National Bank Holdings Corp
Form 10-Q
November 03, 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 September 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 November 1, 2017, the registrant had outstanding 26,848,151 shares of Class A voting common stock, each with $0.01 par value per share, excluding 166,186 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)

	September 30, 2017	December 31, 2016
ASSETS		
Cash and due from banks	$ 221,160	$ 152,736
Interest bearing bank deposits	20,000	—
Cash and cash equivalents	241,160	152,736
Investment securities available-for-sale (at fair value)	812,051	884,232
Investment securities held-to-maturity (fair value of $275,608 and $332,573 at September 30, 2017 and December 31, 2016, respectively)	275,370	332,505
Non-marketable securities	15,537	14,949
Loans	3,120,543	2,860,921
Allowance for loan losses	(30,047)	(29,174)
Loans, net	3,090,496	2,831,747
Loans held for sale	12,212	24,187
Other real estate owned	12,330	15,662
Premises and equipment, net	91,654	95,671
Goodwill	59,630	59,630
Intangible assets, net	2,840	6,949
Other assets	155,692	154,778
Total assets	$ 4,768,972	$ 4,573,046
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing demand deposits	$ 910,675	$ 846,744
Interest bearing demand deposits	431,786	427,538
Savings and money market	1,470,714	1,422,321
Time deposits	1,133,167	1,172,046
Total deposits	3,946,342	3,868,649
Securities sold under agreements to repurchase	92,814	92,011
Federal Home Loan Bank advances	129,115	38,665
Other liabilities	50,457	37,532
Total liabilities	4,218,728	4,036,857
Shareholders' equity:		
Common stock, par value $0.01 per share: 400,000,000 shares authorized; 51,585,248 and 51,813,011 shares issued; 26,802,964 and	515	514

26,386,583 shares outstanding at September 30, 2017 and December 31, 2016, respectively		
Additional paid-in capital	972,027	984,087
Retained earnings	73,358	55,454
Treasury stock of 24,535,807 and 24,927,157 shares at September 30, 2017 and December 31, 2016, respectively, at cost	(494,321)	(502,104)
Accumulated other comprehensive loss, net of tax	(1,335)	(1,762)
Total shareholders' equity	550,244	536,189
Total liabilities and shareholders' equity	$ 4,768,972	$ 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 September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
Interest and dividend income:				
Interest and fees on loans	$ 36,064	$ 33,450	$ 102,238	$ 96,477
Interest and dividends on investment securities	6,005	7,094	19,108	23,088
Dividends on non-marketable securities	234	160	619	581
Interest on interest-bearing bank deposits	276	60	687	644
Total interest and dividend income	42,579	40,764	122,652	120,790
Interest expense:				
Interest on deposits	4,068	3,479	11,759	10,305
Interest on borrowings	613	221	1,380	630
Total interest expense	4,681	3,700	13,139	10,935
Net interest income before provision for loan losses	37,898	37,064	109,513	109,855
Provision for loan losses	3,880	5,293	9,700	22,369
Net interest income after provision for loan losses	34,018	31,771	99,813	87,486
Non-interest income:				
Service charges	3,585	3,662	10,458	10,387
Bank card fees	3,076	2,828	9,014	8,530
Gain on sale of mortgages, net	668	819	1,716	2,251
Bank-owned life insurance income	475	497	1,417	1,378
Other non-interest income	1,611	2,135	7,149	5,299
OREO related income	136	1,667	449	2,190
Total non-interest income	9,551	11,608	30,203	30,035
Non-interest expense:				
Salaries and benefits	19,363	20,091	59,662	60,315
Occupancy and equipment	5,208	5,666	15,887	17,440
Telecommunications and data processing	1,702	1,487	4,841	4,599
Marketing and business development	683	687	1,878	1,802
FDIC deposit insurance	715	734	2,106	2,719
Bank card expenses	971	1,133	2,751	3,009
Professional fees	754	909	2,441	2,343
Other non-interest expense	2,700	2,198	7,839	6,265
Problem asset workout	1,636	1,172	3,389	3,104
Gain on OREO sales, net	(497)	(2,077)	(2,254)	(4,120)
Intangible asset amortization	1,370	1,370	4,110	4,110

Total non-interest expense	34,605	33,370	102,650	101,586
Income before income taxes	8,964	10,009	27,366	15,935
Income tax expense	1,733	1,695	2,668	2,866
Net income	$ 7,231	$ 8,314	$ 24,698	$ 13,069
Income per share—basic	$ 0.27	$ 0.30	$ 0.92	$ 0.45
Income per share—diluted	$ 0.26	$ 0.30	$ 0.89	$ 0.45
Weighted average number of common shares outstanding:				
Basic	26,947,821	27,654,827	26,902,128	28,991,094
Diluted	27,628,734	27,898,756	27,636,675	29,111,322

See accompanying notes to the consolidated interim financial statements.

