10-Q 1 d10q.htm FORM 10-Q FOR QUARTERLY PERIOD ENDED SEPTEMBER 30, 2008

Table of Contents

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

FORM 10-Q

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

For the quarter ended September 30, 2008.

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

From __________ to __________.

Commission file number: 001-33598

Encore Bancshares, Inc.
(Exact name of registrant as specified in its charter)

Texas **(State or other jurisdiction of incorporation or organization)**	**76-0655696** **(IRS Employer Identification No.)**
Nine Greenway Plaza, Suite 1000, Houston, Texas **(Address of principal executive offices)**	**77046** **(Zip Code)**

(713) 787-3100
(Registrant's telephone number, including area code)

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

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

As of October 31, 2008, there were 10.2 million shares of common stock, $1.00 par value, issued and outstanding.

Table of Contents

ENCORE BANCSHARES, INC.

TABLE OF CONTENTS

Table of Contents

Part I – Financial Information

Item 1. Financial Statements

Encore Bancshares, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS
(Unaudited, amounts in thousands, except per share amounts)

	September 30, 2008	December 31, 2007
ASSETS		
Cash and due from banks	$ 21,005	$ 18,817
Interest-bearing deposits in banks	13,471	18,581
Federal funds sold and other temporary investments	5,562	41,017
Cash and cash equivalents	40,038	78,415
Securities available-for-sale, at estimated fair value	57,077	12,207
Securities held-to-maturity, at amortized cost	100,329	134,056
Mortgages held-for-sale	448	1,396
Loans receivable	1,198,445	1,097,268
Allowance for loan losses	(14,620)	(11,161)
Net loans receivable	1,183,825	1,086,107
Federal Home Loan Bank of Dallas stock, at cost	10,513	5,880
Investment in real estate	2,215	835
Premises and equipment, net	17,688	16,831
Goodwill	27,975	27,942
Other intangible assets, net	6,218	6,780
Cash surrender value of life insurance policies	14,539	14,091
Accrued interest receivable and other assets	17,358	16,657
	$ 1,478,223	$ 1,401,197
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	$ 121,100	$ 106,382
Interest-bearing	917,379	934,992
Total deposits	1,038,479	1,041,374
Borrowings and repurchase agreements	249,426	173,395
Junior subordinated debentures	20,619	20,619
Accrued interest payable and other liabilities	8,690	8,330
Total liabilities	1,317,214	1,243,718
Commitments and contingencies	—	—
Shareholders' equity:		
Preferred stock, $1 par value, 20,000 shares authorized; none issued	—	—
Common stock, $1 par value, 50,000 shares authorized; 10,243 shares at September 30, 2008 and 10,128 shares at December 31, 2007 issued	10,243	10,128
Additional paid-in capital	109,488	108,173
Retained earnings	41,642	39,763
Common stock in treasury, at cost (6 shares at September 30, 2008 and 4 shares at December 31, 2007)	(98)	(69)
Accumulated other comprehensive loss	(266)	(516)
Total shareholders' equity	161,009	157,479
	$ 1,478,223	$ 1,401,197

The accompanying notes are an integral part of these statements.

Table of Contents

Encore Bancshares, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited, amounts in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Interest income:				
Loans, including fees	$18,738	$17,309	$55,354	$49,463
Mortgages held-for-sale	13	1,346	70	3,669
Securities	1,469	1,463	4,038	5,481
Federal funds sold and other temporary investments	261	914	1,616	1,574
Total interest income	20,481	21,032	61,078	60,187
Interest expense:				
Deposits	6,458	9,947	22,123	28,928
Borrowings and repurchase agreements	2,085	1,651	5,607	5,319
Junior subordinated debentures	330	368	1,016	1,196
Total interest expense	8,873	11,966	28,746	35,443
Net interest income	11,608	9,066	32,332	24,744
Provision for loan losses	5,249	1,008	10,527	2,853
Net interest income after provision for loan losses	6,359	8,058	21,805	21,891
Noninterest income:				
Trust and investment management fees	4,277	4,501	13,344	13,013
Mortgage banking	28	1,167	217	5,411
Insurance commissions and fees	1,385	1,450	4,497	4,725
Real estate operations	(103)	178	(500)	303
Net loss on sale of available-for-sale securities	(2)	—	(2)	(181)
Other	390	225	1,256	1,426
Total noninterest income	5,975	7,521	18,812	24,697
Noninterest expense:				
Compensation	6,991	7,318	22,536	23,036
Occupancy	1,477	1,438	4,400	4,336
Equipment	494	506	1,512	1,523
Advertising and promotion	187	328	610	795
Outside data processing	762	884	2,173	2,596
Professional fees	671	401	2,566	1,249
Intangible amortization	187	209	562	629
Loss on early debt extinguishment	—	—	—	391
Other	1,304	1,405	3,588	3,685
Total noninterest expense	12,073	12,489	37,947	38,240
Net earnings before income taxes	261	3,090	2,670	8,348
Income tax expense	33	842	791	2,667
NET EARNINGS	$ 228	$ 2,248	$ 1,879	$ 5,681
Earnings Per Common Share:				
Basic	$ 0.02	$ 0.24	$ 0.19	$ 0.70
Diluted	0.02	0.22	0.17	0.64
Average common shares outstanding	9,895	9,347	9,876	8,160
Diluted average common shares outstanding	10,771	10,156	10,755	8,836

The accompanying notes are an integral part of these statements.

Table of Contents

Encore Bancshares, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
Nine Months Ended September 30, 2008
(Unaudited, amounts in thousands)

	Common Stock		Additional Paid-in	Retained	Common Stock in	Accumulated Other Com-prehensive	Total Shareholders'
	Shares	Amount	Capital	Earnings	Treasury	Income (Loss)	Equity
Balance at January 1, 2008	10,128	$10,128	$108,173	$39,763	$ (69)	$ (516)	$ 157,479
Stock-based compensation cost recognized in earnings	—	—	920	—	—	—	920
Issuance of common shares for exercise of options	41	41	388	—	—	—	429
Issuance of restricted stock	78	78	(78)	—	—	—	—
Forfeitures of restricted stock	(4)	(4)	4	—	—	—	—
Excess tax benefit from stock-based compensation	—	—	81	—	—	—	81
Purchase of treasury stock (2 shares)	—	—	—	—	(29)	—	(29)
Comprehensive income:							
Net earnings	—	—	—	1,879	—	—	1,879
Change in net unrealized loss on securities available-for-sale, net of deferred tax expense of $139	—	—	—	—	—	250	250
Total comprehensive income							2,129
Balance at September 30, 2008	10,243	$10,243	$109,488	$41,642	$ (98)	$ (266)	$ 161,009

The accompanying notes are an integral part of this statement.

Table of Contents

Encore Bancshares, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, amounts in thousands)

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Cash flows from operating activities:		
Net earnings	$ 1,879	$ 5,681
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Provision for loan losses	10,527	2,853
Amortization of premiums and discounts, net	1,000	1,252
Stock-based compensation	920	800
Depreciation	2,138	1,866
Gain on sale of loans	(140)	(4,838)
(Gain) loss on sale of foreclosed real estate	61	(45)
Realized loss on sales of available-for-sale securities, net	2	181
Loss on early debt extinguishment	—	391
Increase in mortgages held-for-sale	(21,675)	(166,898)
Proceeds from sale of mortgage loans	22,779	227,261
Federal Home Loan Bank of Dallas stock dividends	(156)	(277)
Excess tax benefit from stock-based compensation	(81)	(16)
(Increase) decrease in accrued interest receivable	535	(777)
Increase in other assets	(1,983)	(1,523)
Increase (decrease) in accrued interest payable	34	(199)
Increase in other liabilities	567	602
Net cash provided by operating activities	16,407	66,314
Cash flows from investing activities:		
Purchases of available-for-sale securities	(47,250)	(6,727)
Principal collected on available-for-sale securities	2,413	4,906
Proceeds from sales of available-for-sale securities	150	71,008
Principal collected on held-to-maturity securities	33,493	24,066
Proceeds from sales of held-to-maturity securities	—	7,414
Proceeds from sales of foreclosed real estate	2,363	1,291
Cash paid for acquisition	(33)	(54)
Loan purchases	—	(26,371)
Proceeds from sales of loans receivable	55	—
Loan originations and principal collections, net	(112,476)	(93,575)
Purchases of Federal Home Loan Bank stock	(4,477)	(3,661)
Redemption of Federal Home Loan Bank stock	—	5,852
Purchases of premises and equipment	(2,639)	(6,101)
Net cash used by investing activities	(128,401)	(21,952)
Cash flows from financing activities:		
Net increase (decrease) in deposits	(2,895)	1,373
Decrease in short term Federal Home Loan Bank of Dallas borrowings	—	(55,000)
Proceeds from long term Federal Home Loan Bank of Dallas borrowings	100,000	85,000
Repayment of long term Federal Home Loan Bank of Dallas borrowings	(25,004)	(25,000)
Increase (decrease) in repurchase agreements	1,174	(10,234)
Payment on notes payable	(139)	(139)
Proceeds from issuance of junior subordinated debentures	—	15,464
Retirement of junior subordinated debentures	—	(15,855)
Excess tax benefit from stock-based compensation	81	16
Proceeds from issuance of common stock, net of purchase of treasury stock	400	42,395
Net cash provided by financing activities	73,617	38,020
Net increase (decrease) in cash and cash equivalents	(38,377)	82,382
Cash and cash equivalents at beginning of period	78,415	39,096
Cash and cash equivalents at end of period	$ 40,038	$ 121,478
Supplementary cash flows information:		
Interest paid on deposits and borrowed funds	$ 28,712	$ 35,642
Income taxes paid	1,754	3,816
Noncash operating, investing and financing activities:		

Real estate acquired in satisfaction of loans	4,160	682

The accompanying notes are an integral part of these statements.

