

National Bank Holdings Corp
Form 10-Q
May 04, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2018

OR

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

For the transition period from _____ to _____

Commission File Number: 001-35654

NATIONAL BANK HOLDINGS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	27-0563799
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	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

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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 May 1, 2018, the registrant had outstanding 30,530,877 shares of Class A voting common stock, each with \$0.01 par value per share, excluding 135,252 shares of restricted Class A common stock issued but not yet vested.

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the three
months ended
March 31, 2018
and 2017

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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,” “tend,” “continue,” “ongoing,” “expect,” “intend” and similar words or phrases. These statements are only predictions and involve estimates, known and unknown risks, assumptions and uncertainties. We have based these statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, liquidity, results of operations, business strategy and growth prospects.

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

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

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

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

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

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

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

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

changes in consumer spending, borrowings and savings habits;

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

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

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

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

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

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

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

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

continued consolidation in the financial services industry;

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

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

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

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

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

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

technological changes;

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

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

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

regulatory limitations on dividends from our bank subsidiary;

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

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

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

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

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

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

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

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PART I: FINANCIAL INFORMATION

Item 1: FINANCIAL STATEMENTS

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Financial Condition (Unaudited)

(In thousands, except share and per share data)

	March 31, 2018	December 31, 2017
ASSETS		
Cash and due from banks	\$ 260,731	\$ 193,297
Interest bearing bank deposits	26,139	64,067
Cash and cash equivalents	286,870	257,364
Investment securities available-for-sale (at fair value)	917,865	855,345
Investment securities held-to-maturity (fair value of \$278,716 and \$256,771 at March 31, 2018 and December 31, 2017, respectively)	283,369	258,730
Non-marketable securities	14,088	15,030
Loans	3,702,334	3,178,947
Allowance for loan losses	(30,686)	(31,264)
Loans, net	3,671,648	3,147,683
Loans held for sale	51,050	4,629
Other real estate owned	11,875	10,491
Premises and equipment, net	112,038	93,708
Goodwill	114,909	59,630
Intangible assets, net	15,561	1,607
Other assets	178,310	139,248
Total assets	\$ 5,657,583	\$ 4,843,465
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing demand deposits	\$ 1,083,245	\$ 902,439
Interest bearing demand deposits	698,796	474,607
Savings and money market	1,779,817	1,484,463
Time deposits	1,147,452	1,118,050
Total deposits	4,709,310	3,979,559
Securities sold under agreements to repurchase	141,187	130,463
Federal Home Loan Bank advances	77,335	129,115
Other liabilities	83,888	71,921
Total liabilities	5,011,720	4,311,058
Shareholders' equity:		
Common stock, par value \$0.01 per share: 400,000,000 shares authorized; 51,516,335 and 51,518,162 shares issued; 30,479,969 and 26,875,585	515	515

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shares outstanding at March 31, 2018 and December 31, 2017, respectively		
Additional paid-in capital	1,012,268	970,668
Retained earnings	68,008	60,795
Treasury stock of 20,814,584 and 24,479,020 shares at March 31, 2018 and December 31, 2017, respectively, at cost	(420,040)	(493,329)
Accumulated other comprehensive loss, net of tax	(14,888)	(6,242)
Total shareholders' equity	645,863	532,407
Total liabilities and shareholders' equity	\$ 5,657,583	\$ 4,843,465

See accompanying notes to the consolidated interim financial statements.

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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations (Unaudited)

(In thousands, except share and per share data)

	For the three months ended March 31,	
	2018	2017
Interest and dividend income:		
Interest and fees on loans	\$ 45,280	\$ 31,763
Interest and dividends on investment securities	6,526	6,613
Dividends on non-marketable securities	244	167
Interest on interest-bearing bank deposits	741	197
Total interest and dividend income	52,791	38,740
Interest expense:		
Interest on deposits	4,634	3,787
Interest on borrowings	510	231
Total interest expense	5,144	4,018
Net interest income before provision for loan losses	47,647	34,722
Provision for loan losses	41	1,795
Net interest income after provision for loan losses	47,606	32,927
Non-interest income:		
Service charges	4,510	3,326
Bank card fees	3,362	2,804
Mortgage banking income	7,971	454
Bank-owned life insurance income	452	470
Other non-interest income	1,150	1,414
OREO related income	390	228
Total non-interest income	17,835	8,696
Non-interest expense:		
Salaries and benefits	30,672	20,390
Occupancy and equipment	7,955	5,437
Telecommunications and data processing	4,366	1,587
Marketing and business development	1,224	651
FDIC deposit insurance	753	705
Bank card expense	2,136	883
Professional fees	2,819	416
Other non-interest expense	3,845	2,406
Problem asset workout	781	872
Loss (gain) on OREO sales, net	78	(112)
Core deposit intangible asset amortization	653	1,370
Total non-interest expense	55,282	34,605
Income before income taxes	10,159	7,018

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Income tax expense (benefit)	1,695	(1,240)
Net income	\$ 8,464	\$ 8,258
Income per share—basic	\$ 0.28	\$ 0.31
Income per share—diluted	\$ 0.27	\$ 0.30
Weighted average number of common shares outstanding:		
Basic	30,493,689	26,801,773
Diluted	31,143,528	27,680,029

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 March 31,	
	2018	2017
Net income	\$ 8,464	\$ 8,258
Other comprehensive loss, net of tax:		
Securities available-for-sale:		
Net unrealized (losses) gains arising during the period, net of tax benefit (expense) of \$2,301 and \$(161) for the three months ended March 31, 2018 and 2017, respectively	(6,780)	263
Less: amortization of net unrealized holding gains to income, net of tax benefit of \$70 and \$218 for the three months ended March 31, 2018 and 2017, respectively	(387)	(357)
Other comprehensive loss	(7,167)	(94)
Comprehensive income	\$ 1,297	\$ 8,164

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)

Three months ended March 31, 2018 and 2017

(In thousands, except share and per share data)

	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Accumulated other comprehensive income (loss), net	Total
Balance, December 31, 2016	\$ 514	\$ 984,087	\$ 55,454	\$ (502,104)	\$ (1,762)	\$ 536,189
Net income	—	—	8,258	—	—	8,258
Stock-based compensation	—	902	—	—	—	902
Issuance of stock under purchase and equity compensation plans, including gain on reissuance of treasury stock of \$4,883, net	—	(11,314)	—	5,577	—	(5,737)
Cash dividends declared (\$0.07 per share)	—	—	(1,900)	—	—	(1,900)
Warrant exercise	—	(1,933)	—	1,933	—	—
Other comprehensive loss	—	—	—	—	(94)	(94)
Balance, March 31, 2017	\$ 514	\$ 971,742