National Bank Holdings Corp
Form 10-Q
August 04, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	(do not check if a smaller reporting company)	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 August 3, 2017, the registrant had outstanding 26,791,575 shares of Class A voting common stock, each with $0.01 par value per share, excluding 251,741 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;

our ability to identify potential candidates for, obtain regulatory approval for, and consummate, acquisitions 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;

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;

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

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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;

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;

continued consolidation in the financial services industry;

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

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 due to the conversion of our bank subsidiary to 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;

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)

	June 30, 2017	December 31, 2016
ASSETS		
Cash and cash equivalents	$ 129,827	$ 152,736
Investment securities available-for-sale (at fair value)	866,714	884,232
Investment securities held-to-maturity (fair value of $294,869 and $332,573 at June 30, 2017 and December 31, 2016, respectively)	294,891	332,505
Non-marketable securities	18,468	14,949
Loans	3,087,945	2,860,921
Allowance for loan losses	(34,959)	(29,174)
Loans, net	3,052,986	2,831,747
Loans held for sale	7,067	24,187
Other real estate owned	14,297	15,662
Premises and equipment, net	92,321	95,671
Goodwill	59,630	59,630
Intangible assets, net	4,210	6,949
Other assets	152,358	154,778
Total assets	$ 4,692,769	$ 4,573,046
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing demand deposits	$ 870,875	$ 846,744
Interest bearing demand deposits	418,729	427,538
Savings and money market	1,441,372	1,422,321
Time deposits	1,126,481	1,172,046
Total deposits	3,857,457	3,868,649
Securities sold under agreements to repurchase	119,213	92,011
Federal Home Loan Bank advances	129,115	38,665
Other liabilities	42,497	37,532
Total liabilities	4,148,282	4,036,857
Shareholders' equity:		
Common stock, par value $0.01 per share: 400,000,000 shares authorized; 51,587,424 and 51,813,011 shares issued; 26,788,833 and 26,386,583 shares outstanding at June 30, 2017 and December 31, 2016, respectively	515	514
Additional paid-in capital	971,145	984,087

Retained earnings	68,570	55,454
Treasury stock of 24,542,527 and 24,927,157 shares at June 30, 2017 and December 31, 2016, respectively, at cost	(494,547)	(502,104)
Accumulated other comprehensive loss, net of tax	(1,196)	(1,762)
Total shareholders’ equity	544,487	536,189
Total liabilities and shareholders’ equity	$ 4,692,769	$ 4,573,046

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 June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Interest and dividend income:				
Interest and fees on loans	$ 34,411	$ 30,071	$ 66,174	$ 63,027
Interest and dividends on investment securities	6,489	7,759	13,102	15,994
Dividends on non-marketable securities	218	193	385	421
Interest on interest-bearing bank deposits	214	449	411	584
Total interest and dividend income	41,332	38,472	80,072	80,026
Interest expense:				
Interest on deposits	3,904	3,516	7,691	6,826
Interest on borrowings	536	203	767	409
Total interest expense	4,440	3,719	8,458	7,235
Net interest income before provision for loan losses	36,892	34,753	71,614	72,791
Provision for loan losses	4,025	6,457	5,820	17,076
Net interest income after provision for loan losses	32,867	28,296	65,794	55,715
Non-interest income:				
Service charges	3,546	3,465	6,872	6,725
Bank card fees	3,134	2,935	5,938	5,702
Gain on sale of mortgages, net	594	958	1,048	1,432
Bank-owned life insurance income	472	486	942	881
Other non-interest income	4,124	2,473	5,538	3,164
OREO related income	86	187	314	523
Total non-interest income	11,956	10,504	20,652	18,427
Non-interest expense:				
Salaries and benefits	19,909	19,612	40,299	40,224
Occupancy and equipment	5,242	5,708	10,679	11,774
Telecommunications and data processing	1,552	1,471	3,139	3,112
Marketing and business development	545	689	1,196	1,115
FDIC deposit insurance	686	1,064	1,391	1,985
Bank card expenses	896	963	1,779	1,876
Professional fees	1,270	978	1,686	1,434
Other non-interest expense	2,733	2,112	5,139	4,067
Problem asset workout	880	958	1,752	1,932
Gain on OREO sales, net	(1,644)	(1,611)	(1,756)	(2,043)
Intangible asset amortization	1,370	1,370	2,740	2,740

Total non-interest expense	33,439	33,314	68,044	68,216
Income before income taxes	11,384	5,486	18,402	5,926
Income tax expense	2,175	982	935	1,171
Net income	$ 9,209	$ 4,504	$ 17,467	$ 4,755
Income per share—basic	$ 0.34	$ 0.15	$ 0.65	$ 0.16
Income per share—diluted	$ 0.33	$ 0.15	$ 0.63	$ 0.16
Weighted average number of common shares outstanding:				
Basic	26,955,187	29,215,822	26,878,904	29,666,570
Diluted	27,597,443	29,278,759	27,637,532	29,707,379

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 June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Net income	$ 9,209	$ 4,504	$ 17,467	$ 4,755
Other comprehensive income, net of tax:				
Securities available-for-sale:				
Net unrealized gains arising during the period, net of tax expense of $(631) and $(1,976) for the three months ended June 30, 2017 and 2016, respectively; and net of tax expense of $(792) and $(7,487) for the six months ended June 30, 2017 and 2016, respectively	1,014	3,221	1,276	12,198
Less: amortization of net unrealized holding gains to income, net of tax benefit of $217 and $304 for the three months ended June 30, 2017 and 2016, respectively; and net of tax benefit of $435 and $623 for the six months ended June 30, 2017 and 2016, respectively	(353)	(495)	(710)	(1,015)
Other comprehensive income	661	2,726	566	11,183
Comprehensive income	$ 9,870	$ 7,230	$ 18,033	$ 15,938

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)

Six months ended June 30, 2017 and 2016

(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, 2015	$ 513	$ 997,926	$ 38,670	$ (419,660)	$ 95	$ 617,544
Net income	—	—	4,755	—	—	4,755
Stock-based compensation	—	1,791	—	—	—	1,791
Issuance of stock under equity compensation plans, including tax benefit of $39, loss on reissuance of treasury stock of $50, net	1	(2,862)	—	2,422	—	(439)
Repurchase of 1,671,923 shares	—	—	—	(32,918)	—	(32,918)
Cash dividends declared ($0.10 per share)	—	—	(3,006)	—	—	(3,006)
Other comprehensive income	—	—	—	—	11,183	11,183
Balance, June 30, 2016	$ 514	$ 996,855	$ 40,419	$ (450,156)	$ 11,278	$ 598,910
Balance, December 31, 2016	$ 514	$ 984,087	$ 55,454	$ (502,104)	$ (1,762)	$ 536,189
Net income	—	—	17,467	—	—	17,467
Stock-based compensation	—	1,869	—	—	—	1,869
Issuance of stock under purchase and equity compensation plans, including gain on reissuance of treasury stock of $5,004, net	1	(12,878)	—	5,624	—	(7,253)
Cash dividends declared ($0.16 per share)	—	—	(4,351)	—	—	(4,351)
Warrant exercise	—	(1,933)	—	1,933	—	—
Other comprehensive income	—	—	—	—	566	566
Balance, June 30, 2017	$ 515	$ 971,145	$ 68,570	$ (494,547)	$ (1,196)	$ 544,487

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 six months ended June 30, 2017	2016
Cash flows from operating activities:		
Net income	$ 17,467	$ 4,755
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	5,820	17,076
Depreciation and amortization	6,630	7,394
Current income tax receivable	1,622	6,395
Deferred income tax (asset) liability	(369)	3,710
Net excess tax (benefit) deficit on stock-based compensation	(3,393)	52
Discount accretion, net of premium amortization on securities	1,324	1,534
Loan accretion	(12,728)	(18,924)
Gain on sale of mortgages, net	(1,048)	(1,432)
Origination of loans held for sale, net of repayments	(39,279)	(44,593)
Proceeds from sales of loans held for sale	53,719	47,020
Bank-owned life insurance income	(942)	(881)
Gain on the sale of other real estate owned, net	(1,756)	(2,043)
Impairment on other real estate owned	46	104
Loss (gain) on sale of fixed assets	40	(1,839)
Gain from banking center divestitures	(2,886)	—
Stock-based compensation	1,869	1,791
Decrease (increase) in other assets	1,947	(6,210)
Increase in other liabilities	6,547	12,639
Net cash provided by operating activities	34,630	26,548
Cash flows from investing activities:		
Purchase of FHLB stock	(7,204)	(500)
Proceeds from redemption of FHLB stock	3,685	5,761
Proceeds from redemption of FRB stock	—	4,964
Proceeds from maturities of investment securities held-to-maturity	36,216	44,442
Proceeds from maturities of investment securities available-for-sale	115,268	134,464
Purchase of investment securities available-for-sale	(96,948)	(4,872)
Net increase in loans	(243,118)	(146,274)
(Purchases) sale of premises and equipment, net	(581)	1,718
Purchase of bank-owned life insurance	—	(10,344)
Proceeds from sales of loans	33,813	9,231
Proceeds from sales of other real estate owned	3,714	3,165
Net cash (used in) provided by investing activities	(155,155)	41,755
Cash flows from financing activities:		
Net decrease in deposits	(8,308)	(39,732)
Increase (decrease) in repurchase agreements	27,202	(10,377)
Advances from FHLB	253,129	—

FHLB payoffs	(162,679)	—
Issuance of stock under purchase and equity compensation plans	(7,253)	(485)
Payment of dividends	(4,475)	(2,944)
Repurchase of shares	—	(32,918)
Net cash provided by (used in) financing activities	97,616	(86,456)
Decrease in cash and cash equivalents	(22,909)	(18,153)
Cash and cash equivalents at beginning of the year	152,736	166,092
Cash and cash equivalents at end of period	$ 129,827	$ 147,939
Supplemental disclosure of cash flow information during the period:		
Cash paid for interest	$ 8,333	$ 7,084
Net tax payments (refunds)	$ 33	$ (2,117)
Supplemental schedule of non-cash investing activities:		
Loans transferred to other real estate owned at fair value	$ 639	$ 3,654
Loans purchased but not settled	$ 1,937	$ 667
Loans transferred from loans held for sale to loans	$ 3,729	$ —

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)

June 30, 2017

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 June 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, referred to as the Bank, or NBH 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 86 banking centers located in Colorado, the greater Kansas City area and Texas, and through online and mobile banking products.

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, 2016 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 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 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.

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 and notes for the year ended December 31, 2016 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, 2016.

Note 2 Recent Accounting Pronouncements

Revenue from Contracts with Customers—In May 2014, the FASB issued 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. 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 No. 2014-09 allows for either full retrospective or modified retrospective adoption. The Company is in the process of evaluating the impact of the ASU's adoption on the Company's consolidated financial statements, if any. The Company will adopt ASU 2014-09 in the first quarter of 2018 and expects to apply the modified retrospective approach.

The new guidance does not apply to revenue associated with financial instruments, including loans and securities that are accounted for under other GAAP; therefore, the Company does not expect the new guidance to have a material impact on revenue most closely

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associated with financial instruments, including interest income and expense. The Company is continuing its overall assessment of revenue streams and reviewing contracts potentially affected by the ASU, most notably deposit service charges and bank card fees to determine the potential impact the new guidance is expected to have on the Company’s consolidated financial statements. In addition, the Company continues to follow certain implementation issues relevant to the banking industry which are still pending resolution. The Company will adopt ASU No. 2014-09 on January 1, 2018 and expects to utilize the modified retrospective approach.

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. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Early adoption of the amendments in the update is permitted. The Company will adopt ASU 2016-02 in the first quarter of 2019 and is currently in the process of evaluating the impact of the ASU's adoption on the Company's consolidated financial statements.

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.

The Company reviewed ASU 2016-01, Financial Instruments – Recognition and Measurement of Financial Assets and Financial Liabilities (Topic 825), ASU 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments, ASU 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment and ASU 2017-05, Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20) and does not expect the adoption of these pronouncements to have a material impact on its financial statements.

Note 3 Investment Securities

The Company’s investment securities portfolio is comprised of available-for-sale and held-to-maturity investment securities. These investment securities totaled $1.2 billion at June 30, 2017 and included $0.9 billion of available-for-sale securities and $0.3 billion of held-to-maturity securities. At December 31, 2016, investment securities totaled $1.2 billion and included $0.9 billion of available-for-sale securities and $0.3 billion of held-to-maturity securities.