Table of Contents

Encore Bancshares, Inc. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2008 and 2007
(Unaudited, amounts in thousands, except per share amounts)

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Encore Bancshares, Inc. is a holding company that was formed on March 28, 2000 as Guardian Holdings, Inc. and had no operations until it acquired GSF Holding, Inc., now known as Encore Holdings, Inc. (Encore Holdings), and its wholly-owned subsidiary, Guardian Savings and Loan Association effective September 30, 2000. Guardian Savings and Loan Association, a federally chartered savings institution, changed its name to Guardian Savings Bank effective September 28, 2000 and then to Encore Bank (the Bank) effective September 1, 2001. The Bank converted from a federal savings association to a national banking association effective March 30, 2007 and changed its name to Encore Bank, National Association. In connection with the conversion, we became a bank holding company and Encore Holdings was merged into Encore Bancshares, Inc. As part of a corporate reorganization following the conversion of the Bank to a national banking association, as of June 30, 2007, the Bank was merged with and into Encore Trust Company, N.A. (Encore Trust). The resulting bank, which was renamed Encore Bank, National Association (Encore Bank), operates as a national banking association with its main office in Houston, Texas. Since the merger, the business of Encore Trust is being conducted as a division of Encore Bank. Our election to become a financial holding company was effective July 21, 2008.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Encore Bancshares, Inc., Encore Bank, Encore Bank's wholly-owned subsidiary Linscomb & Williams, Inc. (Linscomb & Williams), and Town & Country Insurance Agency, Inc. (Town & Country). We have made all adjustments that, in our opinion, are necessary for a fair presentation of results of the interim periods, and all such adjustments are of a normal recurring nature. All significant intercompany balances and transactions have been eliminated. The unaudited consolidated financial statements should be read in conjunction with our annual audited consolidated financial statements and related notes. The consolidated balance sheet at December 31, 2007 was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America (US GAAP).

We must make estimates and assumptions that affect amounts reported in our interim consolidated financial statements and in disclosures of contingent assets and liabilities. Ultimate results could differ from those estimates.

These interim consolidated financial statements and the notes thereto should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2007. Operating results for the nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008 or any other period.

Nature of Operations

We are primarily in the business of attracting deposits and investing these funds in loans and mortgage-backed securities, as well as providing trust and investment management services and property and casualty insurance products.

We provide a variety of financial services through our seventeen private client offices located in the greater Houston area and southwest Florida, and five wealth management offices and three insurance offices in Texas. Our product offerings, places of business and service delivery are positioned to best meet the needs of professional firms, privately-owned businesses, investors and affluent individuals.

Adoption of New Accounting Pronouncements

On January 1, 2008, we adopted the following new accounting pronouncements:

SFAS 157 – Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements;* and

SFAS 159 – SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities.*

Table of Contents

Encore Bancshares, Inc. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2008 and 2007
(Unaudited, amounts in thousands, except per share amounts)

The adoption of SFAS 157 and SFAS 159 did not have any effect on our consolidated financial statements at the date of adoption other than expanded disclosures required by SFAS 157.

Descriptions of our significant accounting policies are included in Note A to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2007. There have been no significant changes to these policies.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net earnings. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net earnings, are components of comprehensive income.

The changes in the components of other comprehensive income (loss) are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Unrealized holding gains on available-for-sale securities	$ 387	$ 217	$ 391	$ 1,808
Reclassification adjustment for losses realized in income	(2)	—	(2)	(181)
Net unrealized gains	385	217	389	1,627
Tax expense	(138)	(108)	(139)	(614)
Net-of-tax amount	$ 247	$ 109	$ 250	$ 1,013

Recent Accounting Pronouncements

SFAS No. 141(R), *Business Combinations* (SFAS 141R). Issued by the Financial Accounting Standards Board (FASB) in December 2007, SFAS 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. SFAS 141R also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The provisions of SFAS 141R are effective for business combinations for which the acquisition date is within financial statements issued for fiscal years beginning after December 15, 2008, and earlier application is prohibited. We do not expect the adoption of SFAS 141R to have a material effect on our consolidated financial statements; however, the future effect is dependent upon whether we make any future acquisitions and the specifics of those acquisitions.

SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements – An Amendment of ARB No. 51* (SFAS 160). Issued by the FASB in December 2007, SFAS 160 amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements* (ARB 51), to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement also amends certain of ARB 51's consolidation procedures for consistency with the requirements of SFAS 141R. In addition, SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. The provisions of SFAS 160 are effective for fiscal years beginning after December 15, 2008. Early adoption is prohibited. We do not expect the adoption of SFAS 160 to have a material effect on our consolidated financial statements.

FASB Staff Position No. 157-2 (FSP 157-2). FSP 157-2 delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The delay is intended to allow the FASB and constituents additional time to

Table of Contents

Encore Bancshares, Inc. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2008 and 2007
(Unaudited, amounts in thousands, except per share amounts)

consider the effect of various implementation issues that have arisen, or that may arise, from the application of SFAS 157. FSP 157-2 defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of FSP 157-2. We are currently evaluating what impact, if any, FSP 157-2 will have on our consolidated financial statements.

FASB Staff Position No. 142-3 (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*. The intent of FSP 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R and other US GAAP. The provisions of FSP 142-3 are effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. We do not expect FSP 142-3 to have a material effect on our consolidated financial statements; however, the effect is dependent upon whether we make any future acquisitions and the specifics of those acquisitions.

FASB Staff Position No. EITF 03-6-1 (EITF 03-6-1). EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share (EPS) under the two-class method described in SFAS No. 128, *Earnings per Share.* The provisions of EITF 03-6-1 are effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior-period EPS data presented shall be adjusted retrospectively (including interim financial statements, summaries of earnings, and selected financial data) to conform with the provisions of EITF 03-6-1. Early application is not permitted. We do not expect EITF 03-6-1 to have a material effect on our consolidated financial statements.

FASB Staff Position No. 157-3 (FSP 157-3). Issued by the FASB on October 10, 2008, FSP 157-3 clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP 157-3 is effective on issuance, including prior periods for which financial statements have not been issued.

NOTE B – SECURITIES AVAILABLE-FOR-SALE AND SECURITIES HELD-TO-MATURITY

The amortized cost and fair values for the major categories of securities available-for-sale and held-to-maturity were as follows:

	September 30, 2008		December 31, 2007	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-sale:				
Mortgage-backed securities	$ 48,725	$ 48,942	$ 3,910	$ 3,809
Other securities	4,202	4,112	4,354	4,347
Total	52,927	53,054	8,264	8,156
Marketable equity securities	4,000	4,023	4,000	4,051
Total available-for-sale securities	$ 56,927	$ 57,077	$ 12,264	$ 12,207
Held-to-maturity:				
Mortgage-backed securities	$100,329	$101,214	$134,056	$133,454

Table of Contents

Encore Bancshares, Inc. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2008 and 2007
(Unaudited, amounts in thousands, except per share amounts)

NOTE C – LOANS RECEIVABLE

A summary of the major categories of loans outstanding is shown in the following table:

	September 30, 2008	December 31, 2007
Commercial:		
Commercial	$ 130,484	$ 127,583
Commercial real estate	305,570	277,047
Real estate construction	96,450	100,975
Total commercial	532,504	505,605
Consumer:		
Residential real estate first lien	247,765	271,346
Residential real estate second lien	291,933	195,583
Home equity lines	79,888	79,023
Consumer installment—indirect	16,461	25,262
Consumer other	29,894	20,449
Total consumer	665,941	591,663
Total loans receivable	$ 1,198,445	$ 1,097,268

Included in loans receivable is $2,888 and $3,117 of net deferred loan origination costs at September 30, 2008 and December 31, 2007.

