National Bank Holdings Corp
Form 10-Q
November 07, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from to

Commission File Number: 001-35654

NATIONAL BANK HOLDINGS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	27-0563799
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

7800 East Orchard, Suite 300, Greenwood Village, Colorado 80111

(Address of principal executive offices) (Zip Code)

Registrant’s telephone, including area code: (720) 529-3336

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 No

Indicate by check mark whether the registrant has submitted electronically every interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of November 5, 2018, the registrant had outstanding 30,768,683 shares of Class A voting common stock, each with $0.01 par value per share, excluding 143,695 shares of restricted Class A common stock issued but not yet vested.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, notwithstanding that such statements are not specifically identified. Any statements about our expectations, beliefs, plans, predictions, forecasts, objectives, assumptions or future events or performance are not historical facts and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as “anticipate,” “believe,” “can,” “would,” “should,” “could,” “may,” “predict,” “seek,” “potential,” “will,” “estimate,” “t “continuing,” “ongoing,” “expect,” “intend” and similar words or phrases. These statements are only predictions and involve estimates, known and unknown risks, assumptions and uncertainties. We have based these statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, liquidity, results of operations, business strategy and growth prospects.

Forward-looking statements involve certain important risks, uncertainties and other factors, any of which could cause actual results to differ materially from those in such statements and, therefore, you are cautioned not to place undue reliance on such statements. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to:

our ability to execute our business strategy, as well as changes in our business strategy or development plans;

business and economic conditions generally and in the financial services industry;

economic, market, operational, liquidity, credit and interest rate risks associated with our business;

effects of any changes in trade, monetary and fiscal policies and laws, including the interest rate policies of the Federal Reserve Board;

changes imposed by regulatory agencies to increase our capital to a level greater than the current level required for well-capitalized financial institutions;

effects of inflation, as well as, interest rate, securities market and monetary supply fluctuations;

changes in the economy or supply-demand imbalances affecting local real estate values;

changes in consumer spending, borrowings and savings habits;

with respect to our mortgage business, our inability to negotiate our fees with Fannie Mae, Freddie Mac, Ginnie Mae or other investors for the purchase of our loans, our obligation to indemnify purchasers or to repurchase the related loans if they fail to meet certain criteria, higher rate of delinquencies and defaults as a result of the geographic concentration of our servicing portfolio, or the impact of interest rates on the value of our mortgage servicing rights;

our ability to identify potential candidates for, obtain regulatory approval for, and consummate, acquisitions or consolidations of financial institutions on attractive terms, or at all;

our ability to integrate acquisitions or consolidations and to achieve synergies, operating efficiencies and/or other expected benefits within expected time-frames, or at all, or within expected cost projections, and to preserve the goodwill of acquired financial institutions;

our ability to realize the anticipated benefits from enhancements or updates to our core operating systems from time to time without significant change in our client service or risk to our control environment;

our dependence on information technology and telecommunications systems of third party service providers and the risk of system failures, interruptions or breaches of security, including those that could result in disclosure or misuse of confidential or proprietary client or other information;

our ability to achieve organic loan and deposit growth and the composition of such growth;

changes in sources and uses of funds, including loans, deposits and borrowings;

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increased competition in the financial services industry, nationally, regionally or locally, resulting in, among other things, lower returns;

continued consolidation in the financial services industry;

our ability to maintain or increase market share and control expenses;

the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters;

the trading price of shares of the Company's stock;

the effects of tax legislation or challenges to our tax position;

our ability to realize deferred tax assets or the need for a valuation allowance, or the effects of changes in tax laws on our deferred tax assets;

costs and effects of changes in laws and regulations and of other legal and regulatory developments, including, but not limited to, changes in regulation that affect the fees that we charge, the resolution of legal proceedings or regulatory or other governmental inquiries, and the results of regulatory examinations, reviews or other inquiries; and changes in regulations that apply to us as a Colorado state-chartered bank;

technological changes;

the timely development and acceptance of new products and services and perceived overall value of these products and services by our clients;

changes in our management personnel and our continued ability to hire and retain qualified personnel;

ability to implement and/or improve operational management and other internal risk controls and processes and our reporting system and procedures;

regulatory limitations on dividends from our bank subsidiary;

changes in estimates of future loan reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements;

widespread natural and other disasters, dislocations, political instability, acts of war or terrorist activities, cyberattacks or international hostilities through impacts on the economy and financial markets generally or on us or our counterparties specifically;

a cyber-security incident, data breach or a failure of a key information technology system;

impact of reputational risk on such matters as business generation and retention;

other risks and uncertainties listed from time to time in the Company's reports and documents filed with the Securities and Exchange Commission; and

our success at managing the risks involved in the foregoing items.

Any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events or circumstances, except as required by applicable law.

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PART I: FINANCIAL INFORMATION

Item 1: FINANCIAL STATEMENTS

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Financial Condition (Unaudited)

(In thousands, except share and per share data)

	September 30, 2018	December 31, 2017
ASSETS		
Cash and due from banks	$ 110,959	$ 193,297
Interest bearing bank deposits	500	64,067
Cash and cash equivalents	111,459	257,364
Investment securities available-for-sale (at fair value)	796,549	855,345
Investment securities held-to-maturity (fair value of $242,370 and $256,771 at September 30, 2018 and December 31, 2017, respectively)	249,464	258,730
Non-marketable securities	16,975	15,030
Loans	3,905,311	3,178,947
Allowance for loan losses	(33,813)	(31,264)
Loans, net	3,871,498	3,147,683
Loans held for sale	80,506	4,629
Other real estate owned	35,135	10,491
Premises and equipment, net	110,824	93,708
Goodwill	115,027	59,630
Intangible assets, net	13,937	1,607
Other assets	183,730	139,248
Total assets	$ 5,585,104	$ 4,843,465
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing demand deposits	$ 1,089,631	$ 902,439
Interest bearing demand deposits	675,213	474,607
Savings and money market	1,729,563	1,484,463
Time deposits	1,119,625	1,118,050
Total deposits	4,614,032	3,979,559
Securities sold under agreements to repurchase	55,695	130,463
Federal Home Loan Bank advances	144,540	129,115
Other liabilities	97,772	71,921
Total liabilities	4,912,039	4,311,058
Shareholders' equity:		
Common stock, par value $0.01 per share: 400,000,000 shares authorized; 51,498,943 and 51,518,162 shares issued; 30,759,595 and	515	515

26,875,585 shares outstanding at September 30, 2018 and December 31, 2017, respectively		
Additional paid-in capital	1,013,314	970,668
Retained earnings	95,055	60,795
Treasury stock of 20,583,334 and 24,479,020 shares at September 30, 2018 and December 31, 2017, respectively, at cost	(415,605)	(493,329)
Accumulated other comprehensive loss, net of tax	(20,214)	(6,242)
Total shareholders' equity	673,065	532,407
Total liabilities and shareholders' equity	$ 5,585,104	$ 4,843,465

See accompanying notes to the consolidated interim financial statements.