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Available-for-sale

At June 30, 2017 and December 31, 2016, the Company held $0.9 billion of available-for-sale investment securities. Available-for-sale securities are summarized as follows as of the dates indicated:

	June 30, 2017			
	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	$ 192,369	$ 3,476	$ (504)	$ 195,341
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	680,040	1,604	(13,013)	668,631
Municipal securities	2,323	—	—	2,323
Other securities	419	—	—	419
Total	$ 875,151	$ 5,080	$ (13,517)	$ 866,714

	December 31, 2016			
	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	$ 223,781	$ 3,909	$ (530)	$ 227,160
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	666,616	2,124	(16,001)	652,739
Municipal securities	3,921	—	(7)	3,914
Other securities	419	—	—	419
Total	$ 894,737	$ 6,033	$ (16,538)	$ 884,232

At June 30, 2017 and December 31, 2016, 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 table below summarizes the available-for-sale securities with unrealized losses as of the dates shown, along with the length of the impairment period:

	June 30, 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 (“MBS”):						
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ 79,548	$ (504)	$ —	$ —	$ 79,548	$ (504)
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	148,819	(2,279)	354,843	(10,734)	503,662	(13,013)
Total	$ 228,367	$ (2,783)	$ 354,843	$ (10,734)	$ 583,210	$ (13,517)

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	December 31, 2016					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Mortgage-backed securities (“MBS”):						
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ 100,898	$ (530)	$ —	$ —	$ 100,898	$ (530)
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	137,576	(2,976)	385,707	(13,025)	523,283	(16,001)
Municipal securities	3,058	(7)	—	—	3,058	(7)
Total	$ 241,532	$ (3,513)	$ 385,707	$ (13,025)	$ 627,239	$ (16,538)

The unrealized losses in the Company's investment portfolio at June 30, 2017 were caused by changes in interest rates. The portfolio included 63 securities, having an aggregate fair value of $583.2 million, which were in an unrealized loss position at June 30, 2017. During the six months ended June 30, 2017, the Company recorded $0.2 million of other-than-temporary impairment (OTTI) included in other non-interest expense on the consolidated statement of operations. The OTTI credit charge was on a single municipal security, with an aggregate fair value of $1.5 million.

The unrealized losses in the Company's investment portfolio at December 31, 2016 were caused by changes in interest rates. The portfolio included 61 securities, having an aggregate fair value of $627.2 million, which were in an unrealized loss position at December 31, 2016. Management evaluated all of the available-for-sale securities in an unrealized position and concluded no OTTI existed at December 31, 2016.

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 Federal Home Loan Bank (“FHLB”), if needed. The fair value of available-for-sale investment securities pledged as collateral totaled $296.4 million at June 30, 2017 and $373.7 million at December 31, 2016. Certain investment securities may also be pledged as collateral for the line of credit at the FHLB of Topeka; at June 30, 2017 and December 31, 2016, no securities were pledged for this purpose.

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 3.1 years at June 30, 2017 and 3.4 years at December 31, 2016. This estimate is based on assumptions and actual results may differ. At June 30, 2017 and December 31, 2016, the duration of the total available-for-sale investment portfolio was 2.9 years and 3.2 years, respectively.

As of June 30, 2017, municipal securities with an amortized cost and fair value of $1.5 million were due in one year, municipal securities with an amortized cost and fair value of $0.3 million were due after one year through five years, and municipal securities with an amortized cost and fair value of $0.6 million were due after five years through ten years. Other securities of $0.4 million as of June 30, 2017, have no stated contractual maturity date.

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Held-to-maturity

At June 30, 2017 and December 31, 2016, the Company held $294.9 million and $332.5 million of held-to-maturity investment securities, respectively. Held-to-maturity investment securities are summarized as follows as of the dates indicated:

	June 30, 2017			
	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	$ 233,026	$ 1,332	$ (164)	$ 234,194
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	61,865	11	(1,201)	60,675
Total investment securities held-to-maturity	$ 294,891	$ 1,343	$ (1,365)	$ 294,869

	December 31, 2016			
	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	$ 263,411	$ 1,685	$ (234)	$ 264,862
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	69,094	16	(1,399)	67,711
Total investment securities held-to-maturity	$ 332,505	$ 1,701	$ (1,633)	$ 332,573

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

	June 30, 2017					
	Less than 12 months		12 months or more		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized

	value	losses	value	losses	value	losses
Mortgage-backed securities ("MBS"):						
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ 25,512	$ (164)	$ —	$ —	$ 25,512	$ (164)
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	23,861	(306)	29,244	(895)	53,105	(1,201)
Total	$ 49,373	$ (470)	$ 29,244	$ (895)	$ 78,617	$ (1,365)

	December 31, 2016					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Mortgage-backed securities ("MBS"):						
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ 27,799	$ (234)	$ —	$ —	$ 27,799	$ (234)
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	26,992	(357)	32,146	(1,042)	59,138	(1,399)
Total	$ 54,791	$ (591)	$ 32,146	$ (1,042)	$ 86,937	$ (1,633)

The held-to-maturity portfolio included 16 securities, having an aggregate fair value of $78.6 million, which were in an unrealized loss position at June 30, 2017, compared to 15 securities, with a fair value of $86.9 million, at December 31, 2016.

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Management evaluated all of the held-to-maturity securities in an unrealized loss position and concluded that no OTTI existed at June 30, 2017 or December 31, 2016. The unrealized losses in the Company's investments issued or guaranteed by U.S. government agencies or sponsored enterprises at June 30, 2017 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.

The carrying value of held-to-maturity investment securities pledged as collateral totaled $139.8 million and $119.2 million at June 30, 2017 and December 31, 2016, 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 June 30, 2017 and December 31, 2016 was 3.1 years and 3.5 years, respectively. This estimate is based on assumptions and actual results may differ. The duration of the total held-to-maturity investment portfolio was 2.9 years and 3.2 years as of June 30, 2017 and December 31, 2016, respectively.

Note 4 Loans

The loan portfolio is comprised of loans originated by the Company and loans that were acquired in connection with the Company’s acquisitions.

The table below shows the loan portfolio composition including carrying value by segment of loans accounted for under ASC Topic 310-30, Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality, and loans not accounted for under this guidance, which includes the Company’s originated loans. The carrying value of loans is net of discounts on loans excluded from ASC 310-30, and fees and costs of $4.9 million and $6.3 million as of June 30, 2017 and December 31, 2016, respectively. At December 31, 2016, $14.4 million of non 310-30 loans were held-for-sale, most of which were in the residential real estate segment. The sale of these loans was completed in connection with the four banking center divestitures in the second quarter of 2017.

	June 30, 2017			
	ASC 310-30 loans	Non 310-30 loans	Total loans	% of total
Commercial	$ 35,978	$ 1,739,476	$ 1,775,454	57.5%
Commercial real estate non-owner occupied	83,785	473,235	557,020	18.0%
Residential real estate	14,012	714,499	728,511	23.6%
Consumer	652	26,308	26,960	0.9%
Total	$ 134,427	$ 2,953,518	$ 3,087,945	100.0%

	December 31, 2016			
	ASC 310-30 loans	Non 310-30 loans	Total loans	% of total
Commercial	$ 39,280	$ 1,521,150	$ 1,560,430	54.6%
Commercial real estate non-owner occupied	89,150	437,642	526,792	18.4%
Residential real estate	16,524	728,361	744,885	26.0%
Consumer	898	27,916	28,814	1.0%
Total	$ 145,852	$ 2,715,069	$ 2,860,921	100.0%

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Delinquency for loans excluded from ASC 310-30 is shown in the following tables at June 30, 2017 and December 31, 2016, respectively:

	June 30, 2017							
	30-59 days past due	60-89 days past due	Greater than 90 days past due	Total past due	Current	Total non 310-30 loans	Loans > 90 days past due and still accruing	Non-accrual
Loans excluded from ASC 310-30:								
Commercial:								
Commercial and industrial	$ 658	$ 228	$ 4,135	$ 5,021	$ 1,270,834	$ 1,275,855	$ —	$ 7,780
Owner occupied commercial real estate	890	—	52	942	232,988	233,930	—	4,377
Agriculture	512	—	435	947	130,451	131,398	—	2,208
Energy	—	—	6,613	6,613	91,680	98,293	—	12,050
Total commercial	2,060	228	11,235	13,523	1,725,953	1,739,476	—	26,415
Commercial real estate non-owner occupied:								
Construction	—	—	215	215	121,441	121,656	215	—
Acquisition/development	334	—	—	334	16,008	16,342	—	—
Multifamily	—	—	—	—	41,430	41,430	—	—
Non-owner occupied	135	—	—	135	293,672	293,807	—	35
Total commercial real estate	469	—	215	684	472,551	473,235	215	35
Residential real estate:								
Senior lien	854	1,667	1,298	3,819	658,403	662,222	—	5,286
Junior lien	185	47	8	240	52,037	52,277	—	557
Total residential real estate	1,039	1,714	1,306	4,059	710,440	714,499	—	5,843
Consumer	69	19	6	94	26,214	26,308	—	162
Total loans excluded from ASC 310-30	$ 3,637	$ 1,961	$ 12,762	$ 18,360	$ 2,935,158	$ 2,953,518	$ 215	$ 32,455

	December 31, 2016						
	30-59 days past	60-89 days past	Greater than 90 days past	Total past		Total non 310-30	Loans > 90 days past due and	Non-

	due	due	due	due	Current	loans	still accruing	accrual
Loans excluded from ASC 310-30:								
Commercial:								
Commercial and industrial	$ 3,134	$ 4,009	$ 1,078	$ 8,221	$ 1,066,475	$ 1,074,696	$ —	$ 8,688
Owner occupied commercial real estate	583	216	56	855	220,689	221,544	—	2,056
Agriculture	501	—	—	501	134,136	134,637	—	1,905
Energy	2	—	6,548	6,550	83,723	90,273	—	12,645
Total commercial	4,220	4,225	7,682	16,127	1,505,023	1,521,150	—	25,294
Commercial real estate non-owner occupied:								
Construction	—	—	—	—	90,314	90,314	—	—
Acquisition/development	—	—	—	—	13,306	13,306	—	—
Multifamily	—	—	—	—	24,954	24,954	—	—
Non-owner occupied	—	—	28	28	309,040	309,068	—	66
Total commercial real estate	—	—	28	28	437,614	437,642	—	66
Residential real estate:								
Senior lien	888	645	1,458	2,991	672,699	675,690	—	4,522
Junior lien	115	61	22	198	52,473	52,671	—	654
Total residential real estate	1,003	706	1,480	3,189	725,172	728,361	—	5,176
Consumer	83	8	—	91	27,825	27,916	—	181
Total loans excluded from ASC 310-30	$ 5,306	$ 4,939	$ 9,190	$ 19,435	$ 2,695,634	$ 2,715,069	$ —	$ 30,717

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 are included in loans 90 days or more past due and still accruing. Non-accrual loans include troubled debt restructurings on non-accrual status.

Non-accrual loans excluded from the scope of ASC 310-30 totaled $32.5 million at June 30, 2017, increasing $1.7 million, or 5.7% from December 31, 2016. The increase was driven primarily by one loan relationship totaling $2.2 million in the owner occupied commercial real estate sector placed on non-accrual during the second quarter of 2017, offset by other net decreases of $0.5 million.

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Credit exposure for all loans as determined by the Company's internal risk rating system was as follows as of June 30, 2017 and December 31, 2016, respectively:

	June 30, 2017				
	Pass	Special mention	Substandard	Doubtful	Total
Loans excluded from ASC 310-30:					
Commercial:					
Commercial and industrial	$ 1,243,638	$ 13,978	$ 15,472	$ 2,767	$ 1,275,855
Owner occupied commercial real estate	222,882	4,607	6,196	245	233,930
Agriculture	106,022	22,668	2,674	34	131,398
Energy	86,243	—	5,998	6,052	98,293
Total commercial	1,658,785	41,253	30,340	9,098	1,739,476
Commercial real estate non-owner occupied:					
Construction	121,441	—	215	—	121,656
Acquisition/development	13,844	2,498	—	—	16,342
Multifamily	39,255	—	2,175	—	41,430
Non-owner occupied	291,007	1,566	1,234	—	293,807
Total commercial real estate	465,547	4,064	3,624	—	473,235
Residential real estate:					
Senior lien	656,249	251	5,709	13	662,222
Junior lien	51,404	—	873	—	52,277
Total residential real estate	707,653	251	6,582	13	714,499
Consumer	26,086	56	166	—	26,308
Total loans excluded from ASC 310-30	$ 2,858,071	$ 45,624	$ 40,712	$ 9,111	$ 2,953,518
Loans accounted for under ASC 310-30:					
Commercial	$ 27,799	$ 1,105	$ 7,074	$ —	$ 35,978
Commercial real estate non-owner occupied	54,207	1,701	27,877	—	83,785
Residential real estate	11,234	1,088	1,690	—	14,012
Consumer	464	12	176	—	652
Total loans accounted for under ASC 310-30	$ 93,704	$ 3,906	$ 36,817	$ —	$ 134,427
Total loans	$ 2,951,775	$ 49,530	$ 77,529	$ 9,111	$ 3,087,945

	December 31, 2016				
	Pass	Special mention	Substandard	Doubtful	Total
Loans excluded from ASC 310-30:					
Commercial:					

Commercial and industrial	$ 1,041,326	$ 7,243	$ 25,636	$ 491	$ 1,074,696
Owner occupied commercial real estate	202,036	9,371	10,137	—	221,544
Agriculture	123,809	8,922	1,906	—	134,637
Energy	77,619	—	7,811	4,843	90,273
Total commercial	1,444,790	25,536	45,490	5,334	1,521,150
Commercial real estate non-owner occupied:					
Construction	90,099	—	215	—	90,314
Acquisition/development	10,758	2,548	—	—	13,306
Multifamily	22,495	238	2,221	—	24,954
Non-owner occupied	300,922	5,895	2,251	—	309,068
Total commercial real estate	424,274	8,681	4,687	—	437,642
Residential real estate:					
Senior lien	669,148	1,215	5,316	11	675,690
Junior lien	51,250	178	1,243	—	52,671
Total residential real estate	720,398	1,393	6,559	11	728,361
Consumer	27,669	59	188	—	27,916
Total loans excluded from ASC 310-30	$ 2,617,131	$ 35,669	$ 56,924	$ 5,345	$ 2,715,069
Loans accounted for under ASC 310-30:					
Commercial	$ 27,436	$ 610	$ 11,234	$ —	$ 39,280
Commercial real estate non-owner occupied	38,895	967	45,520	3,768	89,150
Residential real estate	12,477	1,327	2,720	—	16,524
Consumer	721	17	160	—	898
Total loans accounted for under ASC 310-30	$ 79,529	$ 2,921	$ 59,634	$ 3,768	$ 145,852
Total loans	$ 2,696,660	$ 38,590	$ 116,558	$ 9,113	$ 2,860,921

Non 310-30 substandard loans within the commercial and industrial sector decreased from December 31, 2016, primarily due to two loan relationship upgrades totaling $6.2 million from substandard to special mention and one loan relationship downgrade totaling $2.1 million from substandard to doubtful during the six months ended June 30, 2017. Non 310-30 substandard loans within the owner occupied commercial real estate sector decreased from December 31, 2016, primarily due to two loan relationship upgrades totaling

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$5.5 million from substandard to special mention, partially offset by one loan relationship placed on non-accrual and included in substandard during the second quarter of 2017 totaling $1.4 million. Non 310-30 doubtful loans within the energy sector increased from December 31, 2016, due to increased specific reserves on one relationship previously placed on non-accrual.