Changes in the allowance for loan losses were as follows:

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Balance at beginning of period	$ 12,054	$ 10,168	$ 11,161	$ 9,056
Provision for loan losses	5,249	1,008	10,527	2,853
Loans charged-off	(2,845)	(727)	(7,430)	(1,700)
Recoveries of loans previously charged-off	162	262	362	502
Balance at end of period	$ 14,620	$ 10,711	$ 14,620	$ 10,711

The following is a summary of information pertaining to impaired and nonaccrual loans:

	September 30, 2008	December 31, 2007
Impaired loans on nonaccrual without a valuation allowance	$ 8,641	$ —
Impaired loans on nonaccrual with a valuation allowance	8,642	6,901
Total impaired loans	$ 17,283	$ 6,901
Valuation allowance related to impaired loans	$ 1,734	$ 2,581
Total nonaccrual loans	$ 21,142	$ 11,208
Total accruing loans past due 90 days or more	$ 23	$ 2,183

Table of Contents

Encore Bancshares, Inc. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2008 and 2007
(Unaudited, amounts in thousands, except per share amounts)

NOTE D – REGULATORY MATTERS

We and Encore Bank are subject to various regulatory capital adequacy requirements administered by the Board of Governors of the Federal Reserve System (Federal Reserve) and the Office of the Comptroller of the Currency (OCC). Actual and minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as of September 30, 2008 are set forth in the following table:

	Actual		For Capital Adequacy Purposes		To Be Categorized as Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
September 30, 2008						
Tier 1 capital (to average assets)						
Tier 1 (leverage)						
Encore Bancshares, Inc.	$147,082	10.18%	$ 57,820	4.00%	N/A	N/A
Encore Bank, N.A.	117,615	8.17	57,560	4.00	$ 71,950	5.00%
Tier 1 capital (to risk-based assets)						
Encore Bancshares, Inc.	$147,082	12.58%	$ 46,759	4.00%	N/A	N/A
Encore Bank, N.A.	117,615	10.09	46,646	4.00	$ 69,969	6.00%
Total capital (to risk-based assets)						
Encore Bancshares, Inc.	$162,102	13.87%	$ 93,519	8.00%	N/A	N/A
Encore Bank, N.A.	132,197	11.34	93,291	8.00	$ 116,614	10.00%

As part of Encore Bank's conversion to a national bank, the OCC required that Encore Bank have a leverage ratio of at least 7.75% as of December 31, 2008.

NOTE E – COMMITMENTS AND CONTINGENCIES

We are a defendant in legal actions arising from transactions conducted in the ordinary course of business. We believe, after consultation with legal counsel, that the ultimate liability, if any, arising from such actions will not have a material adverse effect on our consolidated financial statements.

Table of Contents

Encore Bancshares, Inc. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2008 and 2007
(Unaudited, amounts in thousands, except per share amounts)

NOTE F – EARNINGS PER COMMON SHARE

The factors used in the earnings per common share computation follow:

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Basic:				
Net earnings	$ 228	$ 2,248	$ 1,879	$ 5,681
Average common shares outstanding, net of nonvested restricted stock	9,895	9,347	9,876	8,160
Per Share	$ 0.02	$ 0.24	$ 0.19	$ 0.70
Diluted:				
Average common shares outstanding	9,895	9,347	9,876	8,160
Add: Net effect of nonvested restricted stock and the assumed exercise of stock options	538	634	568	527
Contingent share-based consideration	338	175	311	149
Diluted average common shares outstanding	10,771	10,156	10,755	8,836
Per Share	$ 0.02	$ 0.22	$ 0.17	$ 0.64

In July 2007, we completed our initial public offering of 1,905 shares of common stock at $21.00 per share. In August 2007, our underwriters exercised their over-allotment option for an additional 286 shares of common stock, also at $21.00 per share. No dividends have been declared on our common stock.

NOTE G – FAIR VALUE OF FINANCIAL INSTRUMENTS

Effective January 1, 2008, we adopted SFAS 157, *Fair Value Measurements*. In accordance with SFAS 157, we group our financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury, other U. S. government and agency mortgage-backed securities that are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities.
- Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The table below presents the balances of assets measured at fair value on a recurring basis as of September 30, 2008:

Description	Total	Level 1
Available-for-sale securities (1)	$51,410	$51,410
Total	$51,410	$51,410

(1) Excludes cost-basis equity securities of $5,667.

Table of Contents

Encore Bancshares, Inc. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2008 and 2007
(Unaudited, amounts in thousands, except per share amounts)

Also, we may be required, from time to time, to measure certain other financial assets at fair value on a nonrecurring basis in accordance with US GAAP. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or writedowns of individual assets. For assets measured at fair value on a nonrecurring basis during the first nine months of 2008 that were still held on the balance sheet at September 30, 2008, the following table provides the level of valuation assumptions used to determine the amount of adjustment and the carrying value of the related individual assets at period end.

Description	Total	Level 2	Losses for Nine Months Ended September 30, 2008
Loans (1)	$16,286	$16,286	$ 478
Total	$16,286	$16,286	$ 478

(1) Represents carrying value of loans and related writedowns for which adjustments are based on the appraised value of the collateral.

We have only partially applied SFAS 157 as allowed by FSP 157-2. The major categories of non-financial assets for which we have not applied the provisions of SFAS 157 are goodwill, other intangible assets and investment in real estate.

NOTE H – SEGMENT INFORMATION

We have three lines of business which are banking, wealth management and insurance, that are delineated by the products and services that each segment offers. The segments are managed separately with different clients, employees, systems, risks and marketing strategies. Banking includes our commercial and private client banking services. Wealth management provides personal wealth management services through Encore Trust, a division of Encore Bank, and Linscomb & Williams, and insurance includes the selling of property and casualty insurance products by Town & Country.

The accounting policies of each line of business are the same as those described in the summary of significant accounting policies included in Note A to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2007. Revenues, expenses, and assets are recorded by each line of business, and we separately review financial information. In addition to direct expenses, each line of business was allocated certain general corporate expenses such as executive administration, accounting, internal audit, and human resources based on the average asset level of the operating segment. Activities that are not directly attributable to the reportable operating segments, including the elimination of intercompany transactions, are presented under “Other”.

Table of Contents

Encore Bancshares, Inc. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2008 and 2007
(Unaudited, amounts in thousands, except per share amounts)

Financial results by operating segment were as follows:

	Banking	Wealth Management	Insurance	Other	Consolidated
Three months ended September 30, 2008					
Net interest income (expense)	$ 11,871	$ 51	$ 16	$ (330)	$ 11,608
Provision for loan losses	5,249	—	—	—	5,249
Noninterest income	300	4,277	1,398	—	5,975
Noninterest expense	7,988	3,083	1,002	—	12,073
Earnings (loss) before income taxes	(1,066)	1,245	412	(330)	261
Income tax expense (benefit)	(446)	451	147	(119)	33
Net earnings (loss)	$ (620)	$ 794	$ 265	$ (211)	$ 228
Total assets at September 30, 2008	$1,481,311	$ 49,263	$ 6,997	$(59,348)	$1,478,223
Three months ended September 30, 2007					
Net interest income (expense)	$ 9,315	$ 82	$ 37	$ (368)	$ 9,066
Provision for loan losses	1,008	—	—	—	1,008
Noninterest income	1,559	4,501	1,460	1	7,521
Noninterest expense	8,338	3,137	1,014	—	12,489
Earnings (loss) before income taxes	1,528	1,446	483	(367)	3,090
Income tax expense (benefit)	261	531	167	(117)	842
Net earnings (loss)	$ 1,267	$ 915	$ 316	$ (250)	$ 2,248
Total assets at September 30, 2007	$1,392,156	$ 45,425	$ 9,219	$(63,668)	$1,383,132
Nine months ended September 30, 2008					
Net interest income (expense)	$ 33,117	$ 152	$ 79	$ (1,016)	$ 32,332
Provision for loan losses	10,527	—	—	—	10,527
Noninterest income	885	13,344	4,588	(5)	18,812
Noninterest expense	25,914	8,878	3,155	—	37,947
Earnings (loss) before income taxes	(2,439)	4,618	1,512	(1,021)	2,670
Income tax expense (benefit)	(1,047)	1,664	541	(367)	791
Net earnings (loss)	$ (1,392)	$ 2,954	$ 971	$ (654)	$ 1,879
Total assets at September 30, 2008	$1,481,311	$ 49,263	$ 6,997	$(59,348)	$1,478,223
Nine months ended September 30, 2007					
Net interest income (expense)	$ 25,608	$ 232	$ 100	$ (1,196)	$ 24,744
Provision for loan losses	2,853	—	—	—	2,853
Noninterest income	6,847	13,013	4,813	24	24,697
Noninterest expense	25,644	9,152	3,053	391	38,240
Earnings (loss) before income taxes	3,958	4,093	1,860	(1,563)	8,348
Income tax expense (benefit)	1,027	1,481	671	(512)	2,667
Net earnings (loss)	$ 2,931	$ 2,612	$ 1,189	$ (1,051)	$ 5,681
Total assets at September 30, 2007	$1,392,156	$ 45,425	$ 9,219	$(63,668)	$1,383,132

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Special Cautionary Note Regarding Forward-Looking Statements

Statements and financial discussion and analysis contained in this quarterly report on Form 10-Q that are not statements of historical fact constitute forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on assumptions and involve a number of risks and uncertainties, many of which are beyond our control. The words "believe," "may," "should," "anticipate," "estimate," "expect," "intend," "continue," "would," "could," "hope," "might," "assume," "objective," "seek," "plan," "strive" and similar words, or the negatives of these words, are intended to identify forward-looking statements.