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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations (Unaudited)

(In thousands, except share and per share data)

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Interest and dividend income:				
Interest and fees on loans	$ 49,181	$ 36,064	$ 141,994	$ 102,238
Interest and dividends on investment securities	6,289	6,005	19,625	19,108
Dividends on non-marketable securities	268	234	761	619
Interest on interest-bearing bank deposits	171	276	1,231	687
Total interest and dividend income	55,909	42,579	163,611	122,652
Interest expense:				
Interest on deposits	5,451	4,068	14,950	11,759
Interest on borrowings	686	613	1,856	1,380
Total interest expense	6,137	4,681	16,806	13,139
Net interest income before provision for loan losses	49,772	37,898	146,805	109,513
Provision for loan losses	807	3,880	2,721	9,700
Net interest income after provision for loan losses	48,965	34,018	144,084	99,813
Non-interest income:				
Service charges	4,592	3,585	13,473	10,458
Bank card fees	3,686	3,076	10,720	9,014
Mortgage banking income	7,819	668	24,701	1,716
Bank-owned life insurance income	463	475	1,361	1,417
Other non-interest income	1,429	1,611	4,290	7,149
OREO related income	72	136	913	449
Total non-interest income	18,061	9,551	55,458	30,203
Non-interest expense:				
Salaries and benefits	28,127	19,363	87,910	59,662
Occupancy and equipment	6,925	5,208	22,070	15,887
Telecommunications and data processing	2,186	1,702	8,653	4,841
Marketing and business development	1,128	683	3,589	1,878
FDIC deposit insurance	401	715	1,911	2,106
Bank card expenses	1,258	971	4,491	2,751
Professional fees	1,117	754	4,686	2,441
Other non-interest expense	2,564	2,700	9,515	7,839
Problem asset workout	665	1,636	2,221	3,389
Gain on OREO sales, net	(450)	(497)	(386)	(2,254)
Core deposit intangible asset amortization	511	1,370	1,817	4,110

Total non-interest expense	44,432	34,605	146,477	102,650
Income before income taxes	22,594	8,964	53,065	27,366
Income tax expense	4,354	1,733	8,849	2,668
Net income	$ 18,240	$ 7,231	$ 44,216	$ 24,698
Income per share—basic	$ 0.59	$ 0.27	$ 1.44	$ 0.92
Income per share—diluted	$ 0.58	$ 0.26	$ 1.41	$ 0.89
Weighted average number of common shares outstanding:				
Basic	30,869,683	26,947,821	30,700,977	26,902,128
Diluted	31,540,716	27,628,734	31,388,786	27,636,675

See accompanying notes to the consolidated interim financial statements.

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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Unaudited)

(In thousands)

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Net income	$ 18,240	$ 7,231	$ 44,216	$ 24,698
Other comprehensive (loss) income, net of tax:				
Securities available-for-sale:				
Net unrealized (losses) gains arising during the period, net of tax benefit (expense) of $786 and ($121) for the three months ended September 30, 2018 and 2017, respectively; and net of tax benefit (expense) of $3,776 and ($913) for the nine months ended September 30, 2018 and 2017, respectively	(2,499)	197	(11,471)	1,473
Less: amortization of net unrealized holding gains to income, net of tax benefit of $97 and $207 for the three months ended September 30, 2018 and 2017, respectively; and net of tax benefit of $270 and $642 for the nine months ended September 30, 2018 and 2017, respectively	(308)	(336)	(1,022)	(1,046)
Other comprehensive (loss) income	(2,807)	(139)	(12,493)	427
Comprehensive income	$ 15,433	$ 7,092	$ 31,723	$ 25,125

See accompanying notes to the consolidated interim financial statements.

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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

Nine months ended September 30, 2018 and 2017

(In thousands, except share and per share data)

	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Accumulated other comprehensive income (loss), net	Total
Balance, December 31, 2016	$ 514	$ 984,087	$ 55,454	$ (502,104)	$ (1,762)	$ 536,189
Net income	—	—	24,698	—	—	24,698
Stock-based compensation	—	2,771	—	—	—	2,771
Issuance of stock under purchase and equity compensation plans, including gain on reissuance of treasury stock of $5,080, net	1	(12,898)	—	5,850	—	(7,047)
Cash dividends declared ($0.25 per share)	—	—	(6,794)	—	—	(6,794)
Warrant exercise	—	(1,933)	—	1,933	—	—
Other comprehensive income	—	—	—	—	427	427
Balance, September 30, 2017	$ 515	$ 972,027	$ 73,358	$ (494,321)	$ (1,335)	$ 550,244
Balance, December 31, 2017	$ 515	$ 970,668	$ 60,795	$ (493,329)	$ (6,242)	$ 532,407
Net income	—	—	44,216	—	—	44,216
Stock-based compensation	—	3,244	—	—	—	3,244
Issuance of stock under purchase and equity compensation plans, including gain on reissuance of treasury stock of $7,947, net	—	(2,841)	—	9,754	—	6,913
Reissuance of treasury stock of 3,398,477 shares for acquisition of Peoples, Inc.	—	42,243	—	67,970	—	110,213

Cash dividends declared ($0.37 per share)	—	—	(11,461)	—	—	(11,461)
Reclassification of certain tax effects from accumulated other comprehensive income(1)	—	—	1,479	—	(1,479)	—
Cumulative effect adjustment(2)	—	—	26	—	—	26
Other comprehensive loss	—	—	—	—	(12,493)	(12,493)
Balance, September 30, 2018	$ 515	$ 1,013,314	$ 95,055	$ (415,605)	$ (20,214)	$ 673,065

(1) Related to the adoption of Accounting Standards Update No. 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. Refer to note 2 – Recent Accounting Pronouncements of our consolidated financial statements for further details.

(2) Related to the adoption of Accounting Standards Update No. 2017-12, Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities. Refer to note 2 – Recent Accounting Pronouncements of our consolidated financial statements for further details.

See accompanying notes to the consolidated interim financial statements.