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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Unaudited)

(In thousands)

	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
Net income	$ 7,231	$ 8,314	$ 24,698	$ 13,069
Other comprehensive (loss) income, net of tax:				
Securities available-for-sale:				
Net unrealized gains (losses) arising during the period, net of tax (expense) benefit of ($121) and $1,376 for the three months ended September 30, 2017 and 2016, respectively; and net of tax expense of ($913) and ($6,111) for the nine months ended September 30, 2017 and 2016, respectively	197	(2,242)	1,473	9,956
Less: amortization of net unrealized holding gains to income, net of tax benefit of $207 and $300 for the three months ended September 30, 2017 and 2016, respectively; and net of tax benefit of $642 and $923 for the nine months ended September 30, 2017 and 2016, respectively	(336)	(489)	(1,046)	(1,504)
Other comprehensive (loss) income	(139)	(2,731)	427	8,452
Comprehensive income	$ 7,092	$ 5,583	$ 25,125	$ 21,521

See accompanying notes to the consolidated interim financial statements.

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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

Nine months ended September 30, 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	—	—	13,069	—	—	13,069
Stock-based compensation	—	2,692	—	—	—	2,692
Issuance of stock under equity compensation plans, including loss on reissuance of treasury stock of $5, net	1	(2,953)	—	2,669	—	(283)
Repurchase of 4,231,874 shares	—	—	—	(87,310)	—	(87,310)
Cash dividends declared ($0.15 per share)	—	—	(4,392)	—	—	(4,392)
Other comprehensive income	—	—	—	—	8,452	8,452
Balance, September 30, 2016	$ 514	$ 997,665	$ 47,347	$ (504,301)	$ 8,547	$ 549,772
Balance, December 31, 2016	$ 514	$ 984,087	$ 55,454	$ (502,104)	$ (1,762)	$ 536,189
Net income	—	—	24,698	—	—	24,698
Stock-based compensation	—	2,771	—	—	—	2,771
Issuance of stock under purchase and equity compensation plans, including gain on reissuance of treasury stock of $5,080, net	1	(12,898)	—	5,850	—	(7,047)
Cash dividends declared ($0.25 per share)	—	—	(6,794)	—	—	(6,794)
Warrant exercise	—	(1,933)	—	1,933	—	—
Other comprehensive income	—	—	—	—	427	427
	$ 515	$ 972,027	$ 73,358	$ (494,321)	$ (1,335)	$ 550,244

Balance,
September 30, 2017

See accompanying notes to the consolidated interim financial statements.

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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	For the nine months ended September 30, 2017	2016
Cash flows from operating activities:		
Net income	$ 24,698	$ 13,069
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	9,700	22,369
Depreciation and amortization	9,862	10,864
Current income tax receivable	570	3,310
Deferred income taxes	2,116	6,846
Net excess tax (benefit) deficit on stock-based compensation	(3,442)	86
Discount accretion, net of premium amortization on securities	1,953	2,352
Loan accretion	(18,936)	(27,939)
Gain on sale of mortgages, net	(1,716)	(2,251)
Origination of loans held for sale, net of repayments	(66,333)	(79,747)
Proceeds from sales of loans held for sale	75,619	71,756
Bank-owned life insurance income	(1,417)	(1,378)
Gain on the sale of other real estate owned, net	(2,254)	(4,120)
Impairment on other real estate owned	766	262
Loss (gain) on sale of fixed assets	33	(1,840)
Gain from banking center divestitures	(2,886)	—
Stock-based compensation	2,771	2,692
Increase in other assets	(2,299)	(6,892)
Increase in other liabilities	9,917	17,747
Net cash provided by operating activities	38,722	27,186
Cash flows from investing activities:		
Purchase of FHLB stock	(7,377)	(1,859)
Proceeds from redemption of FHLB stock	6,789	7,051
Proceeds from redemption of FRB stock	—	4,964
Proceeds from maturities of investment securities held-to-maturity	55,083	69,218
Proceeds from maturities of investment securities available-for-sale	171,326	207,413
Purchase of investment securities available-for-sale	(98,503)	(4,872)
Net increase in loans	(273,127)	(239,203)
(Purchases) sale of premises and equipment, net	(1,769)	1,328
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	5,580	8,227
Net cash (used in) provided by investing activities	(108,185)	51,154
Cash flows from financing activities:		
Net increase (decrease) in deposits	80,579	(15,670)
Increase (decrease) in repurchase agreements	803	(23,216)
Advances from FHLB	263,129	71,359

FHLB payoffs	(172,679)	(60,000)
Issuance of stock under purchase and equity compensation plans	(7,125)	(322)
Proceeds from exercise of stock options	78	—
Payment of dividends	(6,898)	(4,296)
Repurchase of shares	—	(87,310)
Net cash provided by (used in) financing activities	157,887	(119,455)
Increase (decrease) in cash and cash equivalents	88,424	(41,115)
Cash and cash equivalents at beginning of the year	152,736	166,092
Cash and cash equivalents at end of period	$ 241,160	$ 124,977
Supplemental disclosure of cash flow information during the period:		
Cash paid for interest	$ 11,437	$ 9,336
Net tax payments (refunds)	$ 33	$ (2,152)
Supplemental schedule of non-cash investing activities:		
Loans transferred to other real estate owned at fair value	$ 760	$ 4,755
Loans purchased but not settled	$ 6,554	$ 11,537
Loans transferred from loans held for sale to loans	$ 4,406	$ —

See accompanying notes to the consolidated interim financial statements.