Many possible events or factors could affect our future financial results and performance and could cause our actual results to differ materially from the expectations of future results we express or imply in any forward-looking statements. In addition to the other factors discussed in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2007, factors that could contribute to those differences include, but are not limited to:

- general business or economic conditions, either nationally, regionally or in the local markets we serve, may be less favorable than expected, resulting in, among other things, a deterioration of credit quality or a reduced demand for credit or a decline in wealth management fees;
- volatility and disruption in national and international financial markets;
- changes in the interest rate environment, which may reduce our margins or impact the value of changes in market rates and prices and may impact the value of securities, loans, deposits and other financial instruments;
- legislative or regulatory developments including changes in laws concerning taxes, banking, securities, investment advisory, trust, insurance and other aspects of the financial services industry;
- the continued service of key management personnel;
- our ability to attract, motivate and retain key employees;
- factors that increase competitive pressure among financial services organizations, including product and pricing pressures;
- our ability to expand and grow our business and operations, including the establishment of additional private client offices and acquisition of additional banks, and our ability to realize the cost savings and revenue enhancements we expect from such activities; and
- fiscal and governmental policies of the United States federal government, including government intervention in the U.S. financial system.

Forward-looking statements are not guarantees of performance or results. A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We believe we have chosen these assumptions or bases in good faith and that they are reasonable. We caution you, however, that assumptions or bases almost always vary from actual results, and the differences between assumptions or bases and actual results can be material. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this Form 10-Q. These statements speak only as of the date of this report (or an earlier date to the extent applicable). We undertake no obligation to update publicly such forward-looking statements in light of new information or future events.

Overview

Encore Bancshares, Inc. is a financial holding company and wealth management organization that provides banking, investment management, financial planning and insurance services to professional firms, privately-owned businesses, investors and affluent individuals. We are headquartered in Houston, Texas and currently manage, through our primary subsidiary, Encore Bank, National Association (Encore Bank), eleven private client offices in the greater Houston market and six private client offices in southwest Florida. We recently consolidated our loan production offices in Florida into our private client offices. We also operate five wealth management offices and three insurance offices in Texas. As of September 30, 2008, we reported, on a consolidated basis, total assets of $1.5 billion, total loans of $1.2 billion, total deposits of $1.0 billion, shareholders' equity of $161.0 million and $2.6 billion in assets under management.

Recent Developments

On October 3, 2008, the Troubled Asset Relief Program (TARP) was signed into law. TARP gave the U.S. Department of the Treasury (Treasury) authority to deploy up to $700 billion into the financial system with an objective of improving liquidity in capital markets. On October 14, 2008, the Treasury announced the Capital Purchase Program (CPP), which provides for direct equity investment of perpetual preferred stock by the Treasury in qualified financial institutions. The

Table of Contents

program is voluntary and requires an institution to comply with a number of restrictions and provisions, including limits on executive compensation, stock redemptions and declaration of dividends. Applications by publicly-traded institutions must be submitted by November 14, 2008 and are subject to approval by the Treasury. The CPP provides for the purchase by the Treasury of perpetual senior preferred stock in an aggregate amount ranging from 1% to 3% of a company's risk-weighted assets. The senior preferred stock will pay cumulative dividends at a rate of 5% per year, until the fifth anniversary of the Treasury investment, and at a rate of 9% per year thereafter. The CPP also requires a participant to issue to the Treasury warrants to purchase common stock equal to 15% of the capital invested by the Treasury.

The terms of the CPP could reduce investment returns to our shareholders by restricting increases in dividends paid on our common stock without the Treasury's consent, diluting existing shareholders' interests and restricting capital management practices. Although we and Encore Bank meet all applicable regulatory capital requirements and Encore Bank remains well capitalized, we are evaluating whether to participate in the CPP. Participation in the program is not automatic and is subject to approval by the Treasury.

Also on October 14, 2008, the systemic risk exception to the FDIC Act was enacted, enabling the FDIC to temporarily provide a 100% guarantee of the senior unsecured debt of all FDIC-insured institutions and their holding companies, as well as deposits in non-interest bearing transaction deposit accounts under a Temporary Liquidity Guarantee Program (TLGP). Coverage under the TLGP is available until December 5, 2008 without charge and thereafter at a cost of 75 basis points per annum for senior unsecured debt and 10 basis points per annum for non-interest bearing transaction deposits. We are evaluating whether to participate in the TLGP.

Results of Operations

Net earnings for the quarter ended September 30, 2008 were $228,000, or $0.02 per diluted share, compared with $2.2 million, or $0.22 per diluted share, for the quarter ended September 30, 2007. Net earnings were favorably impacted by a $2.5 million improvement in net interest income and lower expenses, which was offset by a $4.2 million increase in the provision for loan losses and a $1.1 million decrease in mortgage banking income. During the third quarter of 2008, we made an additional provision for loan losses of $2.3 million, which raised the allowance for loan losses from 1.03% at June 30, 2008 to 1.22% at September 30, 2008. We posted a return on average common equity of 0.56% and 6.20%, a return on average assets of 0.06% and 0.66%, and an efficiency ratio of 67.59% and 74.03% for the quarters ended September 30, 2008 and 2007. The efficiency ratio is calculated by dividing total noninterest expense (excluding amortization of intangibles) by the sum of net interest income and noninterest income (excluding gains or losses on sales of securities).

Net earnings for the nine months ended September 30, 2008 were $1.9 million, or $0.17 per diluted share, compared with $5.7 million, or $0.64 per diluted share, for the same period of 2007. Net interest income increased by $7.6 million, but this increase was offset by a $7.7 million increase in the provision for loan losses and a $5.9 million decrease in noninterest income. The change in net earnings was different than the earnings per share primarily because of the additional shares issued in our initial public offering in the third quarter of 2007. We posted a return on average common equity of 1.56% and 6.31%, a return on average assets of 0.17% and 0.58%, and an efficiency ratio of 73.09% and 75.80% for the nine months ended September 30, 2008 and 2007.

Net Interest Income

Our operating results are significantly impacted by net interest income, which represents the amount by which interest income on interest-earning assets, including securities and loans, exceeds interest expense incurred on interest-bearing liabilities, including deposits and other borrowed funds. Net interest income is a key source of our earnings. Interest rate fluctuations, as well as changes in the amount and type of interest-earning assets and interest-bearing liabilities, combine to affect net interest income.

Net interest income was $11.6 million for the three months ended September 30, 2008, an increase of $2.5 million, or 28.0%, compared with the third quarter of 2007. Average interest-earning assets increased $124.6 million, or 9.9%, from the third quarter of 2007 compared with the third quarter of 2008, due primarily to growth in loans. The net interest margin for the third quarter of 2008 increased 48 basis points to 3.34%, compared with the same quarter of 2007. The improvement in the margin was due to a combination of a more favorable asset mix, as Encore Bank continued to replace low yielding mortgage related assets with higher yielding loans, and a steepening yield curve, which allowed us to decrease the pricing of our deposits by an average rate that was more than the decline in average yield on our earning assets. Average loans were $1.2 billion for the third quarter of 2008, a $213.0 million, or 21.9%, increase compared with the same quarter of 2007. As a result of this loan growth, loans accounted for 85.8% of earning assets during the third quarter of 2008, compared with 77.3% of earning assets for the same period of 2007. In addition, noninterest-bearing deposits were $119.0 million for the third quarter of 2008, a $10.9 million, or 10.0%, increase compared with the same period of 2007.