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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	For the nine months ended September 30, 2018	2017
Cash flows from operating activities:		
Net income	$ 44,216	$ 24,698
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,721	9,700
Depreciation and amortization	8,908	9,862
Current income tax receivable	2,021	570
Deferred income taxes	5,271	2,116
Net excess tax benefit on stock-based compensation	(1,271)	(3,442)
Discount accretion, net of premium amortization on securities	2,292	1,953
Loan accretion	(18,192)	(18,936)
Gain on sale of mortgages, net	(22,109)	(1,716)
Origination of loans held for sale, net of repayments	(808,527)	(66,333)
Proceeds from sales of loans held for sale	809,419	75,619
Bank-owned life insurance income	(1,361)	(1,417)
Impairment on mortgage servicing rights	68	—
Originations of mortgage servicing rights	(25)	—
Gain on the sale of other real estate owned, net	(386)	(2,254)
Impairment on other real estate owned	220	766
(Loss) gain on sale of fixed assets	(2)	33
Gain from banking center divestitures	—	(2,886)
Stock-based compensation	3,244	2,771
Change in other assets	(19,712)	(2,299)
Change in other liabilities	16,275	9,917
Net cash provided by operating activities	23,070	38,722
Cash flows from investing activities:		
Purchase of FHLB stock	(9,577)	(7,377)
Proceeds from redemption of FHLB stock	12,411	6,789
Proceeds from maturities of investment securities held-to-maturity	48,340	55,083
Proceeds from maturities of investment securities available-for-sale	168,773	171,326
Proceeds from sales of investment securities available-for-sale	33,517	—
Proceeds from sales of non-marketable securities	67	—
Purchase of investment securities held-to-maturity	(40,735)	—
Purchase of investment securities available-for-sale	(42,199)	(98,503)
Net increase in loans	(202,863)	(273,127)
Purchases of premises and equipment, net	(5,033)	(1,769)
Proceeds from sales of loans	713	33,813
Proceeds from sales of other real estate owned	1,694	5,580
Net cash activity from acquisition	68,984	—
Net cash provided by (used in) investing activities	34,092	(108,185)

Cash flows from financing activities:		
Net (decrease) increase in deposits	(95,438)	80,579
(Decrease) increase in repurchase agreements	(74,768)	803
Advances from FHLB	573,994	263,129
FHLB payoffs	(592,395)	(172,679)
Issuance of stock under purchase and equity compensation plans	(2,139)	(7,125)
Proceeds from exercise of stock options	9,052	78
Payment of dividends	(11,373)	(6,898)
Net cash (used in) provided by financing activities	(193,067)	157,887
(Decrease) increase in cash, cash equivalents and restricted cash	(135,905)	88,424
Cash, cash equivalents and restricted cash at beginning of the year	257,364	152,736
Cash, cash equivalents and restricted cash at end of period	$ 121,459	$ 241,160
Supplemental disclosure of cash flow information during the period:		
Cash paid for interest	$ 14,853	$ 11,437
Net tax refunds	$ 2,489	$ 33
Supplemental schedule of non-cash investing activities:		
Loans transferred to other real estate owned at fair value	$ 24,919	$ 760
(Decrease) increase in loans purchased but not settled	$ (11,195)	$ 6,554
Loans transferred from loans held for sale to loans	$ 1,038	$ 4,406
Treasury stock reissued for acquisition	$ 110,213	$ —

See accompanying notes to the consolidated interim financial statements.

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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

September 30, 2018

Note 1 Basis of Presentation

National Bank Holdings Corporation ("NBHC" or the "Company") is a bank holding company that was incorporated in the State of Delaware in 2009 with the intent to acquire and operate financial services franchises and other complementary businesses in targeted markets. The Company is headquartered immediately south of Denver, in Greenwood Village, Colorado, and its primary operations are conducted through its wholly owned subsidiary, NBH Bank (the "Bank"), a Colorado state-chartered bank and a member of the Federal Reserve System. The Company provides a variety of banking products to both commercial and consumer clients through a network of 104 banking centers located primarily in Colorado and the greater Kansas City region, and through online and mobile banking products and services. On January 1, 2018, the Company completed the acquisition of Peoples, Inc. refer to note 3 – Acquisition Activities for further details.

The accompanying interim unaudited consolidated financial statements serve to update the National Bank Holdings Corporation Annual Report on Form 10-K for the year ended December 31, 2017 and include the accounts of the Company and its wholly owned subsidiary, NBH Bank. The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and where applicable, with general practices in the banking industry or guidelines prescribed by bank regulatory agencies. However, they may not include all information and notes necessary to constitute a complete set of financial statements under GAAP applicable to annual periods and accordingly should be read in conjunction with the financial information contained in the Company's most recent Form 10-K. The unaudited consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results presented. All such adjustments are of a normal recurring nature. All significant intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications of prior years' amounts are made whenever necessary to conform to current period presentation. The results of operations for the interim period is not necessarily indicative of the results that may be expected for the full year or any other interim period. All amounts are in thousands, except share and per share data, or as otherwise noted.

GAAP requires management to make estimates that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. By their nature, estimates are based on judgment and available information. Management has made significant estimates in certain areas, such as the amount and timing of expected cash flows from assets, the valuation of other real estate owned (“OREO”), the fair value adjustments on assets acquired and liabilities assumed, the valuation of core deposit intangible assets, the valuation of investment securities for other-than-temporary impairment (“OTTI”), the valuation of stock-based compensation, the valuation of mortgage servicing rights, the fair values of financial instruments, the allowance for loan losses (“ALL”) and contingent liabilities. Because of the inherent uncertainties associated with any estimation process and future changes in market and economic conditions, it is possible that actual results could differ significantly from those estimates.

Beginning in the first quarter 2018, loans previously referred to as "non 310-30 loans" are referred to as "originated and acquired loans," which include originated loans as well as acquired loans not accounted for under ASC 310-30. No amounts were reclassified resulting from this change in terminology.

The Company's significant accounting policies followed in the preparation of the unaudited consolidated financial statements are disclosed in note 2 of the audited financial statements for the year ended December 31, 2017 and are contained in the Company's Annual Report on Form 10-K. There have not been any significant changes to the application of significant accounting policies since December 31, 2017, except for the following additions:

Mortgage Servicing– Mortgage servicing rights (“MSRs”) associated with loans originated and sold, where servicing is retained, are initially capitalized at fair value and included in intangible assets, net on the consolidated statements of financial condition. For subsequent measurement purposes, the Company measures servicing assets based on the lower of cost or market using the amortization method. The values of these capitalized servicing rights are amortized as an offset to the loan servicing income earned in relation to the servicing revenue expected to be earned. The carrying values of these rights are reviewed quarterly for impairment based on the fair value of those assets. For purposes of impairment evaluation and measurement, management stratifies MSRs based on the predominant risk characteristics of the underlying loans, including loan type and loan term. If, by individual stratum, the carrying amount of these MSRs exceeds fair value, a valuation allowance is established and the impairment is recognized in mortgage banking income. If the fair value of impaired MSRs subsequently increases, management recognizes the increase in fair value in

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current period mortgage banking income and, through a reduction in the valuation allowance, adjusts the carrying value of the MSRs to a level not in excess of amortized cost.