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 loans excluded from ASC 310-30 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 June 30, 2017, the Company measured $29.0 million of impaired loans based on the fair value of the collateral less selling costs and $2.5 million of impaired loans using discounted cash flows and the loan's initial contractual effective interest rate. Impaired loans totaling $7.9 million that individually were less than $250 thousand each, were measured through the general ALL reserves due to their relatively small size.

At June 30, 2017 and December 31, 2016, the Company's recorded investments in impaired loans were $39.4 million and $38.3 million, respectively. Impaired loans at June 30, 2017 were primarily comprised of eight relationships totaling $24.6 million. Three of the relationships were in the energy sector, three of the relationships were in the commercial and industrial sector, one relationship was in the owner-occupied commercial real estate sector and one relationship was in the agricultural sector. Impaired loans had a collective related allowance for loan losses allocated to them of $6.2 million and $2.4 million at June 30, 2017 and December 31, 2016, respectively.

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Additional information regarding impaired loans at June 30, 2017 and December 31, 2016 is set forth in the table below:

	June 30, 2017			December 31, 2016		
	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	$ 6,712	$ 5,387	$ —	$ 8,671	$ 7,495	$ —
Owner occupied commercial real estate	3,954	3,755	—	3,350	3,197	—
Agriculture	1,581	1,377	—	2,044	1,987	—
Energy	16,548	5,437	—	17,142	6,105	—
Total commercial	28,795	15,956	—	31,207	18,784	—
Commercial real estate non-owner occupied:						
Construction	—	—	—	—	—	—
Acquisition/development	—	—	—	—	—	—
Multifamily	31	31	—	33	33	—
Non-owner occupied	357	306	—	394	343	—
Total commercial real estate	388	337	—	427	376	—
Residential real estate:						
Senior lien	345	328	—	1,551	1,426	—
Junior lien	—	—	—	54	51	—
Total residential real estate	345	328	—	1,605	1,477	—
Consumer	—	—	—	4	4	—
Total impaired loans with no related allowance recorded	$ 29,528	$ 16,621	$ —	$ 33,243	$ 20,641	$ —
With a related allowance recorded:						
Commercial:						
Commercial and industrial	$ 4,681	$ 4,642	$ 2,767	$ 3,495	$ 3,464	$ 492
Owner occupied commercial real estate	2,585	2,336	248	957	642	2
Agriculture	938	911	35	—	—	—
Energy	6,613	6,613	3,148	11,216	6,548	1,866
Total commercial	14,817	14,502	6,198	15,668	10,654	2,360
Commercial real estate non-owner occupied:						
Construction	—	—	—	—	—	—
Acquisition/development	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
Non-owner occupied	220	214	1	261	255	1
Total commercial real estate	220	214	1	261	255	1
Residential real estate:						

Senior lien	7,162	6,486	36	5,646	5,016	31
Junior lien	1,634	1,391	10	1,781	1,532	14
Total residential real estate	8,796	7,877	46	7,427	6,548	45
Consumer	170	165	1	188	184	2
Total impaired loans with a related allowance recorded	$ 24,003	$ 22,758	$ 6,246	$ 23,544	$ 17,641	$ 2,408
Total impaired loans	$ 53,531	$ 39,379	$ 6,246	$ 56,787	$ 38,282	$ 2,408

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The table below shows additional information regarding the average recorded investment and interest income recognized on impaired loans for the periods presented:

	For the three months ended			
	June 30, 2017		June 30, 2016	
	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
With no related allowance recorded:				
Commercial:				
Commercial and industrial	$ 6,645	$ 25	$ 4,279	$ 70
Owner occupied commercial real estate	3,789	23	1,825	20
Agriculture	1,454	—	1,758	—
Energy	5,680	—	—	—
Total commercial	17,568	48	7,862	90
Commercial real estate non-owner occupied:				
Construction	—	—	—	—
Acquisition/development	—	—	—	—
Multifamily	—	—	—	—
Non-owner occupied	312	5	—	—
Total commercial real estate	312	5	—	—
Residential real estate:				
Senior lien	330	—	1,296	8
Junior lien	—	—	134	—
Total residential real estate	330	—	1,430	8
Consumer	—	—	—	—
Total impaired loans with no related allowance recorded	$ 18,210	$ 53	$ 9,292	$ 98
With a related allowance recorded:				
Commercial:				
Commercial and industrial	$ 4,643	$ —	$ 4,144	$ —
Owner occupied commercial real estate	2,340	7	842	4
Agriculture	912	1	178	1
Energy	6,624	—	25,975	—
Total commercial	14,519	8	31,139	5
Commercial real estate non-owner occupied:				
Construction	—	—	—	—
Acquisition/development	—	—	—	—
Multifamily	31	—	35	—
Non-owner occupied	216	2	814	10
Total commercial real estate	247	2	849	10
Residential real estate:				
Senior lien	6,525	20	5,149	28
Junior lien	1,403	12	1,652	14
Total residential real estate	7,928	32	6,801	42
Consumer	169	—	241	—
Total impaired loans with a related allowance recorded	$ 22,863	$ 42	$ 39,030	$ 57

Total impaired loans	$ 41,073	$ 95	$ 48,322	$ 155

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	For the six months ended			
	June 30, 2017		June 30, 2016	
	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
With no related allowance recorded:				
Commercial:				
Commercial and industrial	$ 7,030	$ 73	$ 4,564	$ 138
Owner occupied commercial real estate	3,834	41	1,869	49
Agriculture	1,531	—	1,758	—
Energy	5,889	—	—	—
Total Commercial	18,284	114	8,191	187
Commercial real estate non-owner occupied:				
Construction	—	—	—	—
Acquisition/development	—	—	—	—
Multifamily	—	—	—	—
Non-owner occupied	320	12	—	—
Total commercial real estate	320	12	—	—
Residential real estate:				
Senior lien	334	—	1,312	14
Junior lien	—	—	136	1
Total residential real estate	334	—	1,448	15
Consumer	—	—	—	—
Total impaired loans with no related allowance recorded	$ 18,938	$ 126	$ 9,639	$ 202
With a related allowance recorded:				
Commercial:				
Commercial and industrial	$ 4,630	$ —	$ 4,312	$ —
Owner occupied commercial real estate	2,349	11	865	7
Agriculture	914	3	179	3
Energy	6,602	—	26,005	—
Total Commercial	14,495	14	31,361	10
Commercial real estate non-owner occupied:				
Construction	—	—	—	—
Acquisition/development	—	—	—	—
Multifamily	31	1	36	1
Non-owner occupied	220	5	823	24
Total commercial real estate	251	6	859	25
Residential real estate:				
Senior lien	6,583	40	5,212	53
Junior lien	1,421	25	1,670	27
Total residential real estate	8,004	65	6,882	80
Consumer	175	—	242	—
Total impaired loans with a related allowance recorded	$ 22,925	$ 85	$ 39,344	$ 115
Total impaired loans	$ 41,863	$ 211	$ 48,983	$ 317

Interest income recognized on impaired loans noted in the table above primarily represents interest earned on accruing troubled debt restructurings. Interest income recognized on impaired loans during the three months ended June 30, 2017 and 2016 was $0.1 million and $0.2 million, respectively. Interest income recognized on impaired loans during the six months ended June 30, 2017 and 2016 was $0.2 million and $0.3 million, respectively.

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Troubled debt restructurings

It is the Company's policy to review each prospective credit in order to determine the appropriateness and the adequacy of security or collateral prior to making a loan. In the event of borrower default, the Company seeks recovery in compliance with lending laws, the respective loan agreements, and credit monitoring and remediation procedures that may include restructuring a loan to provide a concession by the Company to the borrower from their original terms due to borrower financial difficulties in order to facilitate repayment. Additionally, if a borrower's repayment obligation has been discharged by a court, and that debt has not been reaffirmed by the borrower, regardless of past due status, the loan is considered to be a TDR. At June 30, 2017 and December 31, 2016, the Company had $5.2 million and $5.8 million, respectively, of accruing TDRs that had been restructured from the original terms in order to facilitate repayment.

Non-accruing TDRs at June 30, 2017 and December 31, 2016 totaled $21.7 million and $16.7 million, respectively.

During the six months ended June 30, 2017, the Company restructured five loans with a recorded investment of $6.8 million at June 30, 2017. Substantially all of the loan modifications were a reduction of the principal payment, a reduction in interest rate, or an extension of term. Loan modifications to loans accounted for under ASC 310-30 are not considered TDRs. The table below provides additional information related to accruing TDRs at June 30, 2017 and December 31, 2016:

	June 30, 2017			
	Recorded investment	Average year-to-date recorded investments	Unpaid principal balance	Unfunded commitments to fund TDRs
Commercial	$ 3,258	$ 3,270	$ 3,488	$ 100
Commercial real estate non-owner occupied	491	510	543	—
Residential real estate	1,424	1,450	1,435	2
Consumer	4	5	4	—
Total	$ 5,177	$ 5,235	$ 5,470	$ 102

	December 31, 2016			
	Recorded investment	Average year-to-date recorded investments	Unpaid principal balance	Unfunded commitments to fund TDRs
Commercial	$ 3,302	$ 3,440	$ 3,464	$ 100
Commercial real estate non-owner occupied	538	572	590	—

Residential real estate	1,920	1,996	1,969	2
Consumer	7	9	7	—
Total	$ 5,767	$ 6,017	$ 6,030	$ 102

The following table summarizes the Company’s carrying value of non-accrual TDRs as of June 30, 2017 and December 31, 2016:

	June 30, 2017	December 31, 2016
Commercial	$ 20,246	$ 15,265
Commercial real estate non-owner occupied	—	—
Residential real estate	1,308	1,301
Consumer	127	142
Total non-accruing TDRs	$ 21,681	$ 16,708

Accrual of interest is resumed on loans that were on non-accrual only after the loan has performed sufficiently. The Company had three TDRs that were modified within the past twelve months and had defaulted on their restructured terms during the three months ended June 30, 2017, and five TDRs that were modified within the past twelve months and had defaulted on their restructured terms during the six months ended June 30, 2017. The defaulted TDRs consisted of one energy sector loan totaling $2.9 million, three commercial and industrial loans totaling $4.2 million and one small senior lien loan. The allowance for loan losses related to troubled debt restructurings on non-accrual status is determined by individual evaluation, including collateral adequacy, using the same process as loans on non-accrual status which are not classified as troubled debt restructurings.

During the three and six months ended June 30, 2016, the Company had one and five TDRs that had been modified within the past 12 months that defaulted on their restructured terms, respectively. For purposes of this disclosure, the Company considers “default” to mean 90 days or more past due on principal or interest.