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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

September 30, 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 85 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 new guidance does not apply to revenue associated with financial assets and liabilities including loans, leases, securities, and derivatives that are accounted for under other GAAP. Accordingly, the majority of the Company’s revenues will not be affected. The Company has completed its review of revenue streams and contracts with customers and has determined deposit service charges and bank card fees are within the scope of the ASU, but has not identified changes to the timing or amount of revenue recognition.

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Accounting policies and procedures are not expected to change materially since the principals of revenue recognition from the ASU are largely consistent with existing guidance and current practices applied by the Company. The Company continues to assess the expanded revenue disclosure requirements under the new standard. The Company will adopt ASU No. 2014-09 on January 1, 2018 utilizing 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.

Derivatives and Hedging - Targeted Improvements to Accounting for Hedging Activities—In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities (ASU 2017-12). The purpose of this updated guidance is to better align a company’s financial reporting for hedging activities with the economic objectives of those activities. ASU 2017-12 is effective for public business entities for fiscal years beginning after December 15, 2018, with early adoption, including adoption in an interim period, permitted. ASU 2017-12 requires a modified retrospective transition method in which the Company will recognize the cumulative effect of the change on the opening balance of each affected component of equity in the consolidated statements of financial condition as of the date of adoption. While the Company continues to assess all potential impacts of the standard, we currently expect adoption to have an immaterial impact on our 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 $1.1 billion at September 30, 2017 and included $0.8 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 September 30, 2017 and December 31, 2016, the Company held $0.8 billion and $0.9 billion of available-for-sale investment securities, respectively. Available-for-sale securities are summarized as follows as of the dates indicated:

	September 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	$ 178,649	$ 3,127	$ (387)	$ 181,389
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	639,456	1,321	(12,298)	628,479
Municipal securities	1,646	118	—	1,764
Other securities	419	—	—	419
Total	$ 820,170	$ 4,566	$ (12,685)	$ 812,051

	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 September 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:

	September 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	$ 54,344	$ (387)	$ —	$ —	$ 54,344	$ (387)
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	55,703	(657)	396,893	(11,641)	452,596	(12,298)
Total	$ 110,047	$ (1,044)	$ 396,893	$ (11,641)	$ 506,940	$ (12,685)

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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 September 30, 2017 were caused by changes in interest rates. The portfolio included 66 securities, having an aggregate fair value of $506.9 million, which were in an unrealized loss position at September 30, 2017. During the nine months ended September 30, 2017, the Company recorded $0.2 million of other-than-temporary impairment (OTTI) included in other non-interest expense on the consolidated statements of operations. The OTTI credit charge was on a single municipal security, with an aggregate fair value of $0.9 million at September 30, 2017.

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 $301.0 million at September 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 September 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 September 30, 2017 and 3.4 years at December 31, 2016. This estimate is based on assumptions and actual results may differ. At September 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 September 30, 2017, municipal securities with an amortized cost of $0.8 million and fair value of $0.9 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 September 30, 2017, have no stated contractual maturity date.

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Held-to-maturity

At September 30, 2017 and December 31, 2016, the Company held $275.4 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:

	September 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	$ 217,431	$ 1,459	$ (104)	$ 218,786
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	57,939	—	(1,117)	56,822
Total investment securities held-to-maturity	$ 275,370	$ 1,459	$ (1,221)	$ 275,608

	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:

	September 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	$ 19,284	$ (104)	$ —	$ —	$ 19,284	$ (104)
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	17,983	(202)	31,762	(915)	49,745	(1,117)
Total	$ 37,267	$ (306)	$ 31,762	$ (915)	$ 69,029	$ (1,221)

	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 13 securities, having an aggregate fair value of $69.0 million, which were in an unrealized loss position at September 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 September 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 September 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 $142.1 million and $119.2 million at September 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 September 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 September 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 $4.5 million and $6.3 million as of September 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.