Reserve for Mortgage Loan Repurchase Losses–The Company sells mortgage loans to various third parties, including government-sponsored entities, under contractual provisions that include various representations and warranties that typically cover ownership of the loan, compliance with loan criteria set forth in the applicable agreement, validity of the lien securing the loan, absence of delinquent taxes or liens against the property securing the loan, and similar matters. The Company may be required to repurchase the mortgage loans with identified defects, indemnify the investor or insurer, or reimburse the investor for credit loss incurred on the loan (collectively “repurchase”) in the event of a material breach of such contractual representations or warranties. Risk associated with potential repurchases or other forms of settlement is managed through underwriting and quality assurance practices.

The Company establishes mortgage repurchase reserves related to various representations and warranties that reflect management’s estimate of losses based on a combination of factors. Such factors incorporate actual and historic loss history, delinquency trends in the portfolio and economic conditions. The Company establishes a reserve at the time loans are sold and quarterly updates the reserve estimate during the estimated loan life. The repurchase reserve is included in other liabilities on the consolidated statements of financial condition.

Note 2 Recent Accounting Pronouncements

Revenue from Contracts with Customers—In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers. This update supersedes revenue recognition requirements in ASC Topic 605, Revenue Recognition, including most industry-specific revenue recognition guidance in the FASB Accounting Standards Codification (“ASC”). The new guidance stipulates that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides specific steps that entities should apply in order to achieve this principle. The amendments are effective for interim and annual periods beginning after December 15, 2017, with early application permitted for interim and annual periods beginning after December 15, 2016. ASU 2014-09 allows for either full retrospective or modified retrospective adoption.

The new guidance does not apply to revenue associated with financial assets and liabilities including loans, leases, securities, and derivatives that are accounted for under other GAAP. Accordingly, the majority of the Company’s revenues are not affected. The Company adopted ASU No. 2014-09 on January 1, 2018 utilizing the modified retrospective approach. Additionally, the Company has determined certain service charges, bank card fees and real estate sales are within the scope of the ASU, but has not identified changes to the timing or amount of revenue recognition. Accounting policies and procedures did not change materially as the principles of revenue recognition from the ASU are largely consistent with existing guidance and current practices applied by the Company. Refer to note 11 of our consolidated financial statements for required disclosures under the new standard.

Leases—In February 2016, the FASB issued ASU 2016-02, Leases. The guidance in ASU 2016-02 supersedes the lease recognition requirements in ASC Topic 840, Leases. The new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statements. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. ASU 2016-02 will be effective for the Company on January 1, 2019 and initially required transition using a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. In July 2018, the Financial Accounting Standards Board issued ASU 2018-11 which, among other things, provides an additional transition method that allows entities to not apply the guidance in ASU 2016-02 in the comparative periods presented in the financial statements and instead recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. We expect to elect to apply certain practical expedients provided under ASU 2016-02 whereby we will not reassess (i) whether any expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases and (iii) initial direct costs for any existing leases. We also do not expect to apply the recognition requirements of ASU 2016-02 to any short-term leases (as defined by related accounting guidance). The Company has reviewed all existing lease agreements for which the amended guidance is to be applied, and it does not expect the adoption of the new standard to have a material impact on its results of operations or balance sheet as a result of the recognition of right-to-use assets and lease liabilities related to operating leases. The most significant effects of the adoption of this guidance will be additional financial statement disclosures.

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Financial Instruments - Credit Losses—In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments. This update replaces the current incurred loss methodology for recognizing credit losses with a current expected credit loss model, which requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This amendment broadens the information that an entity must consider in developing its expected credit loss estimates. Additionally, the update amends the accounting for credit losses for available-for-sale debt securities and purchased financial assets with a more-than-insignificant amount of credit deterioration since origination. This update requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of a company's loan portfolio. The amendments in this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption in fiscal years beginning after December 15, 2018 is permitted. The amendment requires the use of the modified retrospective approach for adoption. The Company is in the process of evaluating the impact of the ASU's adoption on the Company's consolidated financial statements.

Derivatives and Hedging - Targeted Improvements to Accounting for Hedging Activities—In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities. The purpose of this updated guidance is to better align a company's financial reporting for hedging activities with the economic objectives of those activities. ASU 2017-12 is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2018. Early adoption is permitted, including in an interim period. ASU 2017-12 requires a modified retrospective transition method in which the Company will recognize the cumulative effect of the change on the opening balance of each affected component of equity in the consolidated statements of financial condition as of the date of adoption. The Company adopted ASU 2017-12 during the first quarter of 2018 and recorded a cumulative effect adjustment of $26 thousand within equity in the consolidated statements of financial condition.

Reclassification of Certain Tax Effects—In February 2018, the FASB issued ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This update allows a reclassification from accumulated other comprehensive income (AOCI) to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The amendments eliminate the stranded tax effects that were created as a result of the reduction of historical U.S. federal corporate income tax rate to the newly enacted U.S. federal corporate income tax rate. The update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted, and is to be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. The Company early adopted ASU 2018-02 in the first quarter of 2018, resulting in a $1.5 million reclassification from accumulated other comprehensive loss to retained earnings on the consolidated statements of financial condition and the consolidated statements of changes in shareholders' equity.

Other Pronouncements—The Company early adopted ASU 2018-15, Intangibles – Goodwill and Other – Internal-Use Software: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract (Subtopic 350-40) on a prospective basis with no material impact on its financial statements. The Company also adopted ASU 2016-01, Financial Instruments - Recognition and Measurement of Financial Assets and Financial Liabilities (Topic 825), ASU 2016-18, Restricted Cash (a consensus of the FASB Emerging Issues Task

Force, ASU 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments and ASU 2017-05 Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20) with no material impact on its financial statements.

The Company reviewed ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment and ASU 2018-07, Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting and does not expect the adoption of these pronouncements to have a material impact on its financial statements.