Table of Contents

Net interest income was $32.3 million for the nine months ended September 30, 2008, an increase of $7.6 million, or 30.7%, compared with the same period of 2007. Average interest-earning assets increased $149.2 million, or 12.2%, due primarily to growth in loans. For the nine months ended September 30, 2008, the net interest margin was 3.14%, an increase of 45 basis points, compared with the same period of 2007. The improvement in the margin was due to a more favorable asset mix and the steepening yield curve. Average loans were $1.2 billion for the nine months ended September 30, 2008, a $216.1 million, or 22.9%, increase compared with the same period of 2007. During the same periods, average securities decreased $44.1 million, or 23.2%, as the proceeds from the reductions in securities were used to fund loan growth.

The following tables set forth for the periods indicated an analysis of net interest income by each major category of interest-earning assets and interest-bearing liabilities, the average amounts outstanding, the interest earned or paid on such amounts and the average rate earned or paid. The tables also set forth the average rate earned on total interest-earning assets, the average rate paid on total interest-bearing liabilities and the net interest margin for the same periods. All balances are daily average balances and nonaccrual loans were included in the average loans with a zero yield for the purpose of calculating the rate earned on total loans. We have no tax-exempt securities and an insignificant amount of tax-exempt loans, and no tax equivalent adjustments have been made with respect to these loans.

	Three Months Ended September 30,					
	2008			2007		
	Average Outstanding Balance	Interest Income/ Expense	Average Yield/ Rate	Average Outstanding Balance	Interest Income/ Expense	Average Yield/ Rate
	(dollars in thousands)					
Assets:						
Interest-earning assets:						
Loans	$1,186,606	$18,738	6.28%	$ 973,641	$17,309	7.05%
Mortgages held-for-sale	596	13	8.68	60,959	1,346	8.76
Securities	156,354	1,469	3.74	156,159	1,463	3.72
Federal funds sold and other	40,128	261	2.59	68,347	914	5.31
Total interest-earning assets	1,383,684	20,481	5.89	1,259,106	21,032	6.63
Less: Allowance for loan losses	(12,630)			(10,391)		
Noninterest-earning assets	108,224			102,667		
Total assets	$1,479,278			$1,351,382		
Liabilities and shareholders' equity:						
Interest-bearing liabilities:						
Interest checking	$ 192,424	$ 610	1.26%	$ 169,860	$ 1,347	3.15%
Money market and savings	283,130	1,217	1.71	358,732	3,907	4.32
Time deposits	448,983	4,631	4.10	375,896	4,693	4.95
Total interest-bearing deposits	924,537	6,458	2.78	904,488	9,947	4.36
Borrowings and repurchase agreements	240,104	2,085	3.45	158,203	1,651	4.14
Junior subordinated debentures	20,619	330	6.37	20,619	368	7.08
Total interest-bearing liabilities	1,185,260	8,873	2.98	1,083,310	11,966	4.38
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	119,024			108,168		
Other liabilities	12,186			16,128		
Total liabilities	1,316,470			1,207,606		
Shareholders' equity	162,808			143,776		
Total liabilities and shareholders' equity	$1,479,278			$1,351,382		
Net interest income		$11,608			$ 9,066	
Net interest spread			2.91%			2.25%
Net interest margin			3.34%			2.86%

Table of Contents

	Nine Months Ended September 30,					
	2008			2007		
	Average Outstanding Balance	Interest Income/ Expense	Average Yield/ Rate	Average Outstanding Balance	Interest Income/ Expense	Average Yield/ Rate
	(dollars in thousands)					
Assets:						
Interest-earning assets:						
Loans	$1,159,102	$55,354	6.38%	$ 943,048	$49,463	7.01%
Mortgages held-for-sale	1,069	70	8.75	55,753	3,669	8.80
Securities	146,025	4,038	3.69	190,165	5,481	3.85
Federal funds sold and other	70,684	1,616	3.05	38,746	1,574	5.43
Total interest-earning assets	1,376,880	61,078	5.93	1,227,712	60,187	6.55
Less: Allowance for loan losses	(11,781)			(9,838)		
Noninterest-earning assets	104,815			102,592		
Total assets	$1,469,914			$1,320,466		
Liabilities, shareholders' equity and puttable common stock:						
Interest-bearing liabilities:						
Interest checking	$ 189,969	$ 2,204	1.55%	$ 173,671	$ 3,915	3.01%
Money market and savings	307,716	4,960	2.15	344,978	11,203	4.34
Time deposits	449,923	14,959	4.44	374,654	13,810	4.93
Total interest-bearing deposits	947,608	22,123	3.12	893,303	28,928	4.33
Borrowings and repurchase agreements	212,165	5,607	3.53	164,133	5,319	4.33
Junior subordinated debentures	20,619	1,016	6.58	20,743	1,196	7.71
Total interest-bearing liabilities	1,180,392	28,746	3.25	1,078,179	35,443	4.40
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	116,470			107,965		
Other liabilities	12,503			14,015		
Total liabilities	1,309,365			1,200,159		
Shareholders' equity and puttable common stock	160,549			120,307		
Total liabilities, shareholders' equity and puttable common stock	$1,469,914			$1,320,466		
Net interest income		$32,332			$24,744	
Net interest spread			2.68%			2.15%
Net interest margin			3.14%			2.69%

Provision for Loan Losses

The provision for loan losses is the amount we determine necessary to be charged against the current period's earnings to maintain the allowance for loan losses at a level that is considered adequate in relation to the estimated losses inherent in the loan portfolio. The provision was $5.2 million and $10.5 million for the three months and nine months ended September 30, 2008, compared with $1.0 million and $2.9 million for the same periods of 2007. The provision for loan losses reflects the amount we considered necessary to fund estimated losses inherent in the loan portfolio primarily as a result of the growth in the loan portfolio and changes in historical loss factors and other qualitative factors.

Table of Contents

Noninterest Income

Noninterest income represented 34.0% and 45.3% of total revenue for the three months ended September 30, 2008 and 2007.

Noninterest income decreased $1.5 million, or 20.6%, to $6.0 million for the three months ended September 30, 2008, compared with the same period in 2007. The decrease was due primarily to a $1.1 million decrease in mortgage banking income, lower trust and investment management fees and a loss on sale of real estate.

Noninterest income decreased $5.9 million, or 23.8%, to $18.8 million for the nine months ended September 30, 2008, compared with the same period in 2007. The decrease was due primarily to a $5.2 million decrease in mortgage banking income and $556,000 in writedowns and loss on sale of real estate, which was recorded in real estate operations. Partially offsetting the decreases was a $331,000, or 2.5%, increase in trust and investment management fees.

The following table presents, for the periods indicated, the major categories of noninterest income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(dollars in thousands)			
Trust and investment management fees	$4,277	$4,501	$13,344	$13,013
Mortgage banking	28	1,167	217	5,411
Insurance commissions and fees	1,385	1,450	4,497	4,725
Real estate operations	(103)	178	(500)	303
Net loss on sale of available-for-sale securities	(2)	—	(2)	(181)
Other	390	225	1,256	1,426
Total noninterest income	$5,975	$7,521	$18,812	$24,697

Noninterest Expense

Noninterest expense was $12.1 million for the third quarter of 2008, down $416,000, or 3.3%, compared with the third quarter of 2007. The decrease in expenses was due in part to lower compensation, advertising, and outside data processing expenses.

Noninterest expense for the nine months ended September 30, 2008 was $37.9 million, down $293,000, or 0.8%, compared with the same period of 2007. Increases in professional fees were offset by a reduction in compensation, data processing costs, a result of lower pricing from our data service provider, and no loss on early debt extinguishment in 2008.

The following table presents, for the periods indicated, the major categories of noninterest expense:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(dollars in thousands)			
Compensation	$ 6,991	$ 7,318	$22,536	$23,036
Non-staff expenses:				
Occupancy	1,477	1,438	4,400	4,336
Equipment	494	506	1,512	1,523
Advertising and promotion	187	328	610	795
Outside data processing	762	884	2,173	2,596
Professional fees	671	401	2,566	1,249
Intangible amortization	187	209	562	629
Loss on early debt extinguishment	—	—	—	391
Other	1,304	1,405	3,588	3,685
Total noninterest expense	$12,073	$12,489	$37,947	$38,240

Income Tax Expense

The provision for income taxes decreased to $33,000 for the three months ended September 30, 2008, compared with $842,000 for the same three months of 2007. The effective tax rate for the three months ended September 30, 2008 and 2007

Table of Contents

was 12.6% and 27.2%. The provision for income taxes decreased to $791,000 for the nine months ended September 30, 2008, compared with $2.7 million for the same period of 2007. The effective tax rate for the nine months ended September 30, 2008 and 2007 was 29.6% and 31.9%. The change in the effective tax rate for both periods primarily reflects a change in the percentage of income that is non-taxable.

