ 2,455,555			$ 2,462,237			$ 2,298,882		
Liabilities and Shareholders' Equity									
Interest-bearing liabilities:									
Interest-bearing transaction accounts	$ 190,275	$ 847	0.45%	$ 122,563	662	0.54%	$ 121,371	1,554	1.28%
Money market accounts	701,360	6,245	0.89	636,350	6,079	0.96	687,867	13,786	2.00
Savings	10,022	35	0.35	9,147	35	0.38	9,594	55	0.57
Certificates of deposit	784,369	15,740	2.01	786,631	23,427	2.98	588,561	24,525	4.17
Total interest-bearing deposits	1,686,026	22,867	1.36	1,554,691	30,203	1.94	1,407,393	39,920	2.84
Subordinated debentures	85,081	4,954	5.82	85,081	5,171	6.08	58,851	3,536	6.01
Borrowed funds	186,283	4,590	2.46	385,567	13,471	3.49	417,660	16,882	4.04
Total interest-bearing liabilities	1,957,390	32,411	1.66	2,025,339	48,845	2.41	1,883,904	60,338	3.20
Noninterest-bearing liabilities:									
Demand deposits	305,887			250,435			221,925		
Other liabilities	12,383			9,089			10,878		
Total liabilities	2,275,660			2,284,863			2,116,707		
Shareholders' equity	179,896			177,374			182,175		
Total liabilities & shareholders' equity	$ 2,455,555			$ 2,462,237			$ 2,298,882		
Net interest income		$ 90,656			$ 71,425			$ 68,100	
Net interest spread			3.78%			2.74%			2.84%
Net interest rate margin (4)			4.01			3.06			3.20

(1) Average balances include non-accrual loans. The income on such loans is included in interest but is recognized only upon receipt. Loan fees, net of amortization of deferred loan origination fees and costs, included in interest income are approximately $1,440,000, $1,626,000 and $1,394,000 for the years ended December 31, 2010, 2009, and 2008, respectively.

(2) Non-taxable income is presented on a fully tax-equivalent basis using the combined statutory federal and state income tax in effect for the year. The tax-equivalent adjustments were $1,032,000, $1,784,000 and $1,417,000 for the years ended December 31, 2010, 2009, and 2008 respectively.

(3) Covered loans are loans covered by FDIC loss share agreements and are recorded at fair value.

(4) Net interest income divided by average total interest-earning assets.

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.

Approximately $30.0 million of deposits associated with a former branch in DeSoto, Kansas are included for seven months of 2008.

	2010 compared to 2009			2009 compared to 2008		
	Increase (decrease) due to			Increase (decrease) due to		
(in thousands)	Volume(1)	Rate(2)	Net	Volume(1)	Rate(2)	Net
Interest earned on:						
Taxable loans	$ (12,533)	$ 15,445	$ 2,912	$ 5,038	$ (14,605)	$ (9,567)
Nontaxable loans (3)	(2,007)	(240)	(2,247)	1,045	(27)	1,018
Taxable investments in debt and equity securities	2,960	(1,280)	1,680	2,326	(1,816)	510
Nontaxable investments in debt and equity securities (3)	216	(8)	208	(10)	(1)	(11)
Short-term investments	175	69	244	281	(399)	(118)
Total interest-earning assets	$ (11,189)	$ 13,986	$ 2,797	$ 8,680	$ (16,848)	$ (8,168)
Interest paid on:						
Interest-bearing transaction accounts	$ 317	$ (132)	$ 185	15	(907)	(892)
Money market accounts	596	(430)	166	(964)	(6,743)	(7,707)
Savings	3	(3)	-	(3)	(17)	(20)
Certificates of deposit	(67)	(7,620)	(7,687)	6,979	(8,077)	(1,098)
Subordinated debentures	-	(217)	(217)	1,594	41	1,635
Borrowed funds	(5,656)	(3,225)	(8,881)	(1,233)	(2,178)	(3,411)
Total interest-bearing liabilities	(4,807)	(11,627)	(16,434)	6,388	(17,881)	(11,493)
Net interest income	$ (6,382)	$ 25,613	$ 19,231	$ 2,292	$ 1,033	$ 3,325

(1) Change in volume multiplied by yield/rate of prior period.
(2) Change in yield/rate multiplied by volume of prior period.
(3) Nontaxable income is presented on a fully tax-equivalent basis using the combined statutory federal and state income tax rate in effect for each year. NOTE: The change in interest due to both rate and volume has been allocated to rate and volume changes in proportion to the relationship of the absolute dollar amounts of the change in each.

Provision for loan losses. The provision for loan losses was $33.7 million for 2010 compared to $40.4 million for 2009 and $26.5 million for 2008. The volatility in the provision for loan losses since 2008 is due to varying levels of adverse risk rating changes and trends in nonperforming loans.

See the sections below captioned “Loans” And “Allowance for Loan Losses” for more information on our loan portfolio and asset quality.

Noninterest Income

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

	Years ended December 31,				
(in thousands)	2010	2009	2008	Change 2010 over 2009	Change 2009 over 2008
Wealth Management revenue	$ 6,414	$ 4,524	$ 5,916	$ 1,890	$ (1,392)
Service charges on deposit accounts	4,739	5,012	4,376	(273)	636
Other service charges and fee income	1,128	963	1,000	165	(37)
Sale of branches/charter	-	-	3,400	-	(3,400)
Sale of other real estate	79	(436)	552	515	(988)

State tax credit activity, net		2,250		1,035		4,201		1,215		(3,166)
Sale of securities		1,987		955		161		1,032		794
Extinguishment of debt		-		7,388		-		(7,388)		7,388
Miscellaneous income		1,763		436		735		1,327		(299)
Total noninterest income	$	18,360	$	19,877	$	20,341	$	(1,517)	$	(464)

Comparison 2010 vs. 2009

The 2009 results include a $7.4 million pre-tax gain from the extinguishment of debt. See Item 8, Note 2 – Loan Participation Restatement in the Form 10-K for the year ended December 31, 2009 for more information. Excluding the gain on extinguishment of debt, noninterest income increased $5.9 million, or 47%, during 2010.