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Loans accounted for under ASC 310-30

Loan pools accounted for under ASC Topic 310-30 are periodically re-measured to determine expected future cash flows. In determining the expected cash flows, the timing of cash flows and prepayment assumptions for smaller homogeneous loans are based on statistical models that take into account factors such as the loan interest rate, credit profile of the borrowers, the years in which the loans were originated, and whether the loans are fixed or variable rate loans. Prepayments may be assumed on loans if circumstances specific to that loan warrant a prepayment assumption. The re-measurement of loans accounted for under ASC 310-30 resulted in the following changes in the carrying amount of accretable yield during the six months ended June 30, 2017 and 2016:

	June 30, 2017	June 30, 2016
Accretable yield beginning balance	$ 60,476	$ 84,194
Reclassification from non-accretable difference	7,732	5,646
Reclassification to non-accretable difference	(494)	(4,019)
Accretion	(12,051)	(18,056)
Accretable yield ending balance	$ 55,663	$ 67,765

Below is the composition of the net book value for loans accounted for under ASC 310-30 at June 30, 2017 and December 31, 2016:

	June 30, 2017	December 31, 2016
Contractual cash flows	$ 514,149	$ 537,611
Non-accretable difference	(324,059)	(331,283)
Accretable yield	(55,663)	(60,476)
Loans accounted for under ASC 310-30	$ 134,427	$ 145,852

Note 5 Allowance for Loan Losses

The tables below detail the Company’s allowance for loan losses (“ALL”) and recorded investment in loans as of and for the three and six months ended June 30, 2017 and 2016:

	Three months ended June 30, 2017				
	Commercial	Non-owner occupied commercial real estate	Residential real estate	Consumer	Total
Beginning balance	$ 20,539	$ 5,815	$ 4,216	$ 280	$ 30,850
Non 310-30 beginning balance	20,539	5,599	4,216	276	30,630
Charge-offs	—	—	(2)	(119)	(121)
Recoveries	30	10	110	55	205
Provision	4,087	191	(257)	82	4,103
Non 310-30 ending balance	24,656	5,800	4,067	294	34,817
ASC 310-30 beginning balance	—	216	—	4	220
Charge-offs	—	—	—	—	—
Recoveries	—	—	—	—	—
(Recoupment) provision	—	(82)	—	4	(78)
ASC 310-30 ending balance	—	134	—	8	142
Ending balance	$ 24,656	$ 5,934	$ 4,067	$ 302	$ 34,959

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	Three months ended June 30, 2016				
	Commercial	Non-owner occupied commercial real estate	Residential real estate	Consumer	Total
Beginning balance	$ 28,684	$ 3,861	$ 4,325	$ 296	$ 37,166
Non 310-30 beginning balance	28,610	3,803	4,289	249	36,951
Charge-offs	(3,375)	—	(140)	(171)	(3,686)
Recoveries	12	56	16	126	210
Provision	4,733	1,298	339	30	6,400
Non 310-30 ending balance	29,980	5,157	4,504	234	39,875
ASC 310-30 beginning balance	74	58	36	47	215
Charge-offs	—	(41)	—	—	(41)
Recoveries	—	—	—	—	—
(Recoupment) provision	(72)	194	(36)	(29)	57
ASC 310-30 ending balance	2	211	—	18	231
Ending balance	$ 29,982	$ 5,368	$ 4,504	$ 252	$ 40,106

	Six months ended June 30, 2017				
	Commercial	Non-owner occupied commercial real estate	Residential real estate	Consumer	Total
Beginning balance	$ 18,821	$ 5,642	$ 4,387	$ 324	$ 29,174
Non 310-30 beginning balance	18,821	5,422	4,387	319	28,949
Charge-offs	(20)	—	(10)	(301)	(331)
Recoveries	41	20	113	122	296
Provision	5,814	358	(423)	154	5,903
Non 310-30 ending balance	24,656	5,800	4,067	294	34,817
ASC 310-30 beginning balance	—	220	—	5	225
Charge-offs	—	—	—	—	—
Recoveries	—	—	—	—	—
(Recoupment) provision	—	(86)	—	3	(83)
ASC 310-30 ending balance	—	134	—	8	142
Ending balance	$ 24,656	$ 5,934	$ 4,067	$ 302	$ 34,959
Ending allowance balance attributable to:					
Non 310-30 loans individually evaluated for impairment	$ 6,197	$ 1	$ 45	$ 1	$ 6,244
Non 310-30 loans collectively evaluated for impairment	18,459	5,799	4,022	293	28,573
ASC 310-30 loans	—	134	—	8	142
Total ending allowance balance	$ 24,656	$ 5,934	$ 4,067	$ 302	$ 34,959

Loans:					
Non 310-30 individually evaluated for impairment	$ 30,458	$ 551	$ 8,205	$ 165	$ 39,379
Non 310-30 collectively evaluated for impairment	1,709,018	472,684	706,294	26,143	2,914,139
ASC 310-30 loans	35,978	83,785	14,012	652	134,427
Total loans	$ 1,775,454	$ 557,020	$ 728,511	$ 26,960	$ 3,087,945

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	Six months ended June 30, 2016				
	Commercial	Non-owner occupied commercial real estate	Residential real estate	Consumer	Total
Beginning balance	$ 17,261	$ 4,166	$ 5,281	$ 411	$ 27,119
Non 310-30 beginning balance	16,473	3,939	5,245	385	26,042
Charge-offs	(3,484)	(276)	(197)	(388)	(4,345)
Recoveries	24	65	23	185	297
Provision	16,967	1,429	(567)	52	17,881
Non 310-30 ending balance	29,980	5,157	4,504	234	39,875
ASC 310-30 beginning balance	788	227	36	26	1,077
Charge-offs	—	(41)	—	—	(41)
Recoveries	—	—	—	—	—
(Recoupment) provision	(786)	25	(36)	(8)	(805)
ASC 310-30 ending balance	2	211	—	18	231
Ending balance	$ 29,982	$ 5,368	$ 4,504	$ 252	$ 40,106
Ending allowance balance attributable to:					
Non 310-30 loans individually evaluated for impairment	$ 14,933	$ 3	$ 39	$ 2	$ 14,977
Non 310-30 loans collectively evaluated for impairment	15,047	5,154	4,465	232	24,898
ASC 310-30 loans	2	211	—	18	231
Total ending allowance balance	$ 29,982	$ 5,368	$ 4,504	$ 252	$ 40,106
Loans:					
Non 310-30 individually evaluated for impairment	$ 37,265	$ 842	$ 7,369	$ 240	$ 45,716
Non 310-30 collectively evaluated for impairment	1,406,609	423,178	667,461	26,258	2,523,506
ASC 310-30 loans	46,875	101,719	19,341	1,347	169,282
Total loans	$ 1,490,749	$ 525,739	$ 694,171	$ 27,845	$ 2,738,504

In evaluating the loan portfolio for an appropriate ALL level, non-impaired loans that were not accounted for under ASC 310-30 were grouped into segments based on broad characteristics such as primary use and underlying collateral. Within the segments, the portfolio was further disaggregated into classes of loans with similar attributes and risk characteristics for purposes of applying loss ratios and determining applicable subjective adjustments to the ALL. The application of subjective adjustments was based upon qualitative risk factors, including economic trends and conditions, industry conditions, asset quality, loss trends, lending management, portfolio growth and loan review/internal audit results.

Net charge-offs on non 310-30 loans during the three and six months ended June 30, 2017 were $0.1 million and $0.0 million, respectively. Management's evaluation of credit quality resulted in a provision for loan losses on the non 310-30 loans of $4.1 million and $5.9 million during the three and six months ended June 30, 2017, respectively.

Provision for the three months ended June 30, 2017 included specific reserves of $2.1 million on one commercial loan and general reserves on net loan growth. Provision for the six months ended June 30, 2017 included specific reserves totaling $3.4 million on one energy sector and one commercial sector loan.

During the six months ended June 30, 2017, the Company re-estimated the expected cash flows of the loan pools accounted for under ASC 310-30. The re-measurement resulted in a net recoupment of $78 thousand and $83 thousand for the three and six months ended June 30, 2017, respectively. The net recoupment was primarily due to a recoupment of $82 thousand in the non-owner occupied commercial real estate segment during the three months ended June 30, 2017, and primarily due to a recoupment of $86 thousand in the non-owner occupied commercial real estate segment for the six months ended June 30, 2017.

Net charge-offs on non 310-30 loans during the three and six months ended June 30, 2016 were $3.5 million and $4.0 million, respectively. Management's evaluation resulted in a provision for loan losses on the non 310-30 loans of $6.4 million and $17.9 million during the three and six months ended June 30, 2016, respectively. The increase in provision was driven by a $4.3 million increase in reserves against the energy sector portfolio for the three months ended June 30, 2016 and a net $15.1 million increase for the six months ended June 30, 2016.

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During the six months ended June 30, 2016, the Company re-estimated the expected cash flows of the loan pools accounted for under ASC 310-30. The re-measurement resulted in a net provision of $57 thousand and a net recoupment of $805 thousand for the three and six months ended June 30, 2016, respectively, which was comprised primarily of a provision of $195 thousand in the non-owner occupied commercial real estate segment, partially offset by recoupments of $73 thousand and $3 thousand in the commercial real estate and residential real estate segments, respectively, for the three months ended June 30, 2016, and primarily a recoupment of $786 thousand in the commercial segment for the six months ended June 30, 2016.

Note 6 Other Real Estate Owned

The table below details the OREO activity during the six months ended June 30, 2017 and 2016:

	For the six months ended June 30,	
	2017	2016
Beginning balance	$ 15,662	$ 20,814
Transfers from loan portfolio, at fair value	639	3,654
Impairments	(46)	(104)
Sales, net	(1,958)	(1,122)
Ending balance	$ 14,297	$ 23,242

The Company did not have any minority interest in participated other real estate owned at June 30, 2017. At December 31, 2016, OREO balances excluded $1.6 million of the Company’s minority interests in OREO, which are held by outside banks where the Company was not the lead bank and does not have a controlling interest. The Company maintains a receivable in other assets for these minority interests. Included in Sales, net are net gains of $1.8 million and $2.0 million for the six months ended June 30, 2017 and 2016, respectively.

Note 7 Borrowings

As of June 30, 2017 and December 31, 2016, the Company sold securities under agreements to repurchase totaling $119.2 million and $92.0 million, respectively, and none were for periods longer than one day. The Company pledged mortgage-backed securities with a fair value of approximately $123.4 million and $99.1 million as of June 30, 2017 and December 31, 2016, respectively, for these agreements. The Company monitors collateral levels on a continuous basis and may be required to provide additional collateral based on the fair value of the underlying securities. As of June 30, 2017 and December 31, 2016, the Company had $4.2 million and $7.0 million of excess collateral pledged for repurchase agreements. The repurchase agreements are subject to a master netting arrangement; however, the Company has not offset any of the amounts presented in the consolidated financial statements.

As a member of the FHLB, the Bank has access to a line of credit and term financing from the FHLB with total available credit of $763.6 million at June 30, 2017. At June 30, 2017 and December 31, 2016, the Bank had $129.1 million and $25.0 million in term advances from the FHLB, respectively. The term advances have fixed interest rates of 1.31% - 2.33%, with maturity dates of 2018 - 2020. The Bank had investment securities pledged as collateral for FHLB advances in the amount of $26.1 million at June 30, 2017 and $28.8 million at December 31, 2016. Interest expense related to FHLB advances totaled $496 thousand and $693 thousand for the three and six months ended June 30, 2017, respectively, and $166 thousand and $332 thousand for the three and six months ended June 30, 2016, respectively.

Note 8 Regulatory Capital

As a bank holding company, the Company is subject to regulatory capital adequacy requirements implemented by the Federal Reserve. The federal banking agencies have risk-based capital adequacy regulations intended to provide a measure of capital adequacy that reflects the degree of risk associated with a banking organization’s operations. Under these regulations, assets are assigned to one of several risk categories, and nominal dollar amounts of assets and credit equivalent amounts of off-balance-sheet items are multiplied by a risk adjustment percentage for the category.

The new Basel III rules, effective January 1, 2015, changed the components of regulatory capital and changed the way in which risk ratings are assigned to various categories of bank assets. Also, a new Tier I common risk-based ratio was defined. Under the Basel III requirements, at June 30, 2017, the Company and the Bank met all capital requirements and the Bank had regulatory capital ratios in excess of the levels established for well-capitalized institutions.

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At June 30, 2017 and December 31, 2016, the Bank met the requirements to be considered "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well-capitalized", the Bank must maintain capital ratios as set forth in the table below. The following table sets forth the capital ratios of the Company and the Bank at June 30, 2017 and December 31, 2016.

	June 30, 2017					
	Actual		Required to be well capitalized under prompt corrective action provisions		Required to be considered adequately capitalized	
	Ratio	Amount	Ratio	Amount	Ratio	Amount
Tier 1 leverage ratio:						
Consolidated	10.3%	$ 472,627	N/A	N/A	4.0%	$ 184,402
NBH Bank	8.4%	385,466	4.5%	$ 206,721	4.0%	183,752
Common equity tier 1 risk-based capital:						
Consolidated	13.3%	$ 472,627	N/A	N/A	4.5%	$ 207,452
NBH Bank	10.9%	385,466	6.5%	$ 298,597	4.5%	206,721
Tier 1 risk-based capital ratio:						
Consolidated	13.3%	$ 472,627	N/A	N/A	6.0%	$ 213,366
NBH Bank	10.9%	385,466	8.0%	$ 283,313	6.0%	212,485
Total risk-based capital ratio:						
Consolidated	14.3%	$ 507,912	N/A	N/A	8.0%	$ 284,488
NBH Bank	11.9%	420,750	10.0%	$ 354,141	8.0%	283,313

	December 31, 2016					
	Actual		Required to be well capitalized under prompt corrective action provisions		Required to be considered adequately capitalized	
	Ratio	Amount	Ratio	Amount	Ratio	Amount
Tier 1 leverage ratio:						
Consolidated	10.4%	$ 470,259	N/A	N/A	4.0%	$ 181,019
NBH Bank	8.6%	389,189	4.5%	$ 202,903	4.0%	180,358
Common equity tier 1 risk-based capital:						
Consolidated	14.2%	$ 470,259	N/A	N/A	4.5%	$ 203,647
NBH Bank	11.8%	389,189	6.5%	$ 293,082	4.5%	202,903
Tier 1 risk-based capital ratio:						

Consolidated	14.2%	$ 470,259	N/A	N/A	6.0%	$ 199,467
NBH Bank	11.8%	389,189	8.0%	$ 264,596	6.0%	198,447
Total risk-based capital ratio:						
Consolidated	15.0%	$ 499,759	N/A	N/A	8.0%	$ 265,955
NBH Bank	12.7%	418,689	10.0%	$ 330,745	8.0%	264,596

Note 9 Stock-based Compensation and Benefits

The Company provides stock-based compensation in accordance with shareholder-approved plans. During the second quarter of 2014, shareholders approved the 2014 Omnibus Incentive Plan (the "2014 Plan"). The 2014 Plan replaces the NBH Holdings Corp. 2009 Equity Incentive Plan (the "Prior Plan"), pursuant to which the Company granted equity awards prior to the approval of the 2014 Plan. Pursuant to the 2014 Plan, the Compensation Committee of the Board of Directors has the authority to grant, from time to time, awards of stock options, stock appreciation rights, restricted stock, restricted stock units, performance units, other stock-based awards, or any combination thereof to eligible persons.