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Note 3 Acquisition Activities

On January 1, 2018, the Company completed its acquisition of Peoples, Inc. (“Peoples”), the bank holding company of Colorado-based Peoples National Bank and Kansas-based Peoples Bank. Immediately following the completion of the acquisition, Peoples National Bank and Peoples Bank merged into NBH Bank. Pursuant to the merger agreement executed in June 2017, the Company paid $36.2 million of cash consideration and 3,398,477 shares of the Company’s Class A common stock in exchange for all of the outstanding common stock of Peoples. Included in the cash consideration is $10.0 million of restricted cash placed in escrow for certain potential liabilities for which the Company is indemnified pursuant to the merger agreement. The restricted cash is included in other assets in the Company’s consolidated statements of financial condition at September 30, 2018. The transaction has a value of $146.4 million in the aggregate, based on the Company’s closing price of $32.43 on the acquisition date. Acquisition-related costs of $0.0 million and $8.0 million were included in the Company’s consolidated statements of operations for the three and nine months ended September 30, 2018. The financial results of Peoples are included in the financial results of the Company subsequent to the acquisition date.

The Company determined that this acquisition constitutes a business combination as defined in ASC Topic 805, Business Combinations. Accordingly, as of the date of the acquisition, the Company recorded the assets acquired and liabilities assumed at fair value. The Company determined fair values in accordance with the guidance provided in ASC Topic 820, Fair Value Measurements and Disclosures. Fair value is established by discounting the expected future cash flows with a market discount rate for like maturities and risk instruments. The estimation of expected future cash flows, market conditions and other future events and actual results could differ materially. The determination of the fair values of fixed assets, loans, OREO, core deposit intangible, mortgage servicing rights and mortgage repurchase reserve involves a high degree of judgment and complexity. The Company has made the determination of fair values using the best information available at the time; however, purchase accounting is not complete and the assumptions used are subject to change and, if changed, could have a material effect on the Company's financial position and results of operations.

The table below summarizes the net assets acquired (at fair value) and consideration transferred in connection with the Peoples acquisition:

Assets:	
Cash and due from banks	$ 105,173
Investment securities available-for-sale	118,512
Non-marketable securities	4,796
Loans	542,707
Loans held for sale	54,260
Other real estate owned	1,253
Premises and equipment	18,584
Core deposit intangible asset	10,477
Mortgage servicing rights	4,301

Other assets	15,361
Total assets acquired	$ 875,424
Liabilities:	
Total deposits	729,911
FHLB borrowings	33,825
Other liabilities	20,683
Total liabilities assumed	$ 784,419
Identifiable net assets acquired	$ 91,005
Consideration:	
NBHC common stock paid at January 1, 2018, closing price of $32.43	$ 110,213
Cash	36,189
Total	$ 146,402
Estimated goodwill created	$ 55,397

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In connection with the Peoples acquisition, the Company recorded $55.4 million of goodwill, a $10.5 million core deposit intangible asset, a $4.3 million mortgage servicing rights intangible asset and a $4.0 million mortgage repurchase reserve, included in other liabilities. The core deposit intangible will be amortized straight-line over ten years and the mortgage servicing rights intangible is amortized in proportion to and over the period of the estimated net servicing income. The Federal Home Loan Bank ("FHLB") borrowings of $33.8 million were paid off during the first quarter of 2018.

The fair value of the acquired assets and liabilities noted in the table may change during the provisional period, which may last up to twelve months subsequent to the acquisition date. The Company may obtain additional information to refine the valuation of the acquired assets and liabilities and adjust the recorded fair value. Adjustments recorded to the acquired assets and liabilities will be applied prospectively in accordance with ASU 2015-16.

At the date of acquisition, the gross contractual amounts receivable, inclusive of all principal and interest, was $713.6 million. The Company's best estimate of the contractual principal cash flows for loans not expected to be collected was $6.1 million.

The following pro forma information combines the historical results of Peoples and the Company. In accordance with the merger agreement, the Peoples national mortgage business was wound down prior to acquisition. Accordingly, the pro forma information excludes the results of the Peoples national mortgage business for prior periods presented. The pro forma financial information does not include the potential impacts of possible business model changes, current market conditions, revenue enhancements, expense efficiencies, or other factors. If the Peoples acquisition had been completed on January 1, 2017, pro forma total revenue for the Company would have been approximately $67.8 million and $69.0 million for the three months ended September 30, 2018 and 2017, respectively. Pro forma net income for the Company would have been approximately $18.2 million and $10.4 million for the three months ended September 30, 2018 and 2017, respectively. Pro forma basic and dilutive earnings per share for the Company would have been $0.59 and $0.58 for the three months ended September 30, 2018, respectively, and $0.34 and $0.34 for the three months ended September 30, 2017, respectively.

If the Peoples acquisition had been completed on January 1, 2017, pro forma total revenue for the Company would have been approximately $202.3 million and $201.0 million for the nine months ended September 30, 2018 and 2017, respectively. Pro forma net income for the Company would have been approximately $50.5 million and $32.0 million for the nine months ended September 30, 2018 and 2017, respectively. Pro forma basic and dilutive earnings per share for the Company would have been $1.65 and $1.61 for the nine months ended September 30, 2018, respectively, and $1.06 and $1.03 for the nine months ended September 30, 2017, respectively.

For the three and nine months ended September 30, 2018, the pro forma information reflects adjustments made to exclude acquisition-related expenses of the Company of $0.0 million and $8.0 million, respectively. For the three months ended September 30, 2017, the pro-forma information reflects adjustments made to exclude acquisition-related expenses of the Company of $0.4 million and include estimated amortization and accretion of purchase discounts and premiums of $0.2 million in addition to estimated amortization of acquired identifiable intangibles of $0.3 million. For the nine months ended September 30, 2017, the pro-forma information reflects adjustments made to exclude acquisition-related expenses of the Company of $0.7 million and include estimated amortization and accretion of purchase discounts and premiums of $0.7 million in addition to estimated amortization of acquired identifiable intangibles of $0.8 million. The pro forma information is theoretical in nature and not necessarily indicative of future consolidated results of operations of the Company or the consolidated results of operations which would have resulted had the Company acquired Peoples during the periods presented.

The Company has determined that it is impractical to report the amounts of revenue and earnings of legacy Peoples since the acquisition date due to the integration of operations shortly after the acquisition date. Accordingly, reliable and separate complete revenue and earnings information is no longer available. In addition, such amounts would require significant estimates related to the proper allocation of merger cost savings that cannot be objectively made.