Result of Segment Operations

We manage the company along three operating segments: banking, wealth management and insurance. The column identified as "Other" includes the parent company and the elimination transactions between segments. The accounting policies of the individual operating segments are the same as our accounting policies described in Note A to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2007.

The following table presents the net earnings and total assets for each of our operating segments as of and for the periods indicated:

	Banking	Wealth Management	Insurance	Other	Consolidated
		(dollars in thousands)			
Three months ended September 30, 2008					
Net interest income (expense)	$ 11,871	$ 51	$ 16	$ (330)	$ 11,608
Provision for loan losses	5,249	—	—	—	5,249
Noninterest income	300	4,277	1,398	—	5,975
Noninterest expense	7,988	3,083	1,002	—	12,073
Earnings (loss) before income taxes	(1,066)	1,245	412	(330)	261
Income tax expense (benefit)	(446)	451	147	(119)	33
Net earnings (loss)	$ (620)	$ 794	$ 265	$ (211)	$ 228
Total assets at September 30, 2008	$1,481,311	$ 49,263	$ 6,997	$(59,348)	$1,478,223
Three months ended September 30, 2007					
Net interest income (expense)	$ 9,315	$ 82	$ 37	$ (368)	$ 9,066
Provision for loan losses	1,008	—	—	—	1,008
Noninterest income	1,559	4,501	1,460	1	7,521
Noninterest expense	8,338	3,137	1,014	—	12,489
Earnings (loss) before income taxes	1,528	1,446	483	(367)	3,090
Income tax expense (benefit)	261	531	167	(117)	842
Net earnings (loss)	$ 1,267	$ 915	$ 316	$ (250)	$ 2,248
Total assets at September 30, 2007	$1,392,156	$ 45,425	$ 9,219	$(63,668)	$1,383,132
Nine months ended September 30, 2008					
Net interest income (expense)	$ 33,117	$ 152	$ 79	$ (1,016)	$ 32,332
Provision for loan losses	10,527	—	—	—	10,527
Noninterest income	885	13,344	4,588	(5)	18,812
Noninterest expense	25,914	8,878	3,155	—	37,947
Earnings (loss) before income taxes	(2,439)	4,618	1,512	(1,021)	2,670
Income tax expense (benefit)	(1,047)	1,664	541	(367)	791
Net earnings (loss)	$ (1,392)	$ 2,954	$ 971	$ (654)	$ 1,879
Total assets at September 30, 2008	$1,481,311	$ 49,263	$ 6,997	$(59,348)	$1,478,223

Table of Contents

	Banking	Wealth Management	Insurance	Other	Consolidated
		(dollars in thousands)			
Nine months ended September 30, 2007					
Net interest income (expense)	$ 25,608	$ 232	$ 100	$ (1,196)	$ 24,744
Provision for loan losses	2,853	—	—	—	2,853
Noninterest income	6,847	13,013	4,813	24	24,697
Noninterest expense	25,644	9,152	3,053	391	38,240
Earnings (loss) before income taxes	3,958	4,093	1,860	(1,563)	8,348
Income tax expense (benefit)	1,027	1,481	671	(512)	2,667
Net earnings (loss)	$ 2,931	$ 2,612	$ 1,189	$ (1,051)	$ 5,681
Total assets at September 30, 2007	$1,392,156	$ 45,425	$ 9,219	$(63,668)	$1,383,132

Banking

Our banking segment lost $620,000 for the three months ended September 30, 2008, compared with net earnings of $1.3 million for same period in 2007. Net interest income increased $2.6 million, or 27.4%, but was offset by an increase in the provision for loan losses of $4.2 million and a decrease in noninterest income of $1.3 million. The net loss for the nine months ended September 30, 2008 was $1.4 million, compared with earnings of $2.9 million for same period in 2007. Net interest income increased $7.5 million, or 29.3%, but was offset by an increase in the provision for loan losses of $7.7 million and a decrease in noninterest income of $6.0 million.

Net interest income for the three months ended September 30, 2008 increased $2.6 million, or 27.4%, compared with the same period of 2007. Net interest income for the nine months ended September 30, 2008 increased $7.5 million, or 29.3%, compared with the same period of 2007. The increase in both periods resulted primarily from an improvement in the net interest margin and an increase in the volume of interest-earning assets. The net interest margin improved as a result of a more optimal mix of assets and liabilities and a steepening yield curve. See the analysis of net interest income included in the section of this report captioned "—Net Interest Income."

The provision for loan losses for the three months ended September 30, 2008 totaled $5.2 million, compared with $1.0 million for the same period of 2007. The provision for loan losses for the nine months ended September 30, 2008 totaled $10.5 million, compared with $2.9 million for the same period of 2007. See analysis of the provision for loan losses included in the section of this report captioned "—Provision for Loan Losses."

Noninterest income for the three months ended September 30, 2008 decreased $1.3 million, compared with the same period in 2007. Noninterest income for the nine months ended September 30, 2008 decreased $6.0 million, compared with the same period of 2007. The decrease in both periods was due primarily to lower mortgage banking income.

Noninterest expense for the three months ended September 30, 2008 decreased $350,000, or 4.2%, compared with the same period in 2007, due primarily to lower incentive compensation. Noninterest expense for the nine months ended September 30, 2008 increased $270,000, or 1.1%, compared with the same period of 2007. The increase in expenses was due primarily to severance cost that was recorded in the first quarter of 2008.

Wealth Management

Net earnings for the three months ended September 30, 2008 decreased $121,000, or 13.2%, compared with the same period in 2007. The decrease in earnings was due primarily to a decrease in assets under management, which decreased 6.6% from September 30, 2007 compared with $2.6 billion as of September 30, 2008. Net earnings for the nine months ended September 30, 2008 increased $342,000, or 13.1%, compared with the same period in 2007, due to higher investment management fees in the first two quarters of 2008.

Noninterest income for the three months ended September 30, 2008 decreased $224,000, or 5.0%, compared with the same period in 2007, due primarily to the aforementioned decrease in assets under management. Noninterest income for the nine months ended September 30, 2008 increased $331,000, or 2.5%.

Noninterest expense for the three months ended September 30, 2008 was flat compared with the same period in 2007. Noninterest expense for the nine months ended September 30, 2008 decreased $274,000, or 3.0%.

Table of Contents

Insurance

Net earnings for the three months ended September 30, 2008 decreased $51,000, or 16.1%, compared with the same period of 2007. Net earnings for the nine months ended September 30, 2008 decreased $218,000, or 18.3%, compared with the same period of 2007. The decrease in both periods was due primarily to a soft property and casualty market, resulting in lower commission income.

Noninterest income for the three months ended September 30, 2008 decreased $62,000, or 4.2%, compared with the same period of 2007. Noninterest income for the nine months ended September 30, 2008 decreased $225,000, or 4.7%, compared with the same period in 2007. The decrease in both periods was due primarily to a soft property and casualty market.

Noninterest expense for the three months ended September 30, 2008 was flat compared with the same period of 2007. Noninterest expense for the nine months ended September 30, 2008 increased $102,000, or 3.3%, compared with the same period of 2007.

Other

"Other" consists of interest expense on our junior subordinated debentures, which is not allocated to the business segments. Interest expense on these borrowings decreased due to a refinance of $15.5 million of the debentures in April 2007. In connection with this refinance activity, we took a $391,000 charge in 2007 for early debt extinguishment, which is reflected in noninterest expense.

Financial Condition

Our total assets increased $77.0 million, or 5.5%, to $1.5 billion as of September 30, 2008 compared with total assets of $1.4 billion as of December 31, 2007. Our loan portfolio grew $101.2 million, or 9.2%, to $1.2 billion as of September 30, 2008. Our securities portfolio increased $11.1 million, or 7.6%, to $157.4 million compared with $146.3 million as of December 31, 2007. Shareholders' equity increased $3.5 million, or 2.2%, to $161.0 million compared with $157.5 million as of December 31, 2007.

Loan Portfolio

Our primary lending focus is to professional firms, privately-owned businesses, investors and affluent individuals. To these customers, we make commercial, commercial real estate, real estate construction, residential real estate and consumer loans. Total commercial loans, which consist of commercial, commercial real estate and real estate construction loans, accounted for 44.4% of our portfolio as of September 30, 2008. Total consumer loans, which consist of residential real estate, home equity lines of credit, consumer installment-indirect and other consumer loans, made up 55.6% of our loan portfolio as of September 30, 2008.