Wealth Management revenue from the Trust division increased $1.9 million, or 42%. The increase in revenue was attributable to higher account asset values, several estate planning-related insurance sales and generally improving sales momentum in the Trust organization. In 2010, we elected to record Wealth Management revenue on a gross basis resulting in a $971,000 increase in Wealth Management revenue which was offset by a related $971,000 increase in Other expenses. Assets under administration were $1.499 billion at December 31, 2010, a $219 million, or 17% increase from one year ago primarily due to higher asset values from stronger financial markets.

In 2010, we sold $26.0 million of other real estate at a gain of $79,000. In 2009, we sold $22.3 million of other real estate at a loss of $436,000.

Gains from state tax credit brokerage activities were $2.3 million in 2010, compared to $1.0 million in 2009. The increase is due to a $142,000 increase from the sale of state tax credits to clients, and a $3.0 million positive fair value adjustment on the tax credit assets offset by a $1.9 million decrease in the fair value adjustment on the related interest rate caps used to economically hedge the tax credits.

In 2010, the Company elected to reposition a portion of the investment portfolio and sold approximately $126.7 million of securities realizing a gain of $2.0 million on these sales. With the proceeds from securities sales and maturities and excess cash, we purchased approximately $323.8 million in mortgage backed securities, including collateralized mortgage obligations, government sponsored agency debentures, and federally tax free municipal securities.

The increase in Miscellaneous income was primarily due to $776,000 of income on bank-owned life insurance policies, and $524,000 related to two interest rate swaps terminated by the Company in 2009.

Comparison 2009 vs. 2008

Noninterest income decreased 2% during 2009. The 2009 results include a $7.4 million pre-tax gain from the extinguishment of debt. See Item 8, Note 2 – Loan Participation Restatement in the Form 10-K for the year ended December 31, 2009 for more information. The 2008 results include a $3.4 million pre-tax gain on the sale of the Great American charter along with the Desoto, Kansas and the Liberty, Missouri branches. Excluding these amounts, noninterest income decreased $4.5 million, or 26%, during 2009. This decrease is mainly due to lower wealth management revenue and lower gains from the state tax credit activities.

Wealth Management revenue from the Trust division decreased $1.4 million, or 24%. The revenue declines were primarily due to lower average asset values from net client attrition and adverse financial markets in late 2008 and early 2009. Assets under administration were $1.280 billion at December 31, 2009, a $59 million, or 5% increase from one year ago due to stronger fourth quarter financial markets.

Increases in Service charges on deposit accounts were primarily due to the declining earnings crediting rate on commercial accounts, which increased service charges earned.

In 2009, we sold $22.3 million of other real estate at a loss of $436,000. In 2008, we sold $7.9 million of other real estate at a gain of $552,000.

Gains from state tax credit brokerage activities were $1.0 million in 2009, compared to $4.2 million in 2008. The $3.2 million decrease is primarily due to a $5.9 million negative fair value adjustment on the tax credit assets offset by a $2.1 million increase in the fair value adjustment on the related interest rate caps used to economically hedge the tax credits and a $660,000 increase from the sale of state tax credits to clients.

In 2009, given the anticipated acceleration in prepayments on mortgage-backed securities and resultant loss in fair value, we elected to sell and reinvest a portion of our investment portfolio. We sold approximately $49.0 million of agency mortgage backed securities realizing a gain of $955,000 on these sales. With the proceeds from the securities sales, certain borrowings and excess cash, we purchased approximately $272.0 million of fixed rate agency mortgage backed, floating rate Small Business Administration securities and Municipal securities in 2009.

The decrease in Miscellaneous income resulted from a $530,000 loss realized in 2009 from the termination of two interest rate swaps and a $638,500 gain recognized in 2008 for ineffectiveness related to a terminated cash flow hedge. See Item 8, Note 7 – Derivative Financial Instruments for more information.

Noninterest Expense
The following table presents a comparative summary of the major components of noninterest expense.

	Years ended December 31,				
				Change 2010	Change 2009
(in thousands)	2010	2009	2008	over 2009	over 2008
Employee compensation and benefits	28,513	25,969	27,656	2,543	(1,687)
Occupancy	4,297	4,709	3,985	(412)	724
Furniture and equipment	1,393	1,425	1,390	(32)	35
Data processing	2,234	2,147	2,139	86	8
Communications	554	556	536	(2)	20
Director related expense	607	459	481	148	(22)
Meals and entertainment	1,258	1,037	1,181	221	(144)
Marketing and public relations	902	504	674	398	(171)
FDIC and other insurance	4,402	4,204	1,617	197	2,587
Amortization of intangibles	420	482	599	(62)	(116)
Goodwill impairment charges	-	45,377	-	(45)	45
Postage, courier, and armored car	769	772	863	(2)	(92)
Professional, legal, and consulting	1,736	2,278	1,971	(542)	307
Loan, legal and other real estate expense	9,941	4,788	1,717	5,154	3,071
Other taxes	635	566	542	68	24
Other	5,247	3,154	3,425	2,094	(272)
Total noninterest expense	$ 62,908	$ 53,095	$ 48,776	$ 9,812	$ 4,317

Comparison of 2010 vs. 2009
Noninterest expense decreased $35.5 million, or 36%, in 2010. The decrease was primarily due to a $45.4 million goodwill impairment charge associated with the banking segment in 2009. Excluding the goodwill impairment charge, noninterest expenses increased $9.9 million, or 19%. The Company's efficiency ratio, which measures noninterest expense as a percentage of total revenue, for 2010 was 58%. Excluding the goodwill impairment charge, the efficiency ratio was 59% in 2009.

Employee compensation and benefits. Employee compensation and benefits increased $2.5 million, or 10%, over 2009. Employee compensation and benefits increased primarily due the recruitment of several prominent St. Louis bankers, higher variable compensation accruals, and staff additions to support our Arizona acquisition activity.

All other expense categories. Excluding the goodwill impairment charge, all other expense categories increased $7.3 million, or 27%, over 2009. With the exception of loan, legal and other real estate expenses, most categories of expenses were relatively flat year over year.

Occupancy expense decreases were due to lower amortization of leasehold improvements in 2010.