	September 30, 2017			
	ASC 310-30 loans	Non 310-30 loans	Total loans	% of total
Commercial	$ 31,875	$ 1,776,008	$ 1,807,883	57.9%
Commercial real estate non-owner occupied	79,798	481,856	561,654	18.0%
Residential real estate	13,420	710,954	724,374	23.2%
Consumer	503	26,129	26,632	0.9%
Total	$ 125,596	$ 2,994,947	$ 3,120,543	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 September 30, 2017 and December 31, 2016, respectively:

	September 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	$ 715	$ 200	$ 1,393	$ 2,308	$ 1,284,047	$ 1,286,355	$ 150	$ 3,783
Owner occupied commercial real estate	1,667	573	49	2,289	273,866	276,155	—	2,829
Agriculture	49	8	689	746	131,401	132,147	—	2,109
Energy	—	—	3,551	3,551	77,800	81,351	—	3,551
Total commercial	2,431	781	5,682	8,894	1,767,114	1,776,008	150	12,272
Commercial real estate non-owner occupied:								
Construction	—	—	190	190	101,406	101,596	—	190
Acquisition/development	330	—	—	330	14,115	14,445	—	—
Multifamily	—	—	—	—	40,241	40,241	—	—
Non-owner occupied	653	—	—	653	324,921	325,574	—	607
Total commercial real estate	983	—	190	1,173	480,683	481,856	—	797
Residential real estate:								
Senior lien	587	943	1,474	3,004	652,339	655,343	—	5,354
Junior lien	86	—	32	118	55,493	55,611	—	534
Total residential real estate	673	943	1,506	3,122	707,832	710,954	—	5,888
Consumer	186	76	6	268	25,861	26,129	6	200
Total loans excluded from ASC 310-30	$ 4,273	$ 1,800	$ 7,384	$ 13,457	$ 2,981,490	$ 2,994,947	$ 156	$ 19,157

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 $19.2 million at September 30, 2017, decreasing $11.6 million, or 37.6% from December 31, 2016 due to charge-offs of two previously identified energy loans totaling $6.1 million and one previously identified commercial and industrial loan totaling $2.5 million. In addition, one previously identified energy loan of $2.4 million was placed back on accrual during the third quarter of 2017.

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

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

	September 30, 2017				
	Pass	Special mention	Substandard	Doubtful	Total
Loans excluded from ASC 310-30:					
Commercial:					
Commercial and industrial	$ 1,259,680	$ 10,968	$ 15,092	$ 615	$ 1,286,355
Owner occupied commercial real estate	252,816	17,154	5,925	260	276,155
Agriculture	108,832	21,206	2,076	33	132,147
Energy	75,356	2,444	3,551	—	81,351
Total commercial	1,696,684	51,772	26,644	908	1,776,008
Commercial real estate non-owner occupied:					
Construction	101,406	—	190	—	101,596
Acquisition/development	14,445	—	—	—	14,445
Multifamily	38,088	—	2,153	—	40,241
Non-owner occupied	321,160	2,926	1,488	—	325,574
Total commercial real estate	475,099	2,926	3,831	—	481,856
Residential real estate:					
Senior lien	649,317	248	5,615	163	655,343
Junior lien	54,705	—	906	—	55,611
Total residential real estate	704,022	248	6,521	163	710,954
Consumer	25,925	1	203	—	26,129
Total loans excluded from ASC 310-30	$ 2,901,730	$ 54,947	$ 37,199	$ 1,071	$ 2,994,947
Loans accounted for under ASC 310-30:					
Commercial	$ 24,706	$ 1,125	$ 6,044	$ —	$ 31,875
	51,780	1,074	26,944	—	79,798

Commercial real estate non-owner occupied					
Residential real estate	10,618	1,094	1,708	—	13,420
Consumer	343	10	150	—	503
Total loans accounted for under ASC 310-30	$ 87,447	$ 3,303	$ 34,846	$ —	$ 125,596
Total loans	$ 2,989,177	$ 58,250	$ 72,045	$ 1,071	$ 3,120,543

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	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 special mention loans increased $19.3 million from December 31, 2016 due to upgrades from substandard and doubtful within the commercial and industrial and energy sectors and downgrades from pass within the agriculture and owner-occupied commercial real estate sectors. Non 310-30 substandard loans decreased $19.7 million from December 31, 2016 primarily due to paydowns, payoffs and upgrades to special mention and pass within the commercial and industrial, owner-occupied commercial real estate and energy sectors. Non 310-30 doubtful loans decreased $4.3 million from December 31, 2016 due to energy loan charge-offs during the period.

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 September 30, 2017, the Company measured $17.4 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 $8.6 million that individually were less than $250 thousand each, were measured through the general ALL reserves due to their relatively small size.

At September 30, 2017 and December 31, 2016, the Company’s recorded investments in impaired loans were $28.5 million and $38.3 million, respectively, of which $7.6 million and $5.8 million, respectively, were accruing TDRs. Impaired loans at September 30, 2017 were primarily comprised of six relationships totaling $12.3 million. Two of the relationships were in the energy sector totaling $6.0 million, two of the relationships were in the commercial and industrial sector totaling $3.0 million, one relationship was in the owner-occupied commercial real estate sector totaling $2.0 million and one relationship was in the agricultural sector totaling $1.3 million. Impaired loans had a collective related allowance for loan losses allocated to them of $1.1 million and $2.4 million at September 30, 2017 and December 31, 2016, respectively.