Stock options

The Company issued stock options during the six months ended June 30, 2017 and 2016, which are primarily time-vesting with 1/3 vesting on each of the first, second and third anniversary of the date of grant or date of hire.

The expense associated with the awarded stock options was measured at fair value using a Black-Scholes option-pricing model. The outstanding unvested option awards vest on a graded basis over 1-3 years of continuous service and have 7-10 year contractual terms.

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The Company issued stock options in accordance with the 2014 Plan during 2017. The following table summarizes stock option activity for the six months ended June 30, 2017:

	Options	Weighted average exercise price	Weighted average remaining contractual term in years	Aggregate intrinsic value
Outstanding at December 31, 2016	2,185,922	$ 19.81	4.85	$ 7,753
Granted	99,920	33.98		
Exercised	(585,750)	19.93		
Forfeited	(16,225)	21.84		
Outstanding at June 30, 2017	1,683,867	$ 20.61	4.52	$ 21,136
Options exercisable at June 30, 2017	1,429,584	$ 19.80	3.77	$ 19,021
Options expected to vest	1,662,690	$ 20.53	4.46	$ 20,994

Stock option expense is a component of salaries and benefits in the consolidated statements of operations and totaled $0.2 million for the three months ended June 30, 2017 and 2016, and $0.4 million for the six months ended June 30, 2017 and 2016, respectively. At June 30, 2017, there was $0.8 million of total unrecognized compensation cost related to non-vested stock options granted under the plans. The cost is expected to be recognized over a weighted average period of 2.4 years.

Restricted stock awards

The Company issued time based restricted stock awards during the six months ended June 30, 2017 and 2016. The restricted stock awards vest over a range of a 1 - 3 year period. Restricted stock with time-based vesting was valued at the fair value of the shares on the date of grant as they are assumed to be held beyond the vesting period.

No market-based stock awards were granted during the six months ended June 30, 2017. During six months ended June 30, 2016, the Company granted market-based awards of 26,594 shares in accordance with the 2014 Plan. These shares have a five-year performance period. The restricted stock shares vest upon the later of the Company’s stock price achieving an established price goal during the performance period, and the third anniversary of the date of grant. The fair value of these awards was determined using a Monte Carlo Simulation at grant date. The grant date fair value of these awards was $11.28. As of June 30, 2017, the market-based performance condition had been met for these awards and the total unrecognized compensation cost related to non-vested awards totaled $0.3 million, and is expected to be recognized over a weighted average period of approximately 1.9 years.

Performance stock units

During the six months ended June 30, 2017 and 2016, the Company granted 49,758 and 91,342 performance stock units in accordance with the 2014 Plan, respectively. These performance stock units granted represent initial target awards and do not reflect potential increases or decreases resulting from the final performance results, which are to be determined at the end of the three-year performance period (vesting date). The actual number of shares to be awarded at the end of the performance period will range from 0% - 150% of the initial target awards. 60% of the award is based on the Company's cumulative earnings per share (EPS target) during the performance period, and 40% of the award is based on the Company's cumulative total shareholder return (TSR target), or TSR, during the performance period. On the vesting date, the Company's TSR will be compared to the respective TSRs of the companies comprising the KBW Regional Index at the grant date to determine the shares awarded. The fair value of the EPS target portion of the award was determined based on the closing stock price of the Company's common stock on the grant date. The fair value of the TSR target portion of the award was determined using a Monte Carlo Simulation at the grant date. The weighted-average grant date fair value per unit for awards granted during the six months ended June 30, 2017 of the EPS target portion and the TSR target portion was $34.04 and $32.06, respectively.

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The following table summarizes restricted stock and performance stock activity during the six months ended June 30, 2017:

	Restricted shares	Weighted average grant-date fair value	Performance stock units	Weighted average grant-date fair value
Unvested at December 31, 2016	499,271	$ 15.82	85,295	$ 18.22
Granted	65,990	33.43	49,758	33.22
Vested	(298,086)	15.27	—	—
Forfeited	(11,111)	22.23	(5,994)	20.90
Unvested at June 30, 2017	256,064	$ 20.82	129,059	$ 23.88

As of June 30, 2017, the total unrecognized compensation cost related to non-vested restricted stock awards and units totaled $4.5 million, and is expected to be recognized over a weighted average period of approximately 2.1 years. Expense related to non-vested restricted awards and units totaled $0.8 million and $0.7 million during the three months ended June 30, 2017 and 2016, respectively, and $1.4 million during the six months ended June 30, 2017 and 2016, and is a component of salaries and benefits in the Company’s consolidated statements of operations.

Employee Stock Purchase Plan

The 2014 Employee Stock Purchase Plan (“ESPP”) is intended to be a qualified plan within the meaning of Section 423 of the Internal Revenue Code of 1986 and allows eligible employees to purchase shares of common stock through payroll deductions up to a limit of $25,000 per calendar year and 2,000 shares per offering period. The price an employee pays for shares is 90.0% of the fair market value of Company common stock on the last day of the offering period. The offering period is the six-month period commencing on March 1 and September 1 of each year and ending on August 31 and February 28 (or February 29 in the case of a leap year) of each year. There is no vesting or other restrictions on the stock purchased by employees under the ESPP. Under the ESPP, the total number of shares of common stock reserved for issuance totaled 400,000 shares, of which 360,963 were available for issuance.

Under the ESPP, employees purchased 5,373 shares during the six months ended June 30, 2017.

Note 10 Warrants

During the first quarter of 2017, 250,750 warrants were exercised in a non-cash transaction, representing the remaining outstanding warrants. The warrants were granted to certain lead shareholders of the Company at the time of the Company's initial capital raise (2009-2010), all with an exercise price of $20.00 per share. Refer to the consolidated statements of changes in shareholders' equity for additional detail.

Note 11 Common Stock

The Company had 26,788,833 and 26,386,583 shares of Class A common stock outstanding at June 30, 2017 and December 31, 2016, respectively. Additionally, the Company had 256,064 and 499,271 shares outstanding at June 30, 2017 and December 31, 2016, respectively, of restricted Class A common stock issued but not yet vested under the 2014 Omnibus Incentive Plan and the Prior Plan that are not included in shares outstanding until such time that they are vested; however, these shares do have voting and certain dividend rights during the vesting period.

On August 5, 2016, the Board of Directors authorized a new share repurchase program for up to $50.0 million from time to time in either the open market or through privately negotiated transactions. The remaining authorization under this program as of June 30, 2017 was $12.6 million.

Note 12 Income Per Share

The Company calculates income per share under the two-class method, as certain non-vested share awards contain non-forfeitable rights to dividends. As such, these awards are considered securities that participate in the earnings of the Company. Non-vested shares are discussed further in note 9.

The Company had 26,788,833 and 28,810,883 shares of Class A common stock outstanding as of June 30, 2017 and 2016, respectively, exclusive of issued non-vested restricted shares. Certain stock options and non-vested restricted shares are potentially

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dilutive securities, but are not included in the calculation of diluted income per share because to do so would have been anti-dilutive for the three and six months ended June 30, 2017 and 2016.

The following table illustrates the computation of basic and diluted income per share for the three and six months ended June 30, 2017 and 2016:

	For the three months ended		For the six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Net income	$ 9,209	$ 4,504	$ 17,467	$ 4,755
Less: income allocated to participating securities	(14)	(12)	(30)	(25)
Income allocated to common shareholders	$ 9,195	$ 4,492	$ 17,437	$ 4,730
Weighted average shares outstanding for basic income per common share	26,955,187	29,215,822	26,878,904	29,666,570
Dilutive effect of equity awards	642,256	49,461	742,001	37,643
Dilutive effect of warrants	—	13,476	16,627	3,166
Weighted average shares outstanding for diluted income per common share	27,597,443	29,278,759	27,637,532	29,707,379
Basic income per share	$ 0.34	$ 0.15	$ 0.65	$ 0.16
Diluted income per share	$ 0.33	$ 0.15	$ 0.63	$ 0.16

The Company had 1,683,867 and 2,703,752 outstanding stock options to purchase common stock at weighted average exercise prices of $20.61 and $19.82 per share at June 30, 2017 and 2016, respectively, which have time-vesting criteria, and as such, any dilution is derived only for the time frame in which the vesting criteria had been met and where the inclusion of those stock options is dilutive. Additionally, 250,750 warrants were exercised in a non-cash transaction during the first quarter of 2017, representing the remaining outstanding warrants to purchase shares of the Company’s common stock. The warrants had an exercise price of $20.00, which were in-the-money for purposes of the dilution calculations during the six months ended June 30, 2017, and three and six months ended June 30, 2016. The Company had 256,064 and 918,890 unvested restricted shares and units issued as of June 30, 2017 and 2016, respectively, which have performance, market and/or time-vesting criteria, and as such, any dilution is derived only for the time frame in which the vesting criteria had been met and where the inclusion of those restricted shares and units is dilutive.

Note 13 Income Taxes

The effective income tax rate for the three and six months ended June 30, 2017 was an expense of 19.10% and 5.1%, respectively, compared to an expense of 17.9% and 19.8% for the three and six months ended June 30, 2016, calculated based on a full year forecast method. The tax expense recorded for the three and six months ended June 30, 2017 was lowered by a $0.5 million and $3.4 million tax benefit from stock compensation activity during the respective periods. Without the discrete items related to stock compensation activity, the three and six month ended June 30, 2017 effective tax rate was consistent period-to-period. The quarterly tax rate differs from the federal statutory rate primarily due to tax benefits from stock compensation activity, interest income from tax-exempt lending, bank-owned life insurance income, and the relationship of these items to pre-tax income. See management's discussion and analysis for further information.

Note 14 Derivatives

Risk management objective of using derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company has established policies that neither carrying value nor fair value at risk should exceed established guidelines. The Company has designed strategies to confine these risks within the established limits and identify appropriate trade-offs in the financial structure of its balance sheet. These strategies include the use of derivative financial instruments to help achieve the desired balance sheet repricing structure while meeting the desired objectives of its clients. Currently, the Company employs certain interest rate swaps that are designated as fair value hedges as well as economic hedges. The Company manages a matched book with respect to its derivative instruments in order to minimize its net risk exposure resulting from such transactions.

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Fair values of derivative instrument on the balance sheet

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the consolidated statements of financial condition as of June 30, 2017 and December 31, 2016.

Information about the valuation methods used to measure fair value is provided in note 16.

		Asset derivatives fair value			Liability derivatives fair value	
	Balance Sheet location	June 30, 2017	December 31, 2016	Balance Sheet location	June 30, 2017	December 31, 2016
Derivatives designated as hedging instruments:						
Interest rate products	Other assets	$ 8,310	$ 9,528	Other liabilities	$ 2,268	$ 1,381
Total derivatives designated as hedging instruments		$ 8,310	$ 9,528		$ 2,268	$ 1,381
Derivatives not designated as hedging instruments:						
Interest rate products	Other assets	$ 2,384	$ 1,900	Other liabilities	$ 2,461	$ 1,898
Interest rate lock commitments	Other assets	143	149	Other liabilities	—	6
Forward contracts	Other assets	14	138	Other liabilities	26	20
Total derivatives not designated as hedging instruments		$ 2,541	$ 2,187		$ 2,487	$ 2,085

Fair value hedges

Interest rate swaps designated as fair value hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without the exchange of the underlying notional amount. As of June 30, 2017, the Company had 52 interest rate swaps with a notional amount of $372.1 million that were designated as fair value hedges of interest rate risk associated with the Company's fixed-rate loans. As of December 31, 2016, the Company had 42 interest rate swaps with a notional amount of $313.0 million that were designated as fair value hedges.

For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in earnings. The Company includes the gain or loss on the hedged items in the same line item as the offsetting loss or gain on the related derivatives. During the three and six months ended June 30, 2017, the Company recognized a net loss of $207 thousand and $385 thousand, respectively, in non-interest income related to hedge ineffectiveness. During the three and six months ended June 30 2016, the Company recognized a net loss of $462 thousand and $1.1 million, respectively, in non-interest income related to hedge ineffectiveness.

Non-designated hedges

Derivatives not designated as hedges are not speculative and consist of interest rate swaps with commercial banking clients that facilitate their respective risk management strategies. Interest rate swaps are simultaneously hedged by offsetting interest rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. As the interest rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the client swaps and the offsetting swaps are recognized directly in earnings. As of June 30, 2017, the Company had 39 matched interest rate swap transactions with an aggregate notional amount of $161.3 million related to this program. As of December 31, 2016, the Company had 36 matched interest rate swap transactions with an aggregate notional amount of $132.6 million related to this program.