Loan, legal and other real estate expenses increased $5.2 million due to increased levels of nonperforming loans and other real estate properties. Approximately, $3.2 million of the increase represents fair value writedowns on other real estate. Other real estate expenses for items such as utilities, legal fees and insurance increased $1.1 million over 2009. Approximately $278,000 of the increase was related to estimated losses attributable to the unadvanced commitments on impaired loans.

In 2010, we elected to record Wealth Management revenue on a gross basis resulting in a $971,000 increase in Other expenses offset by a related $971,000 increase in Wealth Management revenue. Other expenses also include a $750,000 accrual for a potential fraud loss on a depository account.

Comparison of 2009 vs. 2008

Noninterest expense increased $49.7 million, or 102%, in 2009. The increase was primarily due to a $45.4 million goodwill impairment charge associated with the banking segment. Excluding the goodwill impairment charge, noninterest expenses increased $4.3 million, or 9%. The Company's efficiency ratio for 2009 was 110%. Excluding the goodwill impairment charge, the efficiency ratio was 59%, compared to 56% in 2008.

Employee compensation and benefits. Employee compensation and benefits decreased $1.7 million, or 6%, over 2008. Included in the 2008 results are expenses of $1.0 million related to the final stock payment pursuant to the expiration of an executive retention agreement associated with the acquisition of Great American. Excluding this amount, employee compensation and benefits decreased $687,000 or 3%, primarily due to headcount reductions and stringent controls on staffing and compensation levels.

All other expense categories. Excluding the goodwill impairment charge, all other expense categories increased $6.0 million, or 28%, over 2008.

Occupancy expense increases were due to scheduled rent increases on various Company facilities and expenses related to a new Wealth Management location which was occupied in the fourth quarter of 2008.

FDIC and other insurance increased $2.6 million primarily due to additional FDIC premiums for the FDIC special assessment and newly implemented rate structure. On December 29, 2009, we were required to prepay an estimated quarterly risk-based assessment for fourth quarter 2009 and for all of 2010, 2011 and 2012. The prepayment amount was $11.5 million, which will be expensed over the subsequent three years. See “Supervision and Regulation – Deposit Insurance Fund” in Part I – Item I for more information.

Professional, legal and consulting increased due to various legal and consulting projects related to new federal regulations, compensation committee assistance, board governance, significant accounting issues and litigation defense.

Loan legal and other real estate expense increased $3.1 million due to increased levels of nonperforming loans and other real estate properties. The increase includes $2.4 million of fair value adjustments on other real estate due to the softening real estate markets for both residential and commercial properties.

Discontinued Operations

On January 20, 2010, we sold Millennium to an investor group led mostly by former managers of Millennium for $4.0 million in cash, resulting in a $1.6 million pre-tax loss recognized in 2009. As a result of the sale, we have reclassified the results of Millennium for 2009 and prior periods to discontinued operations. The amount of the loss on the sale is primarily due to the write-off of the remaining goodwill associated with the Millennium reporting unit.

For 2009, net loss from discontinued operations was $1.3 million, compared to a net loss of $6.2 million from discontinued operations in 2008. The 2008 loss includes $9.2 million of pre-tax goodwill impairment charges and lower levels of paid premium sales and lower sales margins which significantly reduced Millennium’s operating results.

Income Taxes

In 2010, the Company recorded income tax expense of $2.2 million on pre-tax income of $11.3 million, resulting in an effective tax rate of 19.6%. The following items were included in Income tax expense (benefit) and impacted the 2010 effective tax rate:

- the expiration of the statute of limitations for the 2006 tax year warranted the release of $341,000 of reserves related to certain state tax positions;

- recognition of federal tax benefits of $729,000 related to low income housing tax credits from limited partnership interests.

In 2009, the Company recorded income tax benefit of $3.4 million on a pre-tax loss of $51.3 million, resulting in an effective tax rate of (6.6%). The goodwill impairment charge of $45.4 million was not tax-deductible. The pre-tax loss includes a loss of $1.6 million related to the sale of Millennium which is reported as discontinued operations for all periods. The following items were included in Income tax (benefit) expense and impacted the 2009 effective tax rate:

- the expiration of the statute of limitations for the 2005 tax year warranted the release of $324,000 of reserves related to certain state tax positions;

- reserves associated with various tax benefits of $115,000 related to certain federal tax items were released;

- recognition of federal tax benefits of $720,000 related to low income housing tax credits from a limited partnership interest.

FINANCIAL CONDITION

Comparison for December 31, 2010 and 2009

Total assets at December 31, 2010 were $2.806 billion compared to $2.37 billion at December 31, 2009, an increase of $440.2 million, or 19%. The increase was due to a $186.7 million increase in cash and cash equivalents, a $79.1 million increase in securities available for sale, a $60.9 million increase in portfolio loans, a $77.9 million increase in the FDIC loss share receivable, $9.9 million of additional state tax credits, held for sale, and $20.0 million of additional bank-owned life insurance.

At December 31, 2010, portfolio loans totaled $1.9 billion, an increase of $60.9 million, or 3% from December 31, 2009. For the year, Portfolio loans covered by FDIC loss share agreements increased $113.1 million to $126.7 million, while portfolio loans not covered by FDIC loss share declined $52.1 million.

Strong core deposit growth in 2010, led to significant increases in cash. A portion of the cash was used to increase the available for sale securities portfolio. Securities available for sale were $361.5 million at December 31, 2010 compared to $282.5 million at December 31, 2009. In 2010, securities purchases included government sponsored agency debentures, mortgage backed securities, including collateralized mortgage obligations, and federally tax free municipal securities.

At December 31, 2010, Other assets included $20.7 million of bank-owned life insurance and $8.4 million of prepaid FDIC insurance.

At December 31, 2010, deposits were $2.298 billion, an increase of $356.3 million, or 18%, from $1.941 billion at December 31, 2009. Total brokered CD's at December 31, 2010 were $156.7 million compared to $156.2 million at December 31, 2009.

Other borrowings at December 31, 2010 and 2009 represent customer repurchase agreements.

On January 25, 2010, the Company completed the sale of 1,931,610 shares, or $15.0 million of its common stock in a private placement offering.