Total loans were $1.2 billion as of September 30, 2008, an increase of $101.2 million, or 9.2%, compared with loans of $1.1 billion as of December 31, 2007. The majority of loan growth occurred in residential real estate second lien, which increased $96.4 million, or 49.3%, and commercial real estate, which increased $28.5 million, or 10.3%, to $305.6 million. The majority of the loan growth was in Texas. This increase was partially offset by a $23.6 million, or 8.7%, decrease in residential first mortgage loans. This decrease was due primarily to the continued run off in our purchased first mortgage portfolio.

Table of Contents

The following table summarizes our loan portfolio by type of loan as of the dates indicated:

	September 30, 2008		December 31, 2007	
	Amount	Percent	Amount	Percent
	(dollars in thousands)			
Commercial:				
Commercial	$ 130,484	10.9%	$ 127,583	11.6%
Commercial real estate	305,570	25.5	277,047	25.3
Real estate construction	96,450	8.0	100,975	9.2
Total commercial	532,504	44.4	505,605	46.1
Consumer:				
Residential real estate first lien	247,765	20.7	271,346	24.7
Residential real estate second lien	291,933	24.3	195,583	17.8
Home equity lines	79,888	6.7	79,023	7.2
Consumer installment—indirect	16,461	1.4	25,262	2.3
Consumer other	29,894	2.5	20,449	1.9
Total consumer	665,941	55.6	591,663	53.9
Total loans receivable	$1,198,445	100.0%	$1,097,268	100.0%

Nonperforming Assets

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

	September 30, 2008	December 31, 2007
	(dollars in thousands)	
Nonaccrual loans	$ 21,142	$ 11,208
Accruing loans past due 90 days or more	23	2,183
Restructured loans (1)	—	—
Total nonperforming loans	21,165	13,391
Investment in real estate	2,215	835
Total nonperforming assets	$ 23,380	$ 14,226
Nonperforming assets to total loans and investment in real estate	1.95%	1.30%

(1) All troubled debt restructurings are included in nonaccrual loans.

Nonperforming assets were $23.4 million and $14.2 million as of September 30, 2008 and December 31, 2007. Nonperforming assets were impacted by the resolution of a $6.3 million loan to a Houston law firm during the second quarter of 2008. However, this reduction was offset by several commercial real estate loans in Florida totaling $7.7 million, and three residential construction loans in Houston totaling $8.9 million being placed on nonaccrual status. Our ratio of nonperforming assets to total loans and investment in real estate was 1.95% and 1.30% as of September 30, 2008 and December 31, 2007. Loans 90 days past due or more and still accruing were $23,000 at September 30, 2008, compared with $2.2 million at December 31, 2007. Investment in real estate was $2.2 million at September 30, 2008 compared with $835,000 at December 31, 2007, a $1.4 million increase due primarily to repossession of residential real estate in Houston.

Allowance for Loan Losses

Our allowance for loan losses is a reserve established through charges to earnings in the form of a provision for loan losses. The allowance for loan losses is maintained at a level which we believe is adequate to absorb all estimated losses on loans inherent in the loan portfolio. The amount of the allowance is affected by loan charge-offs, which decrease the allowance; recoveries on loans previously charged-off, which increase the allowance; and the provision for loan losses charged to earnings, which increases the allowance. In determining the provision for loan losses, we

Table of Contents

monitor fluctuations in the allowance resulting from actual charge-offs and recoveries and periodically review the size and composition of the loan portfolio in light of current and anticipated economic conditions. If actual losses exceed the amount of the allowance for loan losses, our earnings could be adversely affected.

The allowance for loan losses represents our estimate of the amount necessary to provide for estimated losses inherent in the loan portfolio in the normal course of business. Due to the uncertainty of risks in the loan portfolio, our judgment of the amount of the allowance necessary to absorb loan losses is approximate.

Net charge-offs for the first nine months of 2008 were $7.1 million, or 0.81% of average total loans on an annualized basis, compared with $1.2 million, or 0.17% of average total loans on an annualized basis for the first nine months of 2007. Net charge-offs in 2008 include a $2.1 million partial charge-off of a previously disclosed $6.3 million loan to a Houston law firm. Of the remaining net charge-offs, 65.7% were in the consumer loan categories.

[Table of Contents](#)

The following table summarizes the activity in our allowance for loan losses as of and for the periods indicated:

	As of and for the Nine Months Ended September 30, 2008	As of and for the Year Ended December 31, 2007
	(dollars in thousands)	
Average loans outstanding	$ 1,159,102	$ 972,760
Total loans outstanding at end of period	$ 1,198,445	$ 1,097,268
Allowance for loan losses at beginning of period	$ 11,161	$ 9,056
Charge-offs:		
Commercial:		
Commercial	(2,651)	(62)
Commercial real estate	(776)	—
Real estate construction	(422)	(79)
Total commercial	(3,849)	(141)
Consumer:		
Residential real estate first lien	(492)	(190)
Residential real estate second lien	(945)	(760)
Home equity lines	(1,336)	(334)
Consumer installment—indirect	(751)	(962)
Consumer other	(57)	(226)
Total consumer	(3,581)	(2,472)
Total charge-offs	(7,430)	(2,613)
Recoveries:		
Commercial:		
Commercial	28	46
Commercial real estate	6	—
Real estate construction	—	—
Total commercial	34	46
Consumer:		
Residential real estate first lien	23	34
Residential real estate second lien	59	178
Home equity lines	6	43
Consumer installment—indirect	124	294
Consumer other	116	94
Total consumer	328	643
Total recoveries	362	689
Net charge-offs	(7,068)	(1,924)
Provision for loan losses	10,527	4,029
Allowance for loan losses at end of period	$ 14,620	$ 11,161
Ratio of net charge-offs to average loans	0.81%	0.20%
Ratio of allowance for loan losses to period end loans	1.22	1.02
Ratio of allowance for loan losses to nonperforming loans	69.08	83.35

Table of Contents

Deposits

Our deposits averaged $1.1 billion for the nine months ended September 30, 2008 and $1.0 billion for the year ended December 31, 2007. As of September 30, 2008, core deposits (which consist of noninterest-bearing deposits, interest checking, money market and savings and time deposits less than $100,000) were $765.1 million, or 73.7%, of total deposits, while time deposits $100,000 and greater and brokered deposits made up 26.3% of total deposits. As of September 30, 2008, total deposits decreased $2.9 million, or 0.3%, to $1.0 billion compared with December 31, 2007.

The following table presents the daily average balance and weighted average rates paid on deposits for the periods indicated:

	Nine Months Ended September 30, 2008		Year Ended December 31, 2007	
	Average Balance	Average Rate	Average Balance	Average Rate
	(dollars in thousands)			
Noninterest-bearing deposits	$ 116,470	— %	$ 109,448	— %
Interest checking	189,969	1.55	172,701	2.97
Money market and savings	307,716	2.15	348,567	4.23
Time deposits less than $100,000	198,294	4.53	175,393	4.86
Core deposits	812,449	2.28	806,109	3.52
Time deposits $100,000 and greater	235,987	4.39	192,234	5.02
Brokered deposits	15,642	4.10	13,220	4.54
Total deposits	$1,064,078	2.78%	$1,011,563	3.82%

Borrowings, Repurchase Agreements and Junior Subordinated Debentures

We utilize borrowings to supplement deposits in funding our lending and investing activities. These borrowings are typically advances from the Federal Home Loan Bank of Dallas (FHLB), which have terms ranging from overnight to several years. All borrowings from the FHLB are collateralized by a blanket lien on Encore Bank's mortgage-related assets. Additionally, we borrow from customers using investment securities as collateral and have issued junior subordinated debentures to subsidiary trusts.

Our borrowings and repurchase agreements were $249.4 million as of September 30, 2008. The outstanding balance as of September 30, 2008 includes $195.0 million in long term advances and $54.3 million in repurchase agreements with clients. Included in the long term advances are $95.0 million of long term advances that have call provisions that are at the discretion of the FHLB which could shorten the maturity of the borrowings. Additionally, we had $108,000 in notes payable related to the acquisition of Town & Country.

We increased our borrowings and repurchase agreements $76.0 million, or 43.8%, to $249.4 million as of September 30, 2008 from $173.4 million as of December 31, 2007. The increase was due primarily to the addition of long term FHLB advances to fund the growth in our second mortgage portfolio.

Table of Contents

The following table summarizes our two issues of junior subordinated debentures outstanding as of September 30, 2008:

Description	Issuance and Call Dates (1)	Trust Preferred Securities Outstanding	Interest Rate as of September 30, 2008	Fixed/ Adjustable	Interest Rate Basis	Junior Subordinated Debt Owed to Trusts	Final Maturity Date
		(dollars in thousands)					
Encore Statutory Trust II	9/17/2003	$5,000	5.77%	Adjustable quarterly	3 month LIBOR + 2.95%	$5,155	9/24/2033
Encore Capital Trust III	4/19/2007	15,000	6.85%	Fixed rate (2)	6.85%(2)	15,464	4/19/2037

(1) Each issue of junior subordinated debentures is callable by us after five years from issuance date.
(2) The debentures bear a fixed interest rate until April 19, 2012, when the rate begins to float on a quarterly basis based on the 3 month LIBOR plus 1.75%.