As part of its mortgage banking activities, the Company enters into interest rate lock commitments, which are commitments to originate loans where the interest rate on the loan is determined prior to funding and the customers have locked into that interest rate. The Company then locks in the loan and interest rate with an investor and commits to deliver the loan if settlement occurs ("best efforts") or commits to deliver the locked loan in a binding ("mandatory") delivery program with an investor. Fair value changes of certain loans under interest rate lock commitments are hedged with forward sales contracts of MBS. Forward sales contracts of MBS are recorded at fair value with changes in fair value recorded in non-interest income. Interest rate lock commitments and commitments to deliver loans to investors are considered derivatives. The market value of interest rate lock commitments and best efforts contracts are not readily ascertainable with precision because they are not actively traded in stand-alone markets. The Company determines the fair value of interest rate lock commitments and delivery contracts by measuring the fair value of the underlying asset, which is

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impacted by current interest rates, taking into consideration the probability that the interest rate lock commitments will close or will be funded.

Certain additional risks arise from these forward delivery contracts in that the counterparties to the contracts may not be able to meet the terms of the contracts. The Company does not expect any counterparty to any MBS contract to fail to meet its obligation. Additional risks inherent in mandatory delivery programs include the risk that, if the Company fails to deliver the loans subject to interest rate risk lock commitments, it will still be obligated to “pair off” MBS to the counterparty. Should this be required, the Company could incur significant costs in acquiring replacement loans and such costs could have an adverse effect on the consolidated financial statements.

The fair value of the mortgage banking derivative is recorded as a freestanding asset or liability with the change in value being recognized in current earnings during the period of change.

The Company had 59 interest rate lock commitments with a notional value of $12.4 million and nine forward contracts with a notional value of $10.0 million at June 30, 2017. At December 31, 2016, the Company had 78 interest rate lock commitments, with a notional value of $13.8 million, and eleven forward contracts with a notional value of $11.8 million.

Effect of derivative instruments on the consolidated statements of operations

The tables below present the effect of the Company’s derivative financial instruments on the consolidated statements of operations for the three and six months ended June 30, 2017 and 2016:

Derivatives in fair value hedging relationships	Location of gain (loss) recognized in income on derivatives	Amount of gain (loss) recognized in income on derivatives: For the three months ended June 30, 2017	For the three months ended June 30, 2016	For the six months ended June 30, 2017	For the six months ended June 30, 2016
Interest rate products	Other non-interest income	$ (3,169)	$ (6,513)	$ (2,105)	$ (17,414)
Total		$ (3,169)	$ (6,513)	$ (2,105)	$ (17,414)

Location of gain (loss)

Hedged items	recognized in income on hedged items	Amount of gain (loss) recognized in income on hedged items For the three months ended June 30, 2017	2016	For the six months ended June 30, 2017	2016
Interest rate products	Other non-interest income	$ 2,962	$ 6,051	$ 1,720	$ 16,281
Total		$ 2,962	$ 6,051	$ 1,720	$ 16,281

Derivatives not designated as hedging instruments	Location of gain (loss) recognized in income on derivatives	Amount of gain (loss) recognized in income on derivatives For the three months ended June 30, 2017	2016	For the six months ended June 30, 2017	2016
Interest rate products	Other non-interest expense	$ (47)	$ (89)	$ (79)	$ (183)
Interest rate lock commitments	Gain on sale of mortgages, net	(122)	332	1	332
Forward contracts	Gain on sale of mortgages, net	63	(178)	(131)	(178)
Total		$ (106)	$ 65	$ (209)	$ (29)

Credit-risk-related contingent features

The Company has agreements with its derivative counterparties that contain a provision where if the Company defaults on any of its indebtedness for reasons other than an error or omission of an administrative or operational nature, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations.

The Company also has agreements with certain of its derivative counterparties that contain a provision where if the Company fails to maintain its status as a well/adequately capitalized institution, then the counterparty has the right to terminate the derivative positions and the Company would be required to settle its obligations under the agreements.

As of June 30, 2017 and December 31, 2016, the termination value of derivatives in a net liability position related to these agreements was $1.1 million and $1.3 million, respectively, which includes accrued interest but excludes any adjustment for nonperformance risk. The Company has minimum collateral posting thresholds with certain of its derivative counterparties and as of June 30, 2017 and December 31, 2016, the Company had posted $2.8 million and $0.8 million, respectively, in eligible collateral. If the Company had

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breached any of these provisions at June 30, 2017, it could have been required to settle its obligations under the agreements at the termination value.

Note 15 Commitments and Contingencies

In the normal course of business, the Company enters into various off-balance sheet commitments to help meet the financing needs of clients. These financial instruments include commitments to extend credit, commercial and consumer lines of credit and standby letters of credit. The same credit policies are applied to these commitments as the loans on the consolidated statements of financial condition; however, these commitments involve varying degrees of credit risk in excess of the amount recognized in the consolidated statements of financial condition. At June 30, 2017 and December 31, 2016, the Company had loan commitments totaling $648.2 million and $602.2 million, respectively, and standby letters of credit that totaled $15.0 million and $13.5 million, respectively. The total amounts of unused commitments do not necessarily represent future credit exposure or cash requirements, as commitments often expire without being drawn upon. However, the contractual amount of these commitments, offset by any additional collateral pledged, represents the Company’s potential credit loss exposure.

Total unfunded commitments at June 30, 2017 and December 31, 2016 were as follows:

	June 30, 2017	December 31, 2016
Commitments to fund loans	$ 181,052	$ 149,391
Unfunded commitments under lines of credit	467,180	452,851
Commercial and standby letters of credit	15,030	13,532
Total unfunded commitments	$ 663,262	$ 615,774

Commitments to fund loans—Commitments to fund loans are legally binding agreements to lend to clients in accordance with predetermined contractual provisions providing there have been no violations of any conditions specified in the contract. These commitments are generally at variable interest rates and are for specific periods or contain termination clauses and may require the payment of a fee. The total amounts of unused commitments are not necessarily representative of future credit exposure or cash requirements, as commitments often expire without being drawn upon.

Unfunded commitments under lines of credit—In the ordinary course of business, the Company extends revolving credit to its clients. These arrangements may require the payment of a fee.

Commercial and standby letters of credit—As a provider of financial services, the Company routinely issues commercial and standby letters of credit, which may be financial standby letters of credit or performance standby letters of credit.

These are various forms of “back-up” commitments to guarantee the performance of a client to a third party. While these arrangements represent a potential cash outlay for the Company, the majority of these letters of credit will expire without being drawn upon. Letters of credit are subject to the same underwriting and credit approval process as traditional loans, and as such, many of them have various forms of collateral securing the commitment, which may include real estate, personal property, receivables or marketable securities.

Contingencies

In the ordinary course of business, the Company and the Bank may be subject to litigation. Based upon the available information and advice from the Company’s legal counsel, management does not believe that any potential, threatened or pending litigation to which it is a party will have a material adverse effect on the Company’s liquidity, financial condition or results of operations.

Note 16 Fair Value Measurements

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to disclose the fair value of its financial instruments. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For disclosure purposes, the Company groups its financial and non-financial assets and liabilities into three different levels based on the nature of the instrument and the availability and reliability of the information that is used to determine fair value. The three levels are defined as follows:

- Level 1—Includes assets or liabilities in which the inputs to the valuation methodologies are based on unadjusted quoted prices in active markets for identical assets or liabilities.

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- Level 2—Includes assets or liabilities in which the inputs to the valuation methodologies are based on similar assets or liabilities in inactive markets, quoted prices for identical or similar assets or liabilities in inactive markets, and inputs other than quoted prices that are observable, such as interest rates, yield curves, volatilities, prepayment speeds, and other inputs obtained from observable market input.
- Level 3—Includes assets or liabilities in which the inputs to the valuation methodology are based on at least one significant assumption that is not observable in the marketplace. These valuations may rely on management's judgment and may include internally-developed model-based valuation techniques.

Level 1 inputs are considered to be the most transparent and reliable and level 3 inputs are considered to be the least transparent and reliable. The Company assumes the use of the principal market to conduct a transaction of each particular asset or liability being measured and then considers the assumptions that market participants would use when pricing the asset or liability. Whenever possible, the Company first looks for quoted prices for identical assets or liabilities in active markets (level 1 inputs) to value each asset or liability. However, when inputs from identical assets or liabilities on active markets are not available, the Company utilizes market observable data for similar assets and liabilities. The Company maximizes the use of observable inputs and limits the use of unobservable inputs to occasions when observable inputs are not available. The need to use unobservable inputs generally results from the lack of market liquidity of the actual financial instrument or of the underlying collateral. Although, in some instances, third party price indications may be available, limited trading activity can challenge the observability of these quotations.

Changes in the valuation inputs used for measuring the fair value of financial instruments may occur due to changes in current market conditions or other factors. Such changes may necessitate a transfer of the financial instruments to another level in the hierarchy based on the new inputs used. The Company recognizes these transfers at the end of the reporting period that the transfer occurs. During the six months ended June 30, 2017 and 2016, there were no transfers of financial instruments between the hierarchy levels.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of each instrument under the valuation hierarchy:

Fair Value of Financial Instruments Measured on a Recurring Basis

Investment securities available-for-sale—Investment securities available-for-sale are carried at fair value on a recurring basis. To the extent possible, observable quoted prices in an active market are used to determine fair value and, as such, these securities are classified as level 1. At June 30, 2017 and December 31, 2016, the Company did not hold any level 1 securities. When quoted market prices in active markets for identical assets or liabilities are not available, quoted prices of securities with similar characteristics, discounted cash flows or other pricing characteristics are used to estimate fair values and the securities are then classified as level 2.

Interest rate swap derivatives—The Company's derivative instruments are limited to interest rate swaps that may be accounted for as fair value hedges or non-designated hedges. The fair values of the swaps incorporate credit valuation adjustments in order to appropriately reflect nonperformance risk in the fair value measurements. The credit valuation adjustment is the dollar amount of the fair value adjustment related to credit risk and utilizes a probability weighted calculation to quantify the potential loss over the life of the trade. The credit valuation adjustments are calculated by determining the total expected exposure of the derivatives (which incorporates both the current and potential future exposure) and then applying the respective counterparties' credit spreads to the exposure offset by marketable collateral posted, if any. Certain derivative transactions are executed with counterparties who are large financial institutions ("dealers"). International Swaps and Derivative Association Master Agreements ("ISDA") and Credit Support Annexes ("CSA") are employed for all contracts with dealers. These contracts contain bilateral collateral arrangements. The fair value inputs of these financial instruments are determined using discounted cash flow analysis through the use of third-party models whose significant inputs are readily observable market parameters, primarily yield curves, with appropriate adjustments for liquidity and credit risk, and are classified as level 2.

Mortgage banking derivatives—The Company relies on a third-party pricing service to value its mortgage banking derivative financial assets and liabilities, which the Company classifies as a level 3 valuation. The external valuation model to estimate the fair value of its interest rate lock commitments to originate residential mortgage loans held for sale includes grouping the interest rate lock commitments by interest rate and terms, applying an estimated pull-through rate based on historical experience, and then multiplying by quoted investor prices determined to be reasonably applicable to the loan commitment groups based on interest rate, terms, and rate lock expiration dates of the loan commitment groups. The Company also relies on an external valuation model to estimate the fair value of its forward commitments to sell residential mortgage loans (i.e., an estimate of what the Company would receive or pay to terminate the forward delivery contract based on market prices for similar financial instruments), which includes matching specific terms and maturities of the forward commitments against applicable investor pricing.

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The tables below present the financial instruments measured at fair value on a recurring basis as of June 30, 2017 and December 31, 2016 on the consolidated statements of financial condition utilizing the hierarchy structure described above:

	June 30, 2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Investment securities available-for-sale:				
Mortgage-backed securities (“MBS”):				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ —	$ 195,341	$ —	$ 195,341
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	—	668,631	—	668,631
Municipal securities	—	2,058	—	2,058
Interest rate swap derivatives	—	10,694	—	10,694
Mortgage banking derivatives	—	—	157	157
Total assets at fair value	$ —	$ 876,724	$ 157	$ 876,881
Liabilities:				
Interest rate swap derivatives	$ —	$ 4,729	$ —	$ 4,729
Mortgage banking derivatives	—	—	26	26
Total liabilities at fair value	$ —	$ 4,729	$ 26	$ 4,755

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Assets:				
Investment securities available-for-sale:				
Mortgage-backed securities (“MBS”):				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ —	$ 227,160	$ —	$ 227,160
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	—	652,739	—	652,739
Municipal securities	—	3,648	—	3,648
Interest rate swap derivatives	—	11,428	—	11,428
Mortgage banking derivatives	—	—	287	287
Total assets at fair value	$ —	$ 894,975	$ 287	$ 895,262
Liabilities:				
Interest rate swap derivatives	$ —	$ 3,279	$ —	$ 3,279
Mortgage banking derivatives	—	—	26	26
Total liabilities at fair value	$ —	$ 3,279	$ 26	$ 3,305

The table below details the changes in level 3 financial instruments during the six months ended June 30, 2017 and June 30, 2016:

	Mortgage banking derivatives, net
Balance at December 31, 2016	$ 261
Loss included in earnings, net	(130)
Balance at June 30, 2017	$ 131

Fair Value of Financial Instruments Measured on a Non-recurring Basis

Certain assets may be recorded at fair value on a non-recurring basis as conditions warrant. These non-recurring fair value measurements typically result from the application of lower of cost or fair value accounting or a write-down occurring during the period.