Loans

Excluding loans covered under FDIC loss share agreement, portfolio loans, less unearned loan fees, decreased $52.1 million, or 3% during 2010. Commercial & Industrial loans increased 7.2% during the year and represent more than 30% of the loan portfolio at December 31, 2010. The Company's lending strategy emphasizes commercial, residential real estate, and commercial real estate loans to small and medium sized businesses and their owners in the St. Louis, Kansas City and Phoenix metropolitan markets. Consumer lending, including residential real estate, is minimal. Payoffs and paydowns, along with higher net charge-offs contributed to the decline in loan balances.

A common underwriting policy is employed throughout the Company. Lending to small and medium sized businesses is riskier from a credit perspective than lending to larger companies, but the risk is appropriately considered with higher loan pricing and ancillary income from cash management activities. As additional risk mitigation, the Company will generally hold only $12.0 million or less of aggregate credit exposure (both direct and indirect) with one borrower, in spite of a legal lending limit of over $68.0 million. There are five borrowing relationships where we have committed more than $10.0 million with the largest being a $20.0 million line of credit with minimal usage. For the $1.9 billion loan portfolio, the Company's average loan relationship size was just under $1.0 million, and the average note size is approximately $500,000.

The Company also buys and sells loan participations with other banks to help manage its credit concentration risk. At December 31, 2010 the Company had purchased $245.0 million ($162.0 million outstanding) and had sold $357.0 million ($286.0 million outstanding.) Approximately 60 borrowers make up our participations purchased, with an average outstanding loan balance of $2.7 million. Fifteen relationships, or $67.1 million of the $162.0 million in participations purchased, met the definition of a "Shared National Credit"; however, only two of the relationships, or $6.7 million, were considered out of our market.

The following table sets forth the composition of the Company's loan portfolio by type of loans as reported in the quarterlyFederal Financial Institutions Examination Council Report of Condition and Income ("Call report") at the dates indicated.

	December 31,				
(in thousands)	2010	2009	2008	2007	2006
Commercial and industrial	$ 593,938	$ 553,988	$ 675,216	$ 549,479	$ 380,065
Real estate:					
Commercial	776,268	817,332	887,963	720,072	597,547
Construction	190,285	221,397	378,092	301,710	207,189
Residential	189,484	209,743	235,019	175,258	156,109
Consumer and other	16,376	16,021	25,167	37,759	35,542
Portfolio loans covered under FDIC loss share	126,711	13,644	-	-	-
Total Loans	$ 1,893,062	$ 1,832,125	$ 2,201,457	$ 1,784,278	$ 1,376,452

	December 31,				
	2010	2009	2008	2007	2006
Commercial and industrial	31.4%	30.2%	30.7%	30.8%	27.6%
Real estate:					
Commercial	41.0%	44.6%	40.3%	40.4%	43.4%
Construction	10.1%	12.1%	17.2%	16.9%	15.1%
Residential	10.0%	11.4%	10.7%	9.8%	11.3%
Consumer and other	0.8%	1.0%	1.1%	2.1%	2.6%
Portfolio loans covered under FDIC loss share	6.7%	0.7%	0.0%	0.0%	0.0%
Total Loans	100.0%	100.0%	100.0%	100.0%	100.0%

Commercial and industrial loans are made based on the borrower's character, experience, general credit strength, and ability to generate cash flows for repayment from income sources, 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. Commercial and industrial loans are primarily made to borrowers operating within the manufacturing industry.

Real estate loans are also based on the borrower's character, but more emphasis is placed on the estimated collateral values.

Approximately $323.8 million, or 17%, of commercial real estate loans were owner-occupied by commercial and industrial businesses where the primary source of repayment is dependent on sources other than the underlying collateral. Multifamily properties and other commercial properties on which income from the property is the primary source of repayment represent the balance of this category. The majority of this category of loans is secured by commercial and multi-family properties located within our two primary metropolitan markets. These loans are underwritten based on the cash flow coverage of the property, typically meet the Company's loan to value guidelines, and generally require either the limited or full guaranty of principal sponsors of the credit.

Real estate construction loans, relating to residential and commercial properties, represent financing secured by raw ground or real estate under development for eventual sale. Approximately $69.0 million of these loans include the use of interest reserves and follow standard underwriting guidelines. Construction projects are monitored by the officer and a centralized independent loan disbursement function is employed. Given the weak demand and stress in both the residential and commercial real estate markets, the Company reduced the level of these loan types in 2010.

Residential real estate loans include residential mortgages, which are loans that, due to size, do not qualify for conventional home mortgages that the Company sells into the secondary market, second mortgages and home equity lines. Residential mortgage loans are usually limited to a maximum of 80% of collateral value.

Consumer and other loans represent loans to individuals on both a secured and unsecured basis. Credit risk is mitigated by thoroughly reviewing the creditworthiness of the borrowers prior to origination.

Following is a further breakdown of our loan categories using Call report codes at December 31, 2010 and 2009:

	% of portfolio	
	2010	2009
Real Estate:		
Construction & Land Development	12%	12%
Commercial Owner Occupied		
Commercial & Industrial	17%	17%
Churches/ Schools/ Nursing Homes/ Other	2%	2%
Total	19%	19%
Commercial Non Owner Occupied		
Retail	8%	8%
Commercial Office	7%	8%
Multi-Family Housing	3%	5%
Churches/ Schools/ Nursing Homes/ Other	3%	2%
Industrial/ Warehouse	4%	3%
Total	25%	26%
Residential:		
Owner Occupied	7%	8%
Non Owner Occupied	4%	4%
Total	11%	12%
Total Real Estate	67%	69%
Non Real Estate		
Commercial & Industrial	32%	30%
Consumer & Other	1%	1%
	33%	31%
	100%	100%

The Construction and Land Development category represents $223.0 million, or 12%, of the total loan portfolio. Within that category, there was $17.9 million of loans secured by raw ground, $115.1 million of commercial construction, and $90.0 million of residential construction.

The commercial construction component of the portfolio consisted of approximately 75 loan relationships with an average outstanding loan balance of $1.5 million. The largest loans were a $7.5 million line of credit secured by commercially zoned land in St. Louis, and a $5.8 million fixed line secured by commercially zoned land in Kansas City.

The residential construction component of the portfolio consists of single family housing development properties primarily in our St. Louis and Kansas City markets. There were approximately 110 loan relationships in this category with an average outstanding loan balance of $769,000. The largest loan was a $11.4 million residential development in Arizona that is covered under an 80% FDIC loss guarantee.