Liquidity and Funding

Our liquidity represents our ability to meet cash demands as they arise. Such needs can develop from loan demand, deposit withdrawals or acquisition opportunities. Potential obligations resulting from the issuance of standby letters of credit and commitments to fund future borrowings to our loan customers also affect our liquidity needs. Many of these obligations and commitments are expected to expire without being drawn upon; therefore the total commitment amounts do not necessarily represent future cash requirements affecting our liquidity position.

Liquidity needs of a financial institution can be met from either assets or liabilities. On the asset side, our primary sources of liquidity are cash and due from banks, federal funds sold, maturities of securities and scheduled repayments and maturities of loans. On the liability side, our principal sources of liquidity are deposits, borrowed funds and the accessibility to money and capital markets. Client deposits are our largest source of funds. As of September 30, 2008, our year-to-date average deposits were $1.1 billion, or 72.4%, of average total assets.

Shareholders' Equity

Shareholders' equity increased $3.5 million, or 2.2%, to $161.0 million as of September 30, 2008 compared with $157.5 million as of December 31, 2007, primarily due to net earnings.

Regulatory Capital

We actively manage our capital. Our potential sources of capital are earnings and common or preferred equity. From time to time, we have issued trust preferred securities through a subsidiary trust either to fund organic growth or to support an acquisition. Trust preferred securities can be eligible for treatment as Tier 1 regulatory capital provided such securities comprise less than 25% of Tier 1 regulatory capital. Any amount above this limit can be eligible for treatment as Tier 2 capital. We currently have the capacity to issue additional trust preferred securities that would be treated as Tier 1 capital.

Each of the federal bank regulatory agencies has established minimum capital adequacy and leverage capital requirements for banking organizations. Encore Bank is subject to the capital adequacy requirements of the Office of the Comptroller of the Currency (OCC) and we, as a financial holding company, are subject to the capital adequacy requirements of the Federal Reserve. As of the most recent notification from the OCC, Encore Bank was categorized as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized "well capitalized", Encore Bank must maintain minimum Tier 1 leverage, Tier 1 risk-based and total risk-based capital ratios as set forth in the table below. There are no conditions or events since that notification that we believe have changed Encore Bank's capital position. We intend that Encore Bank will maintain a capital position that meets or exceeds the "well capitalized" requirements as defined by the OCC.

Table of Contents

The following table presents capital amounts and ratios for us and Encore Bank as of September 30, 2008:

	Actual		For Capital Adequacy Purposes		To Be Categorized as Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(dollars in thousands)					
Encore Bancshares, Inc.						
Leverage	$147,082	10.18%	$57,820	4.00%	N/A	N/A
Tier 1 risk-based	147,082	12.58	46,759	4.00	N/A	N/A
Total risked-based	162,102	13.87	93,519	8.00	N/A	N/A
Encore Bank, N.A.						
Leverage (1)	$117,615	8.17%	$57,560	4.00%	$ 71,950	5.00%
Tier 1 risk-based	117,615	10.09	46,646	4.00	69,969	6.00
Total risked-based	132,197	11.34	93,291	8.00	116,614	10.00

(1) As part of Encore Bank's conversion to a national bank, the OCC required that Encore Bank have a leverage ratio of at least 7.75% as of December 31, 2008.

Critical Accounting Policies

We have made no changes in our methods of application of our critical accounting policies from the information previously disclosed in the Critical Accounting Policies section of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2007.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in market risk from the information previously disclosed in the Asset/Liability Management section of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2007.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, an evaluation was carried out by our management, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

(b) Changes in Internal Control over Financial Reporting

During the third quarter of 2008, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II – Other Information

Item 1. Legal Proceedings

We are a defendant in legal actions arising from transactions conducted in the ordinary course of business. We believe, after consultation with legal counsel, that the ultimate liability, if any, arising from such actions will not have a material adverse effect on our consolidated financial statements.

Table of Contents

Item 1A. Risk Factors

Except for the addition of the risk factors described below, there has been no material change in the risk factors previously disclosed under "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2007.

The current economic environment poses significant challenges for us and could adversely affect our financial condition and results of operations.

We are operating in a challenging and uncertain economic environment, including generally uncertain conditions nationally and locally in our markets. Financial institutions continue to be affected by declines in the real estate market and constrained financial markets. We retain direct exposure to the residential and commercial real estate markets, and we are affected by these events. Continued declines in real estate values, home sales volumes and financial stress on borrowers as a result of the uncertain economic environment, including job losses, could have an adverse affect on our borrowers or their customers, which could adversely affect our financial conditions and results of operations. In addition, a possible national economic recession or further deterioration in local economic conditions in our markets could drive losses beyond that which is provided for in our allowance for loan losses and result in the following consequences:

- increases in loan delinquencies;
- increases in nonperforming assets and foreclosures;
- decreases in demand for our products and services, which could adversely affect our liquidity position; and
- decreases in the value of the collateral securing our loans, especially real estate, which could reduce customers' borrowing power.

The Treasury and the FDIC have initiated programs to address economic stabilization, yet the efficacy of these programs in stabilizing the economy and the banking system at large are uncertain. Further, details as to our participation or access to such programs and their subsequent impact on our business, prospects, financial condition and results of operations remain uncertain.

Current levels of market volatility are unprecedented and could adversely impact our results of operation and access to capital.

The capital and credit markets have been experiencing volatility and disruption for more than 12 months. In recent weeks, the volatility and disruption has reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and credit capacity for certain issuers without regard to those issuers' underlying financial strength. If the current levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience further adverse effects, which may be material, on our ability to access capital and on our results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable

Item 5. Other Information

Not applicable

Table of Contents

Item 6. Exhibits

3.1	Amended and Restated Articles of Incorporation of Encore Bancshares, Inc. (incorporated by reference to Exhibit 3.1 to Encore Bancshares, Inc.'s Registration Statement on Form S-1, Registration No. 333-142735 (S-1 Registration Statement)).
3.2	Articles of Amendment to Articles of Incorporation of Encore Bancshares, Inc. (incorporated by reference to Exhibit 3.2 to the S-1 Registration Statement).
3.3	Amended and Restated Bylaws of Encore Bancshares, Inc. (incorporated by reference to Exhibit 3.3 to the S-1 Registration Statement).
4.1	Form of specimen certificate representing shares of Encore Bancshares, Inc. common stock (incorporated by reference to Exhibit 4.1 to the S-1 Registration Statement).
31.1*	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended
31.2*	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended
32.1**	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed with this Quarterly Report on Form 10-Q

** Furnished with this Quarterly Report on Form 10-Q

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	Encore Bancshares, Inc.
	(Registrant)
November 5, 2008	/s/ James S. D'Agostino, Jr.
(Date)	James S. D'Agostino, Jr., Chief Executive Officer and President
November 5, 2008	/s/ L. Anderson Creel
(Date)	L. Anderson Creel, Chief Financial Officer, Executive Vice President and Treasurer

EX-31.1 2 dex311.htm SECTION 302 CERTIFICATION OF CEO

Exhibit 31.1

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, James S. D'Agostino, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Encore Bancshares, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 5, 2008	/s/ James S. D'Agostino, Jr.
(Date)	James S. D'Agostino, Jr., Chief Executive Officer and President

EX-31.2 3 dex312.htm SECTION 302 CERTIFICATION OF CFO

Exhibit 31.2

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, L. Anderson Creel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Encore Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 5, 2008	/s/ L. Anderson Creel
(Date)	L. Anderson Creel, Chief Financial Officer, Executive Vice President and Treasurer

EX-32.1 4 dex321.htm SECTION 906 CERTIFICATIONS OF CEO AND CFO

Exhibit 32.1

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, being the Chief Executive Officer and Chief Financial Officer of Encore Bancshares, Inc. (the Company), pursuant to 18 U.S.C. §1350 as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, do hereby certify to the best of their knowledge with respect to the Quarterly Report of the Company on Form 10-Q, as filed with the Securities and Exchange Commission for the quarter ended September 30, 2008 (the Report) that:

1. the Report fully complies with all requirements of Section 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods presented in the Report.

November 5, 2008	/s/ James S. D'Agostino, Jr.
(Date)	James S. D'Agostino, Jr., Chief Executive Officer and President
November 5, 2008	/s/ L. Anderson Creel
(Date)	L. Anderson Creel, Chief Financial Officer, Executive Vice President and Treasurer