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

	September 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	$ 5,762	$ 4,409	$ —	$ 8,671	$ 7,495	$ —
Owner occupied commercial real estate	2,198	2,059	—	3,350	3,197	—
Agriculture	1,534	1,294	—	2,044	1,987	—
Energy	9,367	5,995	—	17,142	6,105	—
Total commercial	18,861	13,757	—	31,207	18,784	—
Commercial real estate non-owner occupied:						
Construction	215	190	—	—	—	—
Acquisition/development	—	—	—	—	—	—
Multifamily	30	30	—	33	33	—
Non-owner occupied	917	864	—	394	343	—
Total commercial real estate	1,162	1,084	—	427	376	—
Residential real estate:						
Senior lien	597	572	—	1,551	1,426	—
Junior lien	—	—	—	54	51	—
Total residential real estate	597	572	—	1,605	1,477	—
Consumer	—	—	—	4	4	—
Total impaired loans with no related allowance recorded	$ 20,620	$ 15,413	$ —	$ 33,243	$ 20,641	$ —
With a related allowance recorded:						
Commercial:						
Commercial and industrial	$ 4,200	$ 1,612	$ 617	$ 3,495	$ 3,464	$ 492
Owner occupied commercial real estate	2,631	2,450	264	957	642	2
Agriculture	932	895	33	—	—	—
Energy	—	—	—	11,216	6,548	1,866
Total commercial	7,763	4,957	914	15,668	10,654	2,360
Commercial real estate non-owner occupied:						
Construction	—	—	—	—	—	—
Acquisition/development	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
Non-owner occupied	214	207	1	261	255	1
Total commercial real estate	214	207	1	261	255	1
Residential real estate:						

Senior lien	6,993	6,282	186	5,646	5,016	31
Junior lien	1,641	1,398	10	1,781	1,532	14
Total residential real estate	8,634	7,680	196	7,427	6,548	45
Consumer	207	202	1	188	184	2
Total impaired loans with a related allowance recorded	$ 16,818	$ 13,046	$ 1,112	$ 23,544	$ 17,641	$ 2,408
Total impaired loans	$ 37,438	$ 28,459	$ 1,112	$ 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 September 30, 2017		September 30, 2016	
	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
With no related allowance recorded:				
Commercial:				
Commercial and industrial	$ 4,272	$ 40	$ 9,589	$ 39
Owner occupied commercial real estate	2,069	19	1,513	22
Agriculture	1,349	—	1,845	—
Energy	7,960	116	17,142	—
Total commercial	15,650	175	30,089	61
Commercial real estate non-owner occupied:				
Construction	—	—	—	—
Acquisition/development	—	—	—	—
Multifamily	—	—	—	—
Non-owner occupied	871	5	363	6
Total commercial real estate	871	5	363	6
Residential real estate:				
Senior lien	574	—	1,555	5
Junior lien	—	—	53	—
Total residential real estate	574	—	1,608	5
Consumer	—	—	5	—
Total impaired loans with no related allowance recorded	$ 17,095	$ 180	$ 32,065	$ 72
With a related allowance recorded:				
Commercial:				
Commercial and industrial	$ 3,692	$ —	$ 35	$ —
Owner occupied commercial real estate	2,456	5	730	8
Agriculture	896	1	176	1
Energy	—	—	6,436	—
Total commercial	7,044	6	7,377	9
Commercial real estate non-owner occupied:				
Construction	190	—	—	—
Acquisition/development	—	—	—	—
Multifamily	30	—	34	—
Non-owner occupied	209	2	265	3
Total commercial real estate	429	2	299	3
Residential real estate:				
Senior lien	6,334	20	4,508	25
Junior lien	1,409	12	1,696	16
Total residential real estate	7,743	32	6,204	41
Consumer	206	—	209	—
Total impaired loans with a related allowance recorded	$ 15,422	$ 40	$ 14,089	$ 53

Total impaired loans	$ 32,517	$ 220	$ 46,154	$ 125

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	For the nine months ended September 30, 2017		September 30, 2016	
	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
With no related allowance recorded:				
Commercial:				
Commercial and industrial	$ 5,802	$ 113	$ 10,511	$ 177
Owner occupied commercial real estate	2,116	60	1,539	70
Agriculture	1,470	—	1,845	—
Energy	9,035	116	20,327	—
Total Commercial	18,423	289	34,222	247
Commercial real estate non-owner occupied:				
Construction	—	—	—	—
Acquisition/development	—	—	—	—
Multifamily	—	—	—	—
Non-owner occupied	886	17	376	16
Total commercial real estate	886	17	376	16
Residential real estate:				
Senior lien	585	—	1,578	16
Junior lien	—	—	54	1
Total residential real estate	585	—	1,632	17
Consumer	—	—	5	—
Total impaired loans with no related allowance recorded	$ 19,894	$ 306	$ 36,235	$ 280
With a related allowance recorded:				
Commercial:				
Commercial and industrial	$ 4,363	$ —	$ 44	$ —
Owner occupied commercial real estate	2,479	15	761	15
Agriculture	907	4	178	4
Energy	—	—	6,377	—
Total Commercial	7,749	19	7,360	19
Commercial real estate non-owner occupied:				
Construction	190	—	—	—
Acquisition/development	—	—	—	—
Multifamily	31	1	35	1
Non-owner occupied	216	7	272	11
Total commercial real estate	437	8	307	12
Residential real estate:				
Senior lien	6,494	60	4,620	70
Junior lien	1,444	36	1,733	47
Total residential real estate	7,938	96	6,353	117
Consumer	218	—	212	—
Total impaired loans with a related allowance recorded	$ 16,342	$ 123	$ 14,232	$ 148
Total impaired loans	$ 36,236	$ 429	$ 50,467	$ 428