The largest segments of the non-owner occupied components of the commercial real estate portfolio are retail and commercial office permanent loans. At December 31, 2010, we had $156.6 million of non-owner occupied permanent loans secured by retail properties. There were approximately 115 loan relationships in this category with an average outstanding loan balance of $1.3 million. The three largest loans outstanding at year end were an $8.1 million loan secured by various retail properties in Kansas City, a $7.0 million loan secured by a hotel in Arizona, and a $6.0 million loan secured by a commercial retail building in St. Louis.

At December 31, 2010, we had $137.7 million of non-owner occupied permanent loans secured by commercial office properties. There were approximately 90 loan relationships with an average outstanding loan balance of $1.4 million. The three largest loans outstanding at year end were an $8.7 million loan secured by a single tenant office building in Kansas City, a $6.0 million loan secured by several office properties in

Kansas City, and a $6.0 million loan secured by an office building in St. Louis.

Vacancy rates for commercial office space in the St. Louis, Kansas City and Phoenix markets totaled 16%, 16.8%, and 26.2%, respectively at year end, as compared to the national commercial office vacancy rate of 16.4%.

Factors that are critical to managing overall credit quality are sound loan underwriting and administration, systematic monitoring of existing loans and commitments, early identification of potential problems, an adequate allowance for loan losses, and sound non-accrual and charge-off policies.

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, 2010, no significant concentrations exceeding 10% of total loans existed in the Company's loan portfolio, except as described above.

Loans at December 31, 2010 mature or reprice as follows:

	Loans Maturing or Repricing			
(in thousands)	In One Year or Less	After One Through Five Years	After Five Years	Total
Fixed Rate Loans (1) (2)				
Commercial and industrial	$ 96,974	$ 134,752	$ 7,159	$ 238,885
Real estate:				
Commercial	164,203	406,548	37,673	608,424
Construction	79,847	31,312	4,597	115,756
Residential	50,406	65,547	2,094	118,047
Consumer and other	5,388	1,740	-	7,128
Portfolio loans covered under FDIC loss share	12,949	38,009	7,396	58,354
Total	$ 409,767	$ 677,908	$ 58,919	$ 1,146,594
Variable Rate Loans (1)				
Commercial and industrial	$ 226,891	$ 101,145	$ 27,017	$ 355,053
Real estate:				
Commercial	69,350	82,936	15,558	167,844
Construction	63,444	10,733	352	74,529
Residential	34,776	9,866	26,795	71,437
Consumer and other	8,222	1,026	-	9,248
Portfolio loans covered under FDIC loss share	14,721	11,959	41,677	68,357
Total	$ 417,404	$ 217,665	$ 111,399	$ 746,468
Loans (1) (2)				
Commercial and industrial	$ 323,865	$ 235,897	$ 34,176	$ 593,938
Real estate:				
Commercial	233,553	489,484	53,231	776,268
Construction	143,291	42,045	4,949	190,285
Residential	85,182	75,413	28,889	189,484
Consumer and other	13,610	2,766	-	16,376
Portfolio loans covered under FDIC loss share	27,670	49,968	49,073	126,711
Total	$ 827,171	$ 895,573	$ 170,318	$ 1,893,062

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

Fixed rate loans comprise approximately 61% of the loan portfolio at December 31, 2010 and 56% at December 31, 2009. Variable rate loans are based on the prime rate or the London Interbank Offered Rate ("LIBOR"). The Bank's "prime rate" has been 4.00% since late 2008 when the Federal Reserve lowered the targeted Fed Funds rate to 0.25%. Some of the variable rate loans also use the "Wall Street Journal Prime Rate" which has been 3.25% since late 2008. Most loan originations have one to three year maturities. While the loan relationship has a much longer life, the shorter maturities allow the Company to revisit the underwriting and pricing on each relationship periodically. Management monitors this mix as part of its interest rate risk management. See "Interest Rate Risk" section.

Of the $233.6 million of commercial real estate loans maturing in one year or less, $143.2 million or 60% represents loans secured by non-owner occupied commercial properties.

Allowance for Loan Losses
The loan portfolio is the primary asset subject to credit risk. Credit risk is controlled and monitored through the use of lending standards, a thorough review of potential borrowers, and ongoing review of loan payment performance. Active asset quality administration, including early problem loan identification and timely resolution of problems, further ensures appropriate management of credit risk. Credit risk management for each loan type is discussed briefly in the section entitled “Loans.” The allowance for loan losses represents management’s estimate of an amount adequate to provide for probable credit losses in the loan portfolio at the balance sheet date. Various quantitative and qualitative factors are analyzed and provisions are made to the allowance for loan losses. Such provisions are reflected in our consolidated statements of income. The evaluation of the adequacy of the allowance for loan losses is based on management’s ongoing review and grading of the loan portfolio, consideration of past loss experience, trends in past due and nonperforming loans, risk characteristics of the various classifications of loans, existing economic conditions, the fair value of underlying collateral, and other factors that could affect probable credit losses. Assessing these numerous factors involves significant judgment and could be significantly impacted by the current economic conditions. Management considers the allowance for loan losses a critical accounting policy. See “Critical Accounting Policies” for more information.

In determining the allowance and the related provision for loan losses, three principal elements are considered:

1) specific allocations based upon probable losses identified during a quarterly review of the loan portfolio,
2) allocations based principally on the Company’s risk rating formulas, and
3) a qualitative adjustment based on subjective factors.

The first element reflects management’s estimate of probable losses based upon a systematic review of specific loans considered to be impaired. These estimates are based upon collateral exposure, if they are collateral dependent for collection. Otherwise, discounted cash flows are estimated and used to assign loss. At December 31, 2010 the allocated allowance for loan losses on individually impaired loans was $9.1 million, or 20% of the total impaired loans, with approximately 50% of the allocation being in the Commercial and Industrial segment. At December 31, 2009, the allocated allowance for loan losses on individually impaired loans was $8.1 million, or 21% of the total impaired loans, with the 50% of the allocation being in the Construction Real Estate segment.