Note 4 Investment Securities

The Company’s investment securities portfolio is comprised of available-for-sale and held-to-maturity investment securities. These investment securities totaled $1.0 billion at September 30, 2018 and included $0.8 billion of available-for-sale securities and $0.2 billion of held-to-maturity securities. At December 31, 2017, investment securities totaled $1.1 billion and included $0.8 billion of available-for-sale securities and $0.3 billion of held-to-maturity securities.

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Available-for-sale

At September 30, 2018 and December 31, 2017, the Company held $796.5 million and $855.3 million of available-for-sale investment securities, respectively. Available-for-sale securities are summarized as follows as of the dates indicated:

	September 30, 2018			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities ("MBS"):				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ 158,227	$ 1,176	$ (3,090)	$ 156,313
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	667,864	8	(28,834)	639,038
Municipal securities	739	—	(10)	729
Other securities	469	—	—	469
Total investment securities available-for-sale	$ 827,299	$ 1,184	$ (31,934)	$ 796,549

	December 31, 2017			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities:				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ 167,269	$ 2,371	$ (992)	$ 168,648
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	702,107	351	(17,228)	685,230
Municipal securities	1,054	—	(6)	1,048
Other securities	419	—	—	419
Total investment securities available-for-sale	$ 870,849	$ 2,722	$ (18,226)	$ 855,345

At September 30, 2018 and December 31, 2017, mortgage-backed securities represented primarily all of the Company's available-for-sale investment portfolio and all mortgage-backed securities were backed by government sponsored enterprises ("GSE") collateral such as Federal Home Loan Mortgage Corporation ("FHLMC") and Federal National Mortgage Association ("FNMA"), and the government sponsored agency Government National Mortgage Association ("GNMA").

The tables below summarize the available-for-sale securities with unrealized losses as of the dates shown, along with the length of the impairment period:

	September 30, 2018					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Mortgage-backed securities:						
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ 76,124	$ (1,947)	$ 36,292	$ (1,142)	$ 112,416	$ (3,089)
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	289,627	(6,960)	345,438	(21,874)	635,065	(28,834)
Municipal securities	510	(10)	—	—	510	(10)
Total	$ 366,260	$ (8,918)	$ 381,730	$ (23,016)	$ 747,990	$ (31,934)

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	December 31, 2017					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Mortgage-backed securities:						
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ 62,178	$ (408)	$ 36,086	$ (584)	$ 98,264	$ (992)
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	162,346	(830)	412,967	(16,398)	575,313	(17,228)
Municipal securities	514	(6)	—	—	514	(6)
Total	$ 225,038	$ (1,244)	$ 449,053	$ (16,982)	$ 674,091	$ (18,226)

The unrealized losses in the Company's investment portfolio at September 30, 2018 were caused by changes in interest rates. The portfolio included 220 securities, having an aggregate fair value of $748.0 million, which were in an unrealized loss position at September 30, 2018, compared to 87 securities, with an aggregate fair value of $674.1 million at December 31, 2017.

Management evaluated all of the available for sale securities in an unrealized loss position at September 30, 2018 and December 31, 2017, and concluded no other-than-temporary impairment (“OTTI”) existed at September 30, 2018 or December 31, 2017. During the nine months ended September 30, 2018, the Company recorded a $0.2 million recovery included in other non-interest expense related to one security with an aggregate fair value of $0.3 million which had a previously incurred OTTI impairment of $0.2 million during the nine months ended September 30, 2017. The unrealized losses on the remaining securities in an unrealized loss position were caused by changes in interest rates. The Company has no intention to sell these securities before recovery of their amortized cost and believes it will not be required to sell the securities before the recovery of their amortized cost.

Certain securities are pledged as collateral for public deposits, securities sold under agreements to repurchase, and to secure borrowing capacity at the Federal Reserve Bank and FHLB, if needed. The fair value of available-for-sale investment securities pledged as collateral totaled $294.5 million and $334.6 million at September 30, 2018 and at December 31, 2017, respectively.

Mortgage-backed securities do not have a single maturity date and actual maturities may differ from contractual maturities depending on the repayment characteristics and experience of the underlying financial instruments. The estimated weighted average life of the available-for-sale mortgage-backed securities portfolio was 3.5 years and 3.4

years at September 30, 2018 and December 31, 2017, respectively. This estimate is based on assumptions and actual results may differ. At September 30, 2018 and December 31, 2017, the duration of the total available-for-sale investment portfolio was 3.1 years and 3.1 years, respectively.

As of September 30, 2018, municipal securities with an amortized cost and fair value of $0.2 million were due after one year through five years and municipal securities with an amortized cost and fair value of $0.5 million were due after five years through ten years. Other securities of $0.5 million as of September 30, 2018, have no stated contractual maturity date.

Held-to-maturity

At September 30, 2018 and December 31, 2017, the Company held $249.5 million and $258.7 million of held-to-maturity investment securities, respectively. Held-to-maturity investment securities are summarized as follows as of the dates indicated:

	September 30, 2018			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities:				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ 166,955	$ —	$ (4,247)	$ 162,708
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	82,509	—	(2,847)	79,662
Total investment securities held-to-maturity	$ 249,464	$ —	$ (7,094)	$ 242,370

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	December 31, 2017			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities:				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ 204,352	$ 151	$ (455)	$ 204,048
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	54,378	—	(1,655)	52,723
Total investment securities held-to-maturity	$ 258,730	$ 151	$ (2,110)	$ 256,771

The tables below summarize the held-to-maturity securities with unrealized losses as of the dates shown, along with the length of the impairment period:

	September 30, 2018					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Mortgage-backed securities:						
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ 148,167	$ (3,674)	$ 14,541	$ (573)	$ 162,708	$ (4,247)
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	41,705	(686)	37,957	(2,161)	79,662	(2,847)
Total	$ 189,872	$ (4,360)	$ 52,498	$ (2,734)	$ 242,370	$ (7,094)

	December 31, 2017					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Mortgage-backed securities:						
Residential mortgage pass-through securities issued or guaranteed by U.S.	$ 149,182	$ (220)	$ 17,506	$ (235)	$ 166,688	$ (455)

Government agencies or sponsored enterprises						
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	6,460	(65)	46,264	(1,590)	52,724	(1,655)
Total	$ 155,642	$ (285)	$ 63,770	$ (1,825)	$ 219,412	$ (2,110)

The held-to-maturity portfolio included 52 securities, having an aggregate fair value of $242.4 million, which were in an unrealized loss position at September 30, 2018, compared to 36 securities, with a fair value of $219.4 million, at December 31, 2017.