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 September 30, 2017 and 2016 was $0.2 million and $0.1 million, respectively. Interest income recognized on impaired loans during the nine months ended September 30, 2017 and 2016 was $0.4 million and $0.4 million, respectively.

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.

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Non-accruing TDRs at September 30, 2017 and December 31, 2016 totaled $9.6 million and $16.7 million, respectively.

During the nine months ended September 30, 2017, the Company restructured eight loans with a recorded investment of $4.0 million at September 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 September 30, 2017 and December 31, 2016:

	September 30, 2017			
	Recorded investment	Average year-to-date recorded investments	Unpaid principal balance	Unfunded commitments to fund TDRs
Commercial	$ 5,680	$ 6,026	$ 6,003	$ 1,813
Commercial real estate non-owner occupied	470	499	522	—
Residential real estate	1,468	1,510	1,480	2
Consumer	2	4	2	—
Total	$ 7,620	$ 8,039	$ 8,007	$ 1,815

	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 September 30, 2017 and December 31, 2016:

	September 30, 2017	December 31, 2016
Commercial	$ 8,143	$ 15,265
Commercial real estate non-owner occupied	—	—
Residential real estate	1,284	1,301

Consumer		173		142
Total non-accruing TDRs	$	9,600	$	16,708

At September 30, 2017 and December 31, 2016, the Company had $7.6 million and $5.8 million, respectively, of accruing TDRs that had been restructured from the original terms in order to facilitate repayment. Accrual of interest is resumed on loans that were on non-accrual only after the loan has performed sufficiently. The Company had one TDR that was modified within the past twelve months and had defaulted on its restructured terms during the three months ended September 30, 2017, and four TDRs that were modified within the past twelve months and had defaulted on their restructured terms during the nine months ended September 30, 2017. The defaulted TDRs consisted of one energy loan totaling $6.7 million, two commercial and industrial loans totaling $0.7 million and one small residential loan. Non-accruing TDRs decreased $7.1 million from December 31, 2016 due to charge-offs within the commercial loan segment. 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 nine months ended September 30, 2016, the Company had three 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.

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

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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 nine months ended September 30, 2017 and 2016:

	September 30, 2017	September 30, 2016
Accretable yield beginning balance	$ 60,476	$ 84,194
Reclassification from non-accretable difference	9,697	10,611
Reclassification to non-accretable difference	(907)	(4,479)
Accretion	(17,718)	(26,653)
Accretable yield ending balance	$ 51,548	$ 63,673

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

	September 30, 2017	December 31, 2016
Contractual cash flows	$ 499,652	$ 537,611
Non-accretable difference	(322,508)	(331,283)
Accretable yield	(51,548)	(60,476)
Loans accounted for under ASC 310-30	$ 125,596	$ 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 nine months ended September 30, 2017 and 2016:

	Three months ended September 30, 2017				
	Commercial	Non-owner occupied commercial real estate	Residential real estate	Consumer	Total
Beginning balance	$ 24,656	$ 5,934	$ 4,067	$ 302	$ 34,959
Non 310-30 beginning balance	24,656	5,800	4,067	294	34,817
Charge-offs	(8,618)	—	(16)	(209)	(8,843)
Recoveries	11	—	14	26	51
Provision	4,063	(280)	77	162	4,022
Non 310-30 ending balance	20,112	5,520	4,142	273	30,047
ASC 310-30 beginning balance	—	134	—	8	142
Charge-offs	—	—	—	—	—
Recoveries	—	—	—	—	—
(Recoupment) provision	—	(134)	—	(8)	(142)
ASC 310-30 ending balance	—	—	—	—	—
Ending balance	$ 20,112	$ 5,520	$ 4,142	$ 273	$ 30,047

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	Three months ended September 30, 2016				
	Commercial	Non-owner occupied commercial real estate	Residential real estate	Consumer	Total
Beginning balance	$ 29,982	$ 5,368	$ 4,504	$ 252	$ 40,106
Non 310-30 beginning balance	29,980	5,157	4,504	234	39,875
Charge-offs	(17,204)	—	(166)	(170)	(17,540)
Recoveries	19	8	84	57	168
Provision	5,112	178	(177)	162	5,275
Non 310-30 ending balance	17,907	5,343	4,245	283	27,778
ASC 310-30 beginning balance	2	211	—	18	231
Charge-offs	—	—	—	(6)	(6)
Recoveries	—	—	—	—	—
Provision (recoupment)	27	3	—	(12)	18
ASC 310-30 ending balance	29	214	—	—	243
Ending balance	$ 17,936	$ 5,557	$ 4,245	$ 283	$ 28,021