The second element reflects the application of our loan rating system. This rating system is similar to those employed by state and federal banking regulators. Loans are rated and assigned a loss allocation factor for each category that is based on a loss migration analysis using the Company’s loss experience and heavily weighting the most recent twelve months. The higher the rating assigned to a loan, the greater the loss allocation percentage that is applied.

The qualitative adjustment is based on management’s evaluation of conditions that are not directly reflected in the determination of the formula and specific allowances. The evaluation of the inherent loss with respect to these conditions is subject to a higher degree of uncertainty because they may not be identified with specific problem credits or portfolio segments. The conditions evaluated in connection with the qualitative adjustment include the following:

- general economic and business conditions affecting our key lending areas;
- credit quality trends (including trends in nonperforming loans expected to result from existing conditions);
- collateral values; and
- findings of our loan monitoring process.

Executive management reviews these conditions quarterly in discussion with our entire lending staff. To the extent that any of these conditions is evidenced by a specifically identifiable problem credit or portfolio segment as of the evaluation date, management’s estimate of the effect of such conditions may be reflected as a specific allowance, applicable to such credit or portfolio segment. Where any of these conditions is not evidenced by a specifically identifiable problem credit or portfolio segment as of the evaluation date, management’s evaluation of the probable loss related to such condition is reflected in the qualitative adjustment.

The allocation of the allowance for loan losses by loan category is a result of the analysis above. The allocation methodology applied by the Company, designed to assess the adequacy of the allowance for loan losses, focuses on changes in the size and character of the loan portfolio, changes in levels of impaired and other nonperforming loans, the risk inherent in specific loans, concentrations of loans to specific borrowers or industries, existing economic conditions, and historical losses on each portfolio category. Because each of the criteria used is subject to change, the allocation of the allowance for loan losses is made for analytical purposes and is not necessarily indicative of the trend of future loan losses in any particular loan category. The total allowance is available to absorb losses from any segment of the portfolio. Management continues to target and maintain the allowance for loan losses equal to the allocation methodology plus a qualitative adjustment, as determined by economic conditions and other qualitative and quantitative factors affecting the Company's borrowers, as described above.

Management believes that the allowance for loan losses is adequate at December 31, 2010.

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)	2010	2009	2008	2007	2006
Allowance at beginning of year	$ 42,995	$ 33,808	$ 22,585	$ 17,475	$ 13,331
(Disposed) acquired allowance for loan losses	-	-	(50)	2,010	3,069
Release of allowance related to loan participations sold	-	(1,383)	-	-	-
Loans charged off:					
Commercial and industrial	3,865	3,663	3,783	238	1,067
Real estate:					
Commercial	15,482	5,710	1,384	43	25
Construction	12,148	15,086	8,044	705	-
Residential	4,391	5,931	2,367	1,418	504
Consumer and other	274	42	31	125	2
Total loans charged off	36,160	30,432	15,609	2,529	1,598
Recoveries of loans previously charged off:					
Commercial and industrial	157	62	64	347	362
Real estate:					
Commercial	1,001	66	-	15	1
Construction	314	28	241	25	-
Residential	536	422	56	17	31
Consumer and other	181	12	11	105	6
Total recoveries of loans	2,189	590	372	509	400
Net loan chargeoffs	33,971	29,842	15,237	2,020	1,198
Provision for loan losses	33,735	40,412	26,510	5,120	2,273
Allowance at end of year	$ 42,759	$ 42,995	$ 33,808	$ 22,585	$ 17,475
Excludes loans covered under FDIC loss share agreements					
Average loans	$ 1,782,023	$ 2,097,028	$ 2,001,073	$ 1,599,596	$ 1,214,437
Total portfolio loans	1,766,351	1,818,481	2,201,457	1,784,278	1,376,452
Net chargeoffs to average loans	1.91 %	1.42%	0.76%	0.13 %	0.10 %
Allowance for loan losses to loans	2.42	2.36	1.54	1.27	1.27
Includes loans covered under FDIC loss share agreements					
Average loans	$ 1,854,747	$ 2,098,272	$ 2,001,073	$ 1,599,596	$ 1,214,437
Total portfolio loans	1,893,062	1,832,125	2,201,457	1,784,278	1,376,452
Net chargeoffs to average loans	1.83 %	1.42%	0.76%	0.13 %	0.10 %
Allowance for loan losses to loans	2.26	2.35	1.54	1.27	1.27

The following table is a summary of the allocation of the allowance for loan losses for the five years ended December 31, 2010:

	2010		2009		2008		2007		2006	
(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	$ 12,727	31.4%	$ 9,715	30.2%	$ 6,431	30.7%	$ 4,582	30.8%	$ 3,673	27.6%
Real estate:										
Commercial	10,689	41.0	19,600	44.7	11,085	40.3	7,229	40.4	5,900	43.4
Construction	8,407	10.0	4,289	12.1	7,886	17.2	5,418	16.9	2,970	15.1
Residential	5,485	10.0	3,859	11.4	2,762	10.7	2,632	9.8	2,070	11.3
Consumer and other	93	0.9	45	0.9	188	1.1	438	2.1	513	2.6
Portfolio loans covered under FDIC loss share	-	6.7	-	0.7	-	-	-	-	-	-
Not allocated	5,358		5,487		5,456		2,286		2,349	
Total allowance	$ 42,759	100.0%	$ 42,995	100.0%	$ 3 3,808	100.0%	$ 22,585	100.0%	$ 17,475	100.0%

Nonperforming assets

Nonperforming loans are defined as loans on non-accrual status, loans 90 days or more past due but still accruing, and restructured loans that are still accruing interest or in a non-accrual status. Restructured loans involve the granting of a concession to a borrower experiencing financial difficulty involving the modification of terms of the loan, such as changes in payment schedule or interest rate. Nonperforming assets include nonperforming loans plus foreclosed real estate.

Nonperforming loans exclude credit-impaired loans that were acquired in the December 2009 and July 2010 FDIC-assisted transactions in Arizona. These purchased credit-impaired loans are accounted for on a pool basis, and the pools are considered to be performing. See Item 8, Note 2 – Acquisition and Divestitures for more information on these loans.