The unrealized losses in the Company's investments at September 30, 2018 and December 31, 2017 were caused by changes in interest rates. Management evaluated all of the held-to-maturity securities in an unrealized loss position and concluded that no OTTI existed at September 30, 2018 or December 31, 2017. The Company has no intention to sell these securities before the recovery of their amortized cost and believes it will not be required to sell the securities before the recovery of their amortized cost.

The carrying value of held-to-maturity investment securities pledged as collateral totaled $166.9 million and $142.0 million at September 30, 2018 and December 31, 2017, respectively.

Actual maturities of mortgage-backed securities may differ from scheduled maturities depending on the repayment characteristics and experience of the underlying financial instruments. The estimated weighted average expected life of the held-to-maturity mortgage-backed securities portfolio as of September 30, 2018 and December 31, 2017 was 3.0 years and 3.1 years, respectively. This estimate is based on assumptions and actual results may differ. The duration of the total held-to-maturity investment portfolio was 2.8 years and 2.8 years as of September 30, 2018 and December 31, 2017, respectively.

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Note 5 Loans

The loan portfolio is comprised of loans originated by the Company and loans that were acquired in connection with the Company’s acquisitions. Beginning in the first quarter 2018, loans previously referred to as "non 310-30 loans" are referred to as "originated and acquired loans," which include originated loans as well as acquired loans not accounted for under ASC 310-30. No amounts were reclassified resulting from this change in terminology.

The tables below show the loan portfolio composition including carrying value by segment of originated and acquired loans and loans accounted for under ASC Topic 310-30, Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality, as of the dates shown. The carrying value of originated and acquired loans is net of discounts, fees, costs and fair value marks of $11.4 million and $4.3 million as of September 30, 2018 and December 31, 2017, respectively.

	September 30, 2018			
	Originated and acquired loans	ASC 310-30 loans	Total loans	% of total
Commercial	$ 2,419,833	$ 22,258	$ 2,442,091	62.5%
Commercial real estate non-owner occupied	569,401	41,842	611,243	15.7%
Residential real estate	814,506	10,721	825,227	21.1%
Consumer	26,650	100	26,750	0.7%
Total	$ 3,830,390	$ 74,921	$ 3,905,311	100.0%

	December 31, 2017			
	Originated and acquired loans	ASC 310-30 loans	Total loans	% of total
Commercial	$ 1,845,130	$ 29,475	$ 1,874,605	59.0%
Commercial real estate non-owner occupied	485,141	77,908	563,049	17.7%
Residential real estate	703,478	12,759	716,237	22.5%
Consumer	24,575	481	25,056	0.8%
Total	$ 3,058,324	$ 120,623	$ 3,178,947	100.0%

Delinquency for originated and acquired loans is shown in the following tables at September 30, 2018 and December 31, 2017:

	September 30, 2018							
	30-59 days past due	60-89 days past due	Greater than 90 days past due	Total past due	Current	Total originated and acquired loans	Loans > 90 days past due and still accruing	Non-accrual
Originated and acquired loans:								
Commercial:								
Commercial and industrial	$ 4,003	$ 2,050	$ 4,983	$ 11,036	$ 1,743,570	$ 1,754,606	$ 148	$ 5,951
Owner occupied commercial real estate	—	302	2,759	3,061	405,640	408,701	—	7,027
Agriculture	—	150	706	856	213,050	213,906	—	773
Energy	—	—	848	848	41,772	42,620	—	848
Total commercial	4,003	2,502	9,296	15,801	2,404,032	2,419,833	148	14,599
Commercial real estate non-owner occupied:								
Construction	—	127	1,081	1,208	91,718	92,926	—	1,081
Acquisition/development	—	—	17	17	22,322	22,339	—	130
Multifamily	—	—	—	—	76,090	76,090	—	—
Non-owner occupied	—	—	132	132	377,914	378,046	132	581
Total commercial real estate	—	127	1,230	1,357	568,044	569,401	132	1,792
Residential real estate:								
Senior lien	1,184	1,197	1,833	4,214	713,616	717,830	280	7,181
Junior lien	582	66	105	753	95,923	96,676	—	841
Total residential real estate	1,766	1,263	1,938	4,967	809,539	814,506	280	8,022
Consumer	198	1	11	210	26,440	26,650	—	45
Total originated and acquired loans	$ 5,967	$ 3,893	$ 12,475	$ 22,335	$ 3,808,055	$ 3,830,390	$ 560	$ 24,458

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	December 31, 2017							
	30-59 days past due	60-89 days past due	Greater than 90 days past due	Total past due	Current	Total originated and acquired loans	Loans > 90 days past due and still accruing	Non-accrual
Originated and acquired loans:								
Commercial:								
Commercial and industrial	$ 554	$ 117	$ 1,389	$ 2,060	$ 1,373,962	$ 1,376,022	$ 150	$ 7,767
Owner occupied commercial real estate	696	—	1,983	2,679	270,074	272,753	—	3,478
Agriculture	585	—	701	1,286	137,609	138,895	—	2,003
Energy	—	—	1,645	1,645	55,815	57,460	—	1,645
Total commercial	1,835	117	5,718	7,670	1,837,460	1,845,130	150	14,893
Commercial real estate non-owner occupied:								
Construction	—	—	179	179	107,502	107,681	—	179
Acquisition/development	1,097	—	—	1,097	13,318	14,415	—	—
Multifamily	—	—	—	—	26,947	26,947	—	—
Non-owner occupied	56	—	574	630	335,468	336,098	—	605
Total commercial real estate	1,153	—	753	1,906	483,235	485,141	—	784
Residential real estate:								
Senior lien	1,167	885	1,396	3,448	643,034	646,482	—	4,724
Junior lien	233	91	41	365	56,631	56,996	—	459
Total residential real estate	1,400	976	1,437	3,813	699,665	703,478	—	5,183
Consumer	157	6	5	168	24,407	24,575	—	140
Total originated and acquired loans	$ 4,545	$ 1,099	$ 7,913	$ 13,557	$ 3,044,767	$ 3,058,324	$ 150	$ 21,000

Loans are considered past due or delinquent when the contractual principal or interest due in accordance with the terms of the loan agreement remains unpaid after the due date of the scheduled payment. Pooled loans accounted for under ASC 310-30 that are 90 days or more past due and still accreting are generally considered to be performing and therefore are not included in the tables above. Non-accrual loans include non-accrual loans and troubled debt restructurings on non-accrual status. Non-accrual originated and acquired loans totaled $24.5 million at September 30, 2018, increasing $3.5 million, or 16.5% from December 31, 2017.