	Nine months ended September 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	(8,638)	—	(26)	(510)	(9,174)
Recoveries	52	20	127	148	347
Provision	9,877	78	(346)	316	9,925
Non 310-30 ending balance	20,112	5,520	4,142	273	30,047
ASC 310-30 beginning balance	—	220	—	5	225
Charge-offs	—	—	—	—	—
Recoveries	—	—	—	—	—
Recoupment	—	(220)	—	(5)	(225)
ASC 310-30 ending balance	—	—	—	—	—
Ending balance	$ 20,112	$ 5,520	$ 4,142	$ 273	$ 30,047
Ending allowance balance attributable to:					
Non 310-30 loans individually evaluated for impairment	$ 914	$ 2	$ 195	$ 1	$ 1,112
Non 310-30 loans collectively evaluated for impairment	19,198	5,518	3,947	272	28,935
ASC 310-30 loans	—	—	—	—	—
Total ending allowance balance	$ 20,112	$ 5,520	$ 4,142	$ 273	$ 30,047

Loans:					
Non 310-30 individually evaluated for impairment	$ 18,714	$ 1,291	$ 8,252	$ 202	$ 28,459
Non 310-30 collectively evaluated for impairment	1,757,294	480,565	702,702	25,927	2,966,488
ASC 310-30 loans	31,875	79,798	13,420	503	125,596
Total loans	$ 1,807,883	$ 561,654	$ 724,374	$ 26,632	$ 3,120,543

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	Nine months ended September 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	(20,684)	(276)	(363)	(558)	(21,881)
Recoveries	43	73	106	242	464
Provision	22,075	1,607	(743)	214	23,153
Non 310-30 ending balance	17,907	5,343	4,245	283	27,778
ASC 310-30 beginning balance	788	227	36	26	1,077
Charge-offs	—	(41)	—	(6)	(47)
Recoveries	—	—	—	—	—
(Recoupment) provision	(759)	28	(36)	(20)	(787)
ASC 310-30 ending balance	29	214	—	—	243
Ending balance	$ 17,936	$ 5,557	$ 4,245	$ 283	$ 28,021
Ending allowance balance attributable to:					
Non 310-30 loans individually evaluated for impairment	$ 1,462	$ 1	$ 34	$ 2	$ 1,499
Non 310-30 loans collectively evaluated for impairment	16,445	5,342	4,211	281	26,279
ASC 310-30 loans	29	214	—	—	243
Total ending allowance balance	$ 17,936	$ 5,557	$ 4,245	$ 283	$ 28,021
Loans:					
Non 310-30 individually evaluated for impairment	$ 26,743	$ 654	$ 6,995	$ 210	$ 34,602
Non 310-30 collectively evaluated for impairment	1,450,524	452,594	699,796	27,376	2,630,290
ASC 310-30 loans	43,339	95,487	17,654	1,183	157,663
Total loans	$ 1,520,606	$ 548,735	$ 724,445	$ 28,769	$ 2,822,555

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 nine months ended September 30, 2017 were $8.8 million and $8.8 million, respectively. Management's evaluation of credit quality resulted in a provision for loan losses on the non 310-30 loans of $4.0 million and $9.9 million during the three and nine months ended September 30, 2017, respectively. Provision for the three months ended September 30, 2017 included $2.9 million related to one non-accrual energy loan and general reserves on net loan growth. Provision for the nine months ended September 30, 2017 included $6.3 million of specific reserves on two previously identified energy loans and one previously identified commercial and industrial loan. The remaining provision for the nine months ended September 30, 2017 was for general reserves on net loan growth.

During the nine months ended September 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 $142 thousand and $225 thousand for the three and nine months ended September 30, 2017, respectively. The net recoupment was primarily due to a recoupment of $134 thousand in the non-owner occupied commercial real estate segment during the three months ended September 30, 2017, and primarily due to a recoupment of $220 thousand in the non-owner occupied commercial real estate segment for the nine months ended September 30, 2017.

Net charge-offs on non 310-30 loans during the three and nine months ended September 30, 2016 were $17.4 million and $21.4 million, respectively. Management’s evaluation resulted in a provision for loan losses on the non 310-30 loans of $5.3 million and

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$23.2 million during the three and nine months ended September 30, 2016, respectively. The provision was driven by loan growth and $3.9 million and $19.0 million of provision against the energy portfolio for the three and nine months ended September 30, 2016, respectively.

During the nine months ended September 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 $18 thousand and a net recoupment of $787 thousand for the three and nine months ended September 30, 2016, respectively, which was comprised primarily of a provision of $27 thousand in the commercial segment, offset by recoupments of $12 thousand in the consumer segment for the three months ended September 30, 2016, and comprised primarily of a recoupment of $759 thousand in the commercial segment for the nine months ended September 30, 2016.