Loans are placed on non-accrual status when contractually past due 90 days or more as to interest or principal payments. Additionally, whenever management becomes aware of facts or circumstances that may adversely impact the collectibility of principal or interest on loans, it is management’s practice to place such loans on non-accrual status immediately, rather than delaying such action until the loans become 90 days past due. Previously accrued and uncollected interest on such loans is reversed. Income is recorded only to the extent that a determination has been made that the principal balance of the loan is collectable and the interest payments are subsequently received in cash, or for a restructured loan, the borrower has made six consecutive contractual payments. If collectability of the principal is in doubt, payments received are applied to loan principal.

Loans past due 90 days or more but still accruing interest are also included in nonperforming loans. Loans past due 90 days or more but still accruing are classified as such where the underlying loans are both well secured (the collateral value is sufficient to cover principal and accrued interest) and are in the process of collection.

The Company’s nonperforming loans meet the definition of “impaired loans” under U.S. GAAP. As of December 31, 2010, 2009, and 2008, the Company had 43, 39, and 26 impaired loan relationships, respectively.

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

	At December 31,				
(in thousands)	2010	2009	2008	2007	2006
Non-accrual loans	$ 38,477	$ 37,441	$ 35,487	$ 12,720	$ 6,363
Loans past due 90 days or more and still accruing interest	-	-	-	-	112
Restructured loans	7,880	1,099	-	-	-
Total nonperforming loans	46,357	38,540	35,487	12,720	6,475
Foreclosed property (1)	25,373	22,918	13,868	2,963	1,500
Other bank owned assets	850	-	-	-	-
Total nonperforming assets (1)	$ 72,580	$ 61,458	$ 49,355	$ 15,683	$ 7,975
Excludes assets covered under FDIC loss share agreements					
Total assets	$ 2,805,840	$ 2,365,655	$ 2,493,767	$ 2,141,329	$ 1,600,004
Total portfolio loans	1,766,351	1,818,481	2,201,457	1,784,278	1,376,452
Total loans plus foreclosed property	1,792,574	1,841,399	2,215,325	1,787,241	1,377,952
Nonperforming loans to total loans	2.62 %	2.12 %	1.61%	0.71%	0.47%
Nonperforming assets to total loans plus foreclosed property	4.05	3.34	2.23	0.88	0.58
Nonperforming assets to total assets (1)	2.59	2.60	1.98	0.73	0.50
Includes assets covered under FDIC loss share agreements					
Total assets	$ 2,805,840	$ 2,365,655	$ 2,493,767	$ 2,141,329	$ 1,600,004
Total portfolio loans	1,893,062	1,832,125	2,201,457	1,784,278	1,376,452
Total loans plus foreclosed property	1,930,120	1,857,209	2,215,325	1,787,241	1,377,952
Nonperforming loans to total loans	2.45 %	2.10 %	1.61%	0.71%	0.47%
Nonperforming assets to total loans plus foreclosed property	4.32	3.43	2.23	0.88	0.58
Nonperforming assets to total assets	2.97	2.69	1.98	0.73	0.50
Allowance for loan losses to nonperforming loans	92.00 %	112.00 %	95.00%	178.00%	270.00%

(1) Excludes assets covered by FDIC loss share agreements, except for their inclusion in total assets

Nonperforming loans

Nonperforming loans at December 31, 2010 and 2009 based on Call Report codes were as follows:

(in thousands)	2010	2009
Construction Real Estate/Land Acquisition and Development	$ 9,934	$ 19,927
Commercial Real Estate - Non owner occupied	10,935	5,869
Commercial Real Estate - Owner occupied	2,024	5,093
Residential Real Estate	12,188	4,307
Commercial and Industrial	11,276	3,254
Consumer & Other	-	90
Total	$ 46,357	$ 38,540

The following table summarizes the changes in nonperforming loans by quarter for 2010 and 2009.

	2010				
(in thousands)	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr	Total Year
Nonperforming loans beginning of period	$ 51,955	$ 46,550	$ 55,785	$ 38,540	$ 38,540
Additions to nonaccrual loans	15,877	19,373	15,440	39,663	90,353
Additions to restructured loans	3,430	2,286	454	611	6,781
Chargeoffs	(7,860)	(7,023)	(8,314)	(12,963)	(36,160)
Other principal reductions	(7,288)	(1,881)	(4,580)	(2,739)	(16,488)
Moved to Other real estate	(8,743)	(7,122)	(11,350)	(5,564)	(32,779)
Moved to Other bank owned assets		-	-	(955)	(955)
Moved to performing	(1,014)	(228)	-	(1,693)	(2,935)
Loans past due 90 days or more and still accruing interest		-	(885)	885	-
Nonperforming loans end of period	$ 46,357	$ 51,955	$ 46,550	$ 55,785	$ 46,357

	2009				
(in thousands)	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr	Total Year
Nonperforming loans beginning of period	$ 46,982	$ 54,699	$ 54,421	$ 35,487	$ 35,487
Additions to nonaccrual loans	16,318	17,900	26,790	31,421	92,429
Additions to restructured loans	1,099	-	-	-	1,099
Chargeoffs	(11,519)	(6,254)	(5,018)	(7,051)	(29,842)
Other principal reductions	(559)	(4,113)	(5,252)	(2,596)	(12,520)
Moved to Other real estate	(11,339)	(9,903)	(11,497)	(978)	(33,717)
Moved to Other bank owned assets	-	-	-	-	-
Moved to performing	(2,442)	(5,347)	(4,745)	(1,862)	(14,396)
Loans past due 90 days or more and still accruing interest	-	-	-	-	-
Nonperforming loans end of period	$ 38,540	$ 46,982	$ 54,699	$ 54,421	$ 38,540

At December 31, 2010, the nonperforming loans represent 43 relationships. The largest of these is a $4.1 million commercial real estate loan. Five relationships comprise 45% of the nonperforming loans. Approximately 57% of the nonperforming loans were in the St. Louis market and 43% were in the Kansas City market.

At December 31, 2009, the nonperforming loans represent 39 relationships. The largest of these is a $4.0 million commercial real estate loan. Five relationships comprise 41% of the nonperforming loans. Approximately 52% of the nonperforming loans were in the Kansas City market, 47% were in the St. Louis market and less than 1% were in the Phoenix market. Approximately $5.3 million of the decline between third and fourth quarter of 2009 was the result of amending the loan participation agreements so that they qualified for sale accounting treatment. See Item 8, Note 2—Loan Participation Restatement in the Form 10-K for the year ended December 31, 2009 for more information.