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The Company records collateral dependent loans that are considered to be impaired at their estimated fair value. A loan is considered impaired when it is probable that the Company will be unable to collect all contractual amounts due in accordance with the terms of the loan agreement. Collateral dependent impaired loans are measured based on the fair value of the collateral. The Company relies on third-party appraisals and internal assessments in determining the estimated fair values of these loans. The inputs used to determine the fair values of loans are considered level 3 inputs in the fair value hierarchy. At June 30, 2017, the Company measured seven loans not accounted for under ASC 310-30 at fair value on a non-recurring basis, with a carrying balance of $14.5 million and specific reserve balance of $6.2 million. At June 30, 2016, the Company measured six loans with a total carrying balance of $30.1 million and total specific reserves of $14.9 million.

The Company may be required to record fair value adjustments on loans held-for-sale on a non-recurring basis. The non-recurring fair value adjustments could involve lower of cost or fair value accounting and may include write-downs.

OREO is recorded at the lower of the cost basis or the fair value of the collateral less estimated selling costs. The estimated fair values of OREO are updated periodically and further write-downs may be taken to reflect a new basis. The Company recognized $46 thousand and $104 thousand of OREO impairments in its consolidated statements of operations during the six months ended June 30, 2017 and 2016, respectively. The fair values of OREO are derived from third party price opinions or appraisals that generally use an income approach or a market value approach. If reasonable comparable appraisals are not available, then the Company may use internally developed models to determine fair values. The inputs used to determine the fair values of OREO are considered level 3 inputs in the fair value hierarchy.

The table below provides information regarding the assets recorded at fair value on a non-recurring basis during the six months ended June 30, 2017 and 2016:

	June 30, 2017	
	Total	Losses from fair value changes
Other real estate owned	$ 14,297	$ 46
Impaired loans	39,379	327

	June 30, 2016	
	Total	Losses from fair value changes

Other real estate owned	$ 23,242	$ 104
Impaired loans	46,815	4,019

The Company did not record any liabilities for which the fair value was made on a non-recurring basis during the six months ended June 30, 2017.

The following table provides information about the valuation techniques and unobservable inputs used in the valuation of financial instruments classified as level 3 of the fair value hierarchy as of June 30, 2017. The table below excludes non-recurring fair value measurements of collateral value used for impairment measures for OREO and premises and equipment, and other available-for-sale and municipal securities valued at par. The below valuation utilizes third party appraisal or broker price opinions, and is classified as level 3 due to the significant judgment involved:

	Fair value at June 30, 2017	Valuation technique	Unobservable input	Qualitative measures
Impaired loans	39,379	Appraised value	Appraised values	
			Discount rate	0% - 25%

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Note 17 Fair Value of Financial Instruments

The fair value of a financial instrument is the amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is determined based upon quoted market prices to the extent possible; however, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques that may be significantly impacted by the assumptions used, including the discount rate and estimates of future cash flows. Changes in any of these assumptions could significantly affect the fair value estimates. The fair value of the financial instruments listed below does not reflect a premium or discount that could result from offering all of the Company's holdings of financial instruments at one time, nor does it reflect the underlying value of the Company, as ASC Topic 825 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. The fair value of financial instruments at June 30, 2017 and December 31, 2016, including methods and assumptions utilized for determining fair value of financial instruments, are set forth below:

	Level in fair value measurement hierarchy	June 30, 2017		December 31, 2016	
		Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
ASSETS					
Cash and cash equivalents	Level 1	$ 129,827	$ 129,827	$ 152,736	$ 152,736
Mortgage-backed securities—residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises available-for-sale	Level 2	195,341	195,341	227,160	227,160
Mortgage-backed securities—other residential mortgage-backed securities issued or guaranteed by U.S. Government agencies or sponsored enterprises available-for-sale	Level 2	668,631	668,631	652,739	652,739
Municipal securities	Level 2	2,058	2,058	3,648	3,648
Municipal securities	Level 3	265	265	265	265
Other available-for-sale securities	Level 3	419	419	419	419
Mortgage-backed securities—residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	Level 2	233,026	234,194	263,411	264,862

held-to-maturity					
Mortgage-backed securities—other residential mortgage-backed securities issued or guaranteed by U.S. Government agencies or sponsored enterprises held-to-maturity	Level 2	61,865	60,675	69,094	67,711
Non-marketable securities	Level 2	18,468	18,468	14,949	14,949
Loans receivable	Level 3	3,087,945	3,096,298	2,860,921	2,879,860
Loans held-for-sale	Level 2	7,067	7,067	24,187	24,187
Accrued interest receivable	Level 2	13,294	13,294	12,562	12,562
Interest rate swap derivatives	Level 2	10,694	10,694	11,428	11,428
Mortgage banking derivatives	Level 3	157	157	287	287
LIABILITIES					
Deposit transaction accounts	Level 2	2,730,976	2,730,976	2,696,603	2,696,603
Time deposits	Level 2	1,126,481	1,126,481	1,172,046	1,172,046
Securities sold under agreements to repurchase	Level 2	119,213	119,213	92,011	92,011
Federal Home Loan Bank advances	Level 2	129,115	130,642	38,665	39,324
Accrued interest payable	Level 2	5,098	5,098	4,973	4,973
Interest rate swap derivatives	Level 2	4,729	4,729	3,279	3,279
Mortgage banking derivatives	Level 3	26	26	187	187

Cash and cash equivalents

Cash and cash equivalents have a short-term nature and the estimated fair value is equal to the carrying value.

Investment securities

The estimated fair value of investment securities is based on quoted market prices or bid quotations received from securities dealers. Other investment securities, including securities that are held for regulatory purposes are carried at cost, less any other- than-temporary impairment.

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Loans receivable

The estimated fair value of the loan portfolio is estimated using a discounted cash flow analysis using a discount rate based on interest rates offered at the respective measurement dates for loans with similar terms to borrowers of similar credit quality. The allowance for loan losses is considered a reasonable estimate of any required adjustment to fair value to reflect the impact of credit risk. The estimates of fair value do not incorporate the exit-price concept prescribed by ASC Topic 820, Fair Value Measurements and Disclosures.

Loans held-for-sale

Loans held-for-sale are carried at the lower of aggregate cost or estimated fair value. The portfolio consists primarily of fixed rate residential mortgage loans that are sold within 45 days. The estimated fair value is based on quoted market prices for similar loans in the secondary market and is classified as level 2.

Accrued interest receivable

Accrued interest receivable has a short-term nature and the estimated fair value is equal to the carrying value.

Deposits

The estimated fair value of deposits with no stated maturity, such as non-interest bearing demand deposits, savings, NOW accounts, and money market accounts, is equal to the amount payable on demand. The fair value of interest-bearing time deposits is based on the discounted value of contractual cash flows of such deposits, taking into account the option for early withdrawal. The discount rate is estimated using the rates offered by the Company, at the respective measurement dates, for deposits of similar remaining maturities. The fair value of time deposits has a floor equal to the carrying value as the amount payable on demand would approximate the carrying value.

Derivative assets and liabilities

Fair values for derivative assets and liabilities are fully described in note 16 of the consolidated financial statements.

Securities sold under agreements to repurchase

The vast majority of the Company’s repurchase agreements are overnight transactions that mature the day after the transaction, and as a result of this short-term nature, the estimated fair value is equal to the carrying value.

Accrued interest payable

Accrued interest payable has a short-term nature and the estimated fair value is equal to the carrying value.

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Item 2: MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following management's discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes as of and for the three and six months ended June 30, 2017, and with our annual report on Form 10-K (file number 001-35654), which includes our audited consolidated financial statements and related notes as of and for the years ended December 31, 2016, 2015, and 2014. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions that may cause actual results to differ materially from management's expectations. Factors that could cause such differences are discussed in the section entitled “Cautionary Note Regarding Forward-Looking Statements” located elsewhere in this quarterly report and in Item 1A“Risk Factors” in the annual report on Form 10-K, referenced above, and should be read herewith.

On December 31, 2015, our bank subsidiary converted to a Colorado state-chartered bank and changed its name from NBH Bank, N.A. to NBH Bank. All references to NBH Bank should be considered synonymous with references to NBH Bank, N.A. prior to the conversion and name change.

All amounts are in thousands, except share data, or as otherwise noted.

Overview

Our focus is on building strong banking relationships with small to medium-sized businesses and consumers, while maintaining a low risk profile designed to generate reliable income streams and attractive returns. We have established a solid financial services franchise with a sizable presence for deposit gathering and building client relationships necessary for growth. We believe that our established presence in core markets that are outperforming national averages positions us well for growth opportunities. As of June 30, 2017, we had $4.7 billion in assets, $3.1 billion in loans, $3.9 billion in deposits and $0.5 billion in equity.

Operating Highlights and Key Challenges

Our operations resulted in the following highlights as of and for the six months ended June 30, 2017 (except as noted):

Strategic execution

Net income was $17.5 million, or $0.63 per diluted share, compared to net income of $4.8 million, or $0.16 per diluted share, for the same period in the prior year. The return on average tangible assets was 0.84% compared to 0.28% for the same period in the prior year. The return on average tangible common equity was 7.93% compared to 2.36% for the same period in the prior year.
Originated loan outstandings totaled $2.8 billion and increased $259.3 million, or 20.4% annualized, since December 31, 2016.
Maintained a conservatively structured loan portfolio represented by diverse industries and concentrations with most industry sector concentrations at 5% or less of total loans and all concentration levels remain well below our self-imposed limits.
Capital ratios in excess of federal bank regulatory agency "well capitalized" thresholds.
Completed divestiture of four banking centers during the second quarter of 2017, resulting in a gain of $2.9 million included in other non-interest income.
Announced the acquisition of Peoples, Inc. which is expected to add $865 million in assets, $483 million of loans held for investment and $719 million of deposits as of March 31, 2017, as well as a complementary franchise-centric retail mortgage business, which originates over $1.0 billion of mortgage loans per year. The transaction is expected to close in the fourth quarter of 2017.

Loan portfolio

Total loans ended the quarter at $3.1 billion and increased $227.0 million, or 16.0% annualized, since December 31, 2016, driven by new loan originations of $466.2 million. Total loans at June 30, 2017 increased $349.4 million, or 12.8% since June 30, 2016, on the strength of $1.0 billion in loan originations.
Non 310-30 loans increased $238.5 million, or 17.7% annualized, led by total commercial loans increasing 28.9% annualized, since December 31, 2016.

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Successfully exited $11.4 million, or 15.8% annualized, of the remaining acquired 310-30 loan portfolio, since December 31, 2016.

Non 310-30 credit quality

Credit quality remained stable, as 90 days past due and non-accruing loans were 1.11% of total loans at June 30, 2017 compared to 1.13% at December 31, 2016. Non-performing assets to total loans and OREO totaled 1.51% at June 30, 2017 compared to 1.61% at December 31, 2016.
Annualized net charge-offs on non 310-30 loans totaled 0.00% of average non 310-30 loans, compared to 0.34% for the same period in the prior year, or 0.06% excluding the energy portfolio.
Provision for loan losses totaled $5.9 million compared to $17.9 million in the same period in the prior year, a decrease of $12.0 million driven by an energy sector provision of $15.1 million during the first six months of 2016.

Client deposit funded balance sheet

Total deposits averaged $3.9 billion and increased $27.8 million from the same period in the prior year, adjusting for the banking center divestitures.
Demand deposits averaged $833.2 million and grew $38.2 million, or 4.8%, compared to the same period in the prior year, adjusting for the banking center divestitures.
Higher-cost average time deposits decreased $20.0 million, compared to the same period in the prior year.
The mix of transaction deposits to total deposits improved to 70.8% from 69.1% at June 30, 2016.
The average cost of deposits totaled 0.40% increasing from 0.35% in the prior year primarily due to higher cost of time deposits.
Repurchase agreements averaged $81.7 million, decreasing $28.6 million compared to the same period in the prior year, due to temporary client funds from one client in the prior year.

Revenues

Fully taxable equivalent (FTE) net interest income totaled $74.3 million and decreased $0.5 million, from the same period in the prior year, due to lower average cash balances and high yielding 310-30 loans, partially offset by a 0.02% increase in the FTE net interest margin from 3.47% to 3.49%.
The FTE net interest margin widened from 3.47% to 3.49% from June 30, 2016 due to a 0.09% increase in the yield on earning assets, benefiting from higher yields on our variable rate loans, primarily from the short-term market rate increases, and partially offset by lower levels of high yielding 310-30 loans.
Non-interest income totaled $20.7 million, increasing $2.2 million from the same period in the prior year, driven by a $2.9 million gain from banking center divestitures during the second quarter of 2017 and a $1.1 million

increase in swap related income due to interest rate movements. In addition, the prior year included a $1.8 million gain on sale of a building.

Service charges and bank card fees increased a combined $0.4 million, or 3.1% from the same period in the prior year, due to higher treasury management fees and higher interchange activity. Gain on sale of mortgages decreased $0.4 million due to lower volumes.

Expenses

Non-interest expense totaled $68.0 million, representing a decrease of $0.2 million from the same period in the prior year.

Problem asset workout expenses and gain on sale of OREO increased a combined $0.1 million from the same period in the prior year.

Income tax expense totaled $0.9 million, including a benefit of $3.4 million due to tax benefits from stock compensation activity. Without this $3.4 million benefit, tax expense would have been $4.3 million, an effective tax rate of 23.5%.

Strong capital position

Capital ratios are strong as our capital position remains well in excess of federal bank regulatory thresholds. As of June 30, 2017, our consolidated tier 1 leverage ratio was 10.3% and our consolidated tier 1 risk-based capital and common equity tier 1 risk-based capital ratios were both 13.3%.