The Company’s internal risk rating system uses a series of grades that reflect its assessment of the credit quality of loans based on an analysis of the borrower's financial condition, liquidity and ability to meet contractual debt service requirements. Loans that are perceived to have acceptable risk are categorized as “Pass” loans. “Special mention” loans represent loans that have potential credit weaknesses that deserve close attention. Special mention loans include borrowers that have potential weaknesses or unwarranted risks that, unless corrected, may threaten the borrower's ability to meet debt service requirements. However, these borrowers are still believed to have the ability to respond to and resolve the financial issues that threaten their financial situation. Loans classified as “Substandard” have a well-defined credit weakness and are inadequately protected by the current paying capacity of the obligor or of the collateral pledged, if any. Although these loans are identified as potential problem loans, they may never become non-performing. Substandard loans have a distinct possibility of loss if the deficiencies are not corrected. “Doubtful” loans are loans that management believes the collection of payments in accordance with the terms of the loan agreement are highly questionable and improbable. Doubtful loans are deemed impaired and put on non-accrual status.

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Credit exposure for all loans as determined by the Company's internal risk rating system was as follows as of September 30, 2018 and December 31, 2017, respectively:

	September 30, 2018				
	Pass	Special mention	Substandard	Doubtful	Total
Originated and acquired loans:					
Commercial:					
Commercial and industrial	$ 1,719,659	$ 9,052	$ 24,583	$ 1,312	$ 1,754,606
Owner occupied commercial real estate	369,711	27,267	11,639	84	408,701
Agriculture	210,243	2,765	865	33	213,906
Energy	41,772	—	848	—	42,620
Total commercial	2,341,385	39,084	37,935	1,429	2,419,833
Commercial real estate non-owner occupied:					
Construction	90,907	811	1,208	—	92,926
Acquisition/development	22,209	—	130	—	22,339
Multifamily	76,090	—	—	—	76,090
Non-owner occupied	356,102	20,322	1,622	—	378,046
Total commercial real estate	545,308	21,133	2,960	—	569,401
Residential real estate:					
Senior lien	706,386	3,604	7,840	—	717,830
Junior lien	95,258	414	1,004	—	96,676
Total residential real estate	801,644	4,018	8,844	—	814,506
Consumer	26,604	1	45	—	26,650
Total originated and acquired loans	$ 3,714,941	$ 64,236	$ 49,784	$ 1,429	$ 3,830,390
Loans accounted for under ASC 310-30:					
Commercial	$ 18,182	$ 1,055	$ 3,021	$ —	$ 22,258
Commercial real estate non-owner occupied	40,669	254	919	—	41,842
Residential real estate	8,284	932	1,501	—	10,717
Consumer	—	—	104	—	104
Total loans accounted for under ASC 310-30	$ 67,135	$ 2,241	$ 5,545	$ —	$ 74,921
Total loans	$ 3,782,076	$ 66,477	$ 55,329	$ 1,429	$ 3,905,311

	December 31, 2017				
	Pass	Special mention	Substandard	Doubtful	Total

Originated and acquired loans:					
Commercial:					
Commercial and industrial	$ 1,349,116	$ 10,829	$ 14,824	$ 1,253	$ 1,376,022
Owner occupied commercial real estate	250,224	17,030	5,424	75	272,753
Agriculture	118,068	18,824	1,870	133	138,895
Energy	55,814	—	1,646	—	57,460
Total commercial	1,773,222	46,683	23,764	1,461	1,845,130
Commercial real estate non-owner occupied:					
Construction	107,502	—	179	—	107,681
Acquisition/development	14,415	—	—	—	14,415
Multifamily	24,817	—	2,130	—	26,947
Non-owner occupied	333,225	1,396	1,477	—	336,098
Total commercial real estate	479,959	1,396	3,786	—	485,141
Residential real estate:					
Senior lien	641,294	91	5,097	—	646,482
Junior lien	56,172	—	824	—	56,996
Total residential real estate	697,466	91	5,921	—	703,478
Consumer	24,432	1	142	—	24,575
Total originated and acquired loans	$ 2,975,079	$ 48,171	$ 33,613	$ 1,461	$ 3,058,324
Loans accounted for under ASC 310-30:					
Commercial	$ 23,954	$ 1,070	$ 4,451	$ —	$ 29,475
Commercial real estate non-owner occupied	50,537	883	26,488	—	77,908
Residential real estate	10,072	1,055	1,632	—	12,759
Consumer	327	9	145	—	481
Total loans accounted for under ASC 310-30	$ 84,890	$ 3,017	$ 32,716	$ —	$ 120,623
Total loans	$ 3,059,969	$ 51,188	$ 66,329	$ 1,461	$ 3,178,947

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Impaired Loans

Loans are considered to be impaired when it is probable that the Company will not be able to collect all amounts due in accordance with the contractual terms of the loan agreement. Impaired loans are comprised of originated and acquired loans on non-accrual status, loans in bankruptcy, and troubled debt restructurings ("TDRs") described below. If a specific allowance is warranted based on the borrower's overall financial condition, the specific allowance is calculated based on discounted cash flows using the loan's initial contractual effective interest rate or the fair value of the collateral less selling costs for collateral dependent loans.

At September 30, 2018 and December 31, 2017, the Company's recorded investment in impaired loans were $34.6 million and $30.9 million, respectively, of which $7.8 million and $8.5 million, respectively, were accruing TDRs. Impaired loans at September 30, 2018 were primarily comprised of eight relationships totaling $15.1 million. Impaired loans had a collective related allowance for loan losses allocated to them of $1.5 million and $1.5 million at September 30, 2018 and December 31, 2017, respectively.

Additional information regarding impaired loans at September 30, 2018 and December 31, 2017 is set forth in the table below:

	September 30, 2018			December 31, 2017		
	Unpaid principal balance	Recorded investment	Allowance for loan losses allocated	Unpaid principal balance	Recorded investment	Allowance for loan losses allocated
With no related allowance recorded:						
Commercial:						
Commercial and industrial	$ 6,214	$ 4,684	$ —	$ 6,481	$ 5,055	$ —
Owner occupied commercial real estate	7,709	7,229	—	4,186	3,934	—
Agriculture	1,508	1,260	—	1,502	1,245	—
Energy	7,072	2,356	—	8,661	3,861	—
Total commercial	22,503	15,529	—	20,830	14,095	—
Commercial real estate non-owner occupied:						
Construction	1,308	1,081	—	215	179	—
Acquisition/development	380	130	—	—	—	—
Multifamily	—	—	—	29	29	—
Non-owner occupied	642	554	—	901	853	—
Total commercial real estate	2,330	1,765	—	1,145	1,061	—
Residential real estate:						
Senior lien	3,339	3,041				