At December 31, 2008, of the total nonperforming loans, $23.6 million, or 67%, related to five relationships: $10.6 million secured by a partially completed retail center; $3.5 million secured by commercial ground; $4.7 million secured by a medical office building; $2.8 million secured by a single family residence; and $1.9 million secured by a residential development. The remaining nonperforming loans consisted of 20 relationships. Eighty-four percent of the total nonperforming loans are located in the Kansas City market.

At December 31, 2007, of the total nonperforming loans, $7.3 million, or 57%, were related to eight residential homebuilders in St. Louis and Kansas City. The two largest related to a residential builder in Kansas City totaling $2.2 million and a single-family rehab builder in Kansas City totaling $1.6 million. The remaining nonperforming loans consisted of 11 relationships, nearly all of which were related to the soft residential housing markets in St. Louis and Kansas City.

Two credits in the Kansas City market secured by real estate represented $3.7 million of the total nonperforming loans at December 31, 2006. Six of the remaining ten relationships on non-accrual at December 31, 2006 and approximately 50% of the nonperforming loan balances related to smaller relationships acquired in the NorthStar transaction.

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Other real estate

Other real estate at December 31, 2010 was $36.2 million, an increase of $11.1 million over 2009. Approximately $10.8 million, or 30% of the Other real estate, is covered by an FDIC loss share agreement. At December 31, 2010, Other real estate represented 83 properties. The largest single component of Other real estate is a residence with a book value of $3.4 million that is covered under FDIC loss share. Eleven properties comprise 53% of the Other real estate. At December 31, 2010, Other real estate was comprised of 27% completed homes, 26% residential lots and 47% commercial real estate. The Other real estate is split evenly among Kansas City, St. Louis and Phoenix.

	2010				
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter	Year-to-date
Other real estate at beginning of period	$ 34,685	$ 25,884	$ 20,947	$ 25,084	$ 25,084
Additions and expenses capitalized					
to prepare property for sale	8,743	7,122	11,350	5,564	32,779
Addition of ORE from FDIC assisted transactions	4,871	5,469	-	113	10,453
Writedowns in fair value	(2,406)	(1,750)	(1,364)	(574)	(6,094)
Sales	(9,685)	(2,040)	(5,049)	(9,240)	(26,014)
Other real estate end of period	$ 36,208	$ 34,685	$ 25,884	$ 20,947	$ 36,208

	2009				
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter	Year-to-date
Other real estate at beginning of period	$ 19,273	$ 16,053	$ 13,251	$ 13,868	$ 13,868
Additions and expenses capitalized					
to prepare property for sale	11,342	9,915	11,788	1,155	34,200
Addition of ORE from FDIC assisted transactions	2,167	-	-	-	2,167
Writedowns in fair value	(587)	(688)	(506)	(608)	(2,389)
Sales	(7,111)	(6,007)	(8,480)	(1,164)	(22,762)
Other real estate at end of period	$ 25,084	$ 19,273	$ 16,053	$ 13,251	$ 25,084

The writedowns in fair value were recorded in Loan legal and other real estate owned based on current market activity shown in the appraisals. In addition, the Company realized a net gain of $79,000 on sales of other real estate and recorded these gains as part of Noninterest income. Management believes it is prudent to sell these properties, rather than wait for an improved real estate market.

Potential problem loans

Potential problem loans, which are not included in nonperforming loans, amounted to approximately $85.4 million, or 4.50% of total loans outstanding at December 31, 2010, compared to $83.2 million, or 4.54% of total loans outstanding at December 31, 2009. Potential problem loans represent those loans where payment of principal and interest is up-to-date and the loans are therefore, fully performing, but where some doubts exist as to the borrower's ability to continue to comply with present repayment terms. Given this level of potential problem loans combined with the Company's demonstrated ability to work through this adverse credit cycle so far, we believe that nonperforming asset levels will remain elevated in 2011.

Investments

At December 31, 2010, our portfolio of Securities available for sale was $361.5 million, or 13%, of total assets. This portfolio is primarily comprised of mortgage-backed pools, collateralized mortgage obligations, and U.S. government agency obligations. The size of the investment portfolio is generally 5 to 15% of total assets and will vary within that range based on liquidity. Typically, management classifies securities as available for sale to maximize management flexibility, although securities may be purchased with the intention of holding to maturity. Securities available-for-sale are carried at fair value, with related unrealized gains or losses, net of deferred income taxes, recorded as an adjustment to equity capital.

Our Other investments, at cost primarily consist of the FHLB membership stock, common stock investments related to our trust preferred securities and other private equity investments. At December 31, 2010, of the $7.6 million in FHLB capital stock, $2.8 million is required for FHLB membership and $4.8 million is required to support our outstanding advances. Historically, it has been the FHLB 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 that 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,					
	2010		2009		2008	
(in thousands)	Amount	%	Amount	%	Amount	%
Obligations of U.S. Government agencies	$ 453	0.1%	$ 27,189	9.2%	$ -	0.0%
Obligations of U.S. Government sponsored enterprises	32,119	8.6%	75,814	25.6%	-	0.0%
Obligations of states and political subdivisions	17,676	4.7%	3,408	1.2%	772	0.7%
Residential mortgage-backed securities	311,298	83.4%	176,050	59.5%	95,659	88.4%
FHLB capital stock	7,633	2.0%	8,476	2.9%	7,517	6.9%
Other investments	4,645	1.2%	4,713	1.6%	4,367	4.0%
	$ 373,824	100.0%	$ 295,650	100.0%	$ 108,315	100.0%

In 2010, the portfolio grew with additions to the mortgage backed securities, including collateralized mortgage obligations, government sponsored agency debentures, and federally tax free municipal securities. All residential mortgage-backed securities were issued by government sponsored enterprises. This combination gives us an appropriate balance between return and cashflow certainty given the current interest rate environment.

The Company had no securities classified as trading at December 31, 2010, 2009, or 2008.

The following table summarizes expected maturity and tax equivalent yield information on the investment portfolio at December 31, 2010:

	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 agencies	$ -	0.00%	$ 42									