At June 30, 2017, common book value per share was $20.33, while tangible common book value per share was $18.32.

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Since early 2013, we have repurchased 26.6 million shares, or 50.9% of then outstanding shares, at an attractive weighted average price of $20.03 per share.

Key Challenges

There are a number of significant challenges confronting us and our industry. In our short history, we have acquired distressed financial institutions, and sought to rebuild them and implement operational efficiencies across the enterprise as a whole. We face continual challenges implementing our business strategy, including growing the assets and deposits of our business amidst intense competition, particularly for loans and deposits, low interest rates, changes in the regulatory environment and identifying and consummating disciplined merger and acquisition opportunities in a very competitive environment.

General economic conditions continued to improve in the second quarter of 2017. Residential real estate values have largely recovered from their lows and commercial real estate property fundamentals continued to improve in our markets and nationally across all property types and classes. A significant portion of our loan portfolio is secured by real estate and any deterioration in real estate values or credit quality or elevated levels of non-performing assets would ultimately have a negative impact on the quality of our loan portfolio.

Oil and gas prices began a steep decline in November 2014 and have remained volatile through the second quarter of 2017. While there have been job losses related to the Energy sector, employment rates and job creation have trended favorably as other industry sectors have offset declines in Energy. Nevertheless, the direct impact on the Energy sector has been profound and we have experienced credit deterioration and credit losses in our Energy loan portfolio. Energy loans comprised 3.2% of our total loans at June 30, 2017 and prolonged or further pricing pressure on oil and gas could lead to additional credit stress in our energy portfolio.

The agriculture industry is in the third year of depressed commodity prices. Our agriculture portfolio is only 4.3% of total loans and is well-diversified across crop and livestock types. We have maintained prudent client selectivity, leading to agriculture clients possessing low leverage and, correspondingly, low bank debt to assets, minimizing any potential credit losses in the future.

Our originated loan portfolio at June 30, 2017 totaled $2.8 billion, representing an increase of $259.3 million, or 20.4% annualized compared to December 31, 2016, due to $466.2 million in loan originations, partially offset by loan paydowns and payoffs during the six months ended June 30, 2017. Our acquired loans have produced higher yields than our originated loans, due to accretion of fair value adjustments. During the six months ended June 30, 2017, our weighted average rate on loan originations at the time of origination was 4.00% (fully taxable equivalent), compared to the six months ended June 30, 2017 weighted average yield of our total loan portfolio of 4.71% (fully taxable equivalent). Downward pressure on the yields of our total loan portfolio will continue to the extent that our originated loan portfolio does not provide sufficient yields to replace the high yields on the acquired loan portfolio as they pay down or pay off. Fully taxable equivalent net interest income reached an inflection point in the second quarter of 2017 as the yields and volumes of originated loans outpaced the decrease in higher yielding acquired loan balances. The inflection point was driven by both the strong new loan originations as well as the short-term market rate increases in 2017. Future growth in our interest income will ultimately be dependent on our ability to continue to generate sufficient volumes of high-quality originated loans.

Continued regulation, impending new liquidity and capital constraints, and a continual need to bolster cybersecurity are adding costs and uncertainty to all U.S. banks and could affect profitability. Also, nontraditional participants in the market may offer increased competition as non-bank payment businesses are expanding into traditional banking products. While certain external factors are out of our control and may provide obstacles to our business strategy, we believe that we are prepared to deal with these challenges. We seek to remain flexible, yet methodical and proactive, in our strategic decision making so that we can quickly respond to market changes and the inherent challenges and opportunities that accompany such changes.

Performance Overview

In evaluating the consolidated statements of financial condition and results of operations financial statement line items, we evaluate and manage our performance based on key earnings indicators, balance sheet ratios, asset quality metrics and regulatory capital ratios, among others. The table below presents some of the primary performance indicators that we use to analyze our business on a regular basis for the periods indicated:

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	As of and for the three months ended			As of and for the six months ended	
	June 30, 2017	December 31, 2016	June 30, 2016	June 30, 2017	June 30, 2016
Key Ratios(1)					
Return on average assets	0.79%	0.87%	0.38%	0.76%	0.20%
Return on average tangible assets(2)	0.87%	0.95%	0.45%	0.84%	0.28%
Return on average tangible assets before provision for loan losses and taxes FTE(2)	1.58%	1.21%	1.22%	1.30%	1.20%
Return on average equity	6.78%	7.31%	3.01%	6.50%	1.57%
Return on average tangible common equity(2)	8.21%	8.87%	3.98%	7.93%	2.36%
Interest earning assets to interest bearing liabilities (end of period)(3)	134.02%	133.44%	135.31%	134.02%	135.31%
Loans to deposits ratio (end of period)	80.23%	74.58%	72.30%	80.23%	72.30%
Non-interest bearing deposits to total deposits (end of period)	22.58%	21.89%	21.89%	22.58%	21.89%
Net interest margin(4)	3.42%	3.37%	3.17%	3.37%	3.37%
Net interest margin FTE(2)(4)	3.55%	3.46%	3.26%	3.49%	3.47%
Interest rate spread(5)	3.41%	3.34%	3.15%	3.36%	3.35%
Yield on earning assets(3)	3.84%	3.73%	3.50%	3.77%	3.71%
Yield on earning assets FTE(2)(3)	3.96%	3.83%	3.60%	3.89%	3.80%
Cost of interest bearing liabilities(3)	0.55%	0.49%	0.45%	0.53%	0.45%
Cost of deposits	0.40%	0.38%	0.36%	0.40%	0.35%
Non-interest expense to average assets	2.87%	2.98%	2.80%	2.96%	2.91%
Efficiency ratio FTE(2)(6)	63.83%	70.62%	69.00%	68.80%	70.23%
Asset Quality Data(7)(8)(9)					
Non-performing loans to total loans	1.05%	1.07%	1.37%	1.05%	1.37%
Non-performing assets to total loans and OREO	1.51%	1.61%	2.23%	1.51%	2.23%
Allowance for loan losses to total loans	1.13%	1.02%	1.46%	1.13%	1.46%
Allowance for loan losses to non-performing loans	107.72%	94.98%	107.16%	107.72%	107.16%
Net charge-offs (recoveries) to average loans(1)	(0.01)%	0.02%	0.55%	0.00%	0.32%

(1) Ratios are annualized.

(2) Ratio represents non-GAAP financial measure. See non-GAAP reconciliation below.

(3) Interest earning assets include assets that earn interest/accretion or dividends which is not part of interest earning assets. Any market value adjustments on investment securities are excluded from interest-earning assets. Interest bearing liabilities include liabilities that must be paid interest.

(4) Net interest margin represents net interest income, including accretion income on interest earning assets, as a percentage of average interest earning assets.

(5) Interest rate spread represents the difference between the weighted average yield on interest earning assets and the weighted average cost of interest bearing liabilities.

(6) The efficiency ratio represents non-interest expense, less intangible asset amortization, as a percentage of net interest income on a FTE basis plus non-interest income and is considered a non-GAAP ratio.

(7) Non-performing loans consist of non-accruing loans and restructured loans on non-accrual, but exclude any loans accounted for under ASC 310-30 in which the pool is still performing. These ratios may, therefore, not be comparable to similar ratios of our peers.
(8) Non-performing assets include non-performing loans, other real estate owned and other repossessed assets.
(9) Total loans are net of unearned discounts and fees.

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About Non-GAAP Financial Measures

Certain of the financial measures and ratios we present, including “tangible assets,” “return on average tangible assets,” “return on average tangible assets before provision for loan losses and taxes,” “return on average tangible common equity,” “tangible common book value,” “tangible common book value per share,” “tangible common equity,” "tangible common equity to tangible assets," and "fully taxable equivalent (FTE)" metrics are supplemental measures that are not required by, or are not presented in accordance with, U.S. generally accepted accounting principles (GAAP). We refer to these financial measures and ratios as “non-GAAP financial measures.” We consider the use of select non-GAAP financial measures and ratios to be useful for financial and operational decision making and useful in evaluating period-to-period comparisons. We believe that these non-GAAP financial measures provide meaningful supplemental information regarding our performance by excluding certain expenditures or assets that we believe are not indicative of our primary business operating results or by presenting certain metrics on a FTE basis. We believe that management and investors benefit from referring to these non-GAAP financial measures in assessing our performance and when planning, forecasting, analyzing and comparing past, present and future periods.

These non-GAAP financial measures should not be considered a substitute for financial information presented in accordance with GAAP and you should not rely on non-GAAP financial measures alone as measures of our performance. The non-GAAP financial measures we present may differ from non-GAAP financial measures used by our peers or other companies. We compensate for these limitations by providing the equivalent GAAP measures whenever we present the non-GAAP financial measures and by including a reconciliation of the impact of the components adjusted for in the non-GAAP financial measure so that both measures and the individual components may be considered when analyzing our performance.

A reconciliation of our GAAP financial measures to the comparable non-GAAP financial measures is as follows.

Tangible Common Book Value Ratios

	June 30, 2017	December 31, 2016	June 30, 2016
Total shareholders’ equity	$ 544,487	$ 536,189	$ 598,910
Less: goodwill and intangible assets, net	(63,840)	(66,580)	(69,320)
Add: deferred tax liability related to goodwill	10,098	9,323	8,547
Tangible common equity (non-GAAP)	$ 490,745	$ 478,932	$ 538,137
Total assets	$ 4,692,769	$ 4,573,046	$ 4,627,820
Less: goodwill and intangible assets, net	(63,840)	(66,580)	(69,320)
Add: deferred tax liability related to goodwill	10,098	9,323	8,547
Tangible assets (non-GAAP)	$ 4,639,027	$ 4,515,789	$ 4,567,047

Tangible common equity to tangible assets calculations:			
Total shareholders' equity to total assets	11.60%	11.72%	12.95%
Less: impact of goodwill and intangible assets, net	(1.02)%	(1.11)%	(1.17)%
Tangible common equity to tangible assets (non-GAAP)	10.58%	10.61%	11.78%
Tangible common book value per share calculations:			
Tangible common equity (non-GAAP)	$ 490,745	$ 478,932	$ 538,137
Divided by: ending shares outstanding	26,788,833	26,386,583	28,810,883
Tangible common book value per share (non-GAAP)	$ 18.32	$ 18.15	$ 18.68
Tangible common book value per share, excluding accumulated other comprehensive income calculations:			
Tangible common equity (non-GAAP)	$ 490,745	$ 478,932	$ 538,137
Less: accumulated other comprehensive loss (income), net of tax	1,196	1,762	(11,278)
Tangible common book value, excluding accumulated other comprehensive income, net of tax (non-GAAP)	491,941	480,694	526,859
Divided by: ending shares outstanding	26,788,833	26,386,583	28,810,883
Tangible common book value per share, excluding accumulated other comprehensive income, net of tax (non-GAAP)	$ 18.36	$ 18.22	$ 18.29

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Return on Average Tangible Assets and Return on Average Tangible Equity

	As of and for the three months ended			As of and for the six months ended	
	June 30, 2017	December 31, 2016	June 30, 2016	June 30, 2017	June 30, 2016
Net income	$ 9,209	$ 9,989	$ 4,504	$ 17,467	$ 4,755
Add: impact of core deposit intangible amortization expense, after tax	836	836	836	1,671	1,671
Net income adjusted for impact of core deposit intangible amortization expense, after tax	$ 10,045	$ 10,825	$ 5,340	$ 19,138	$ 6,426
Income before income taxes FTE (non-GAAP)	$ 12,773	$ 11,098	$ 6,523	$ 21,060	$ 7,939
Add: impact of core deposit intangible amortization expense, before tax	1,370	1,370	1,370	2,740	2,740
Add: provision for loan losses	4,025	1,282	6,457	5,820	17,076
FTE income adjusted for impact of core deposit intangible amortization expense and provision (non-GAAP)	$ 18,168	$ 13,750	$ 14,350	$ 29,620	$ 27,755
Average assets	$ 4,675,614	$ 4,592,228	$ 4,783,298	$ 4,641,432	$ 4,708,049
Less: average goodwill and intangible assets, net of deferred tax asset related to goodwill	(54,420)	(57,932)	(61,445)	(55,102)	(62,130)
Average tangible assets (non-GAAP)	$ 4,621,194	$ 4,534,296	$ 4,721,853	$ 4,586,330	$ 4,645,919
Average shareholders' equity	$ 545,167	$ 543,421	$ 601,142	$ 541,563	$ 608,676
Less: average goodwill and intangible assets, net of deferred tax asset related to goodwill	(54,420)	(57,932)	(61,445)	(55,102)	(62,130)
Average tangible common equity (non-GAAP)	$ 490,747	$ 485,489	$ 539,697	$ 486,461	$ 546,546
Return on average assets	0.79%	0.87%	0.38%	0.76%	0.20%
Return on average tangible assets (non-GAAP)	0.87%	0.95%	0.45%	0.84%	0.28%
Return on average tangible assets before provision for loan losses and taxes FTE (non-GAAP)	1.58%	1.21%	1.22%	1.30%	1.20%

Return on average equity	6.78%	7.31%	3.01%	6.50%	1.57%
Return on average tangible common equity (non-GAAP)	8.21%	8.87%	3.98%	7.93%	2.36%

Fully Taxable Equivalent Yield on Earning Assets and Net Interest Margin