Note 6 Other Real Estate Owned

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

	For the nine months ended September 30,	
	2017	2016
Beginning balance	$ 15,662	$ 20,814
Transfers from loan portfolio, at fair value	760	4,755
Impairments	(766)	(262)
Sales, net	(3,326)	(4,107)
Ending balance	$ 12,330	$ 21,200

The Company did not have any minority interest in participated other real estate owned at September 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 $2.3 million and $4.1 million for the nine months ended September 30, 2017 and 2016, respectively.

Note 7 Borrowings

As of September 30, 2017 and December 31, 2016, the Company sold securities under agreements to repurchase totaling $92.8 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 $126.5 million and $99.1 million as of

September 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 September 30, 2017 and December 31, 2016, the Company had $33.7 million and $7.0 million of excess collateral pledged for repurchase agreements, respectively. 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 $787.4 million at September 30, 2017. At September 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 $27.6 million at September 30, 2017 and $28.8 million at December 31, 2016. Interest expense related to FHLB advances totaled $0.6 million and $1.3 million for the three and nine months ended September 30, 2017, respectively, and $0.2 million and $0.5 million for the three and nine months ended September 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.

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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 September 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.

At September 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 September 30, 2017 and December 31, 2016.

	September 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	10.4%	$ 482,758	N/A	N/A	4.0%	$ 185,124
NBH Bank	8.5%	390,995	5.0%	$ 230,646	4.0%	184,517
Common equity tier 1 risk-based capital:						
Consolidated	13.5%	$ 482,758	N/A	N/A	4.5%	$ 208,265
NBH Bank	11.0%	390,995	6.5%	$ 299,840	4.5%	207,582
Tier 1 risk-based capital ratio:						
Consolidated	13.5%	$ 482,758	N/A	N/A	6.0%	$ 214,123
NBH Bank	11.0%	390,995	8.0%	$ 284,224	6.0%	213,168
Total risk-based capital ratio:						
Consolidated	14.4%	$ 513,130	N/A	N/A	8.0%	$ 285,498
NBH Bank	11.9%	421,368	10.0%	$ 355,280	8.0%	284,224

	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.

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Stock options

The Company issued stock options during the nine months ended September 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.

The following table summarizes stock option activity for the nine months ended September 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	100,401	33.98		
Exercised	(598,728)	19.90		
Forfeited	(26,455)	22.11		
Outstanding at September 30, 2017	1,661,140	$ 20.62	4.25	$ 25,042
Options exercisable at September 30, 2017	1,425,900	$ 19.82	3.52	$ 22,829
Options vested and expected to vest	1,644,451	$ 20.55	4.21	$ 24,905

Stock option expense is a component of salaries and benefits in the consolidated statements of operations and totaled $0.1 million and $0.2 million for the three months ended September 30, 2017 and 2016, respectively, and $0.5 million and $0.5 million for the nine months ended September 30, 2017 and 2016, respectively. At September 30, 2017, there was $0.7 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 2.2 years.

Restricted stock awards

The Company issued time based restricted stock awards during the nine months ended September 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 nine months ended September 30, 2017. During nine months ended September 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 September 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 $0.2 million, and is expected to be recognized over a weighted average period of approximately 1.7 years.

Performance stock units

During the nine months ended September 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

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grant date fair value per unit for awards granted during the nine months ended September 30, 2017 of the EPS target portion and the TSR target portion was $34.04 and $32.06, respectively.

The following table summarizes restricted stock and performance stock activity during the nine months ended September 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	66,471	33.43	49,758	33.22
Vested	(300,448)	15.31	—	—
Forfeited	(18,817)	17.53	(9,278)	21.46
Unvested at September 30, 2017	246,477	$ 20.41	125,775	$ 23.91

As of September 30, 2017, the total unrecognized compensation cost related to non-vested restricted stock awards and units totaled $3.6 million, and is expected to be recognized over a weighted average period of approximately 2.0 years. Expense related to non-vested restricted awards and units totaled $0.8 million and $0.7 million during the three months ended September 30, 2017 and 2016, respectively, and $2.3 million and $2.2 million during the nine months ended September 30, 2017 and 2016, respectively, 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 are 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 355,159 were available for issuance.

Under the ESPP, employees purchased 11,178 shares during the nine months ended September 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 26,802,964 and 26,386,583 shares of Class A common stock outstanding at September 30, 2017 and December 31, 2016, respectively. Additionally, the Company had 246,477 and 499,271 shares outstanding at September 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 September 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.

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The Company had 26,802,964 and 26,282,224 shares of Class A common stock outstanding as of September 30, 2017 and 2016, respectively, exclusive of issued non-vested restricted shares. Certain stock options and non-vested restricted shares are potentially 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 nine months ended September 30, 2017 and 2016.

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

	For the three months ended		For the nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Net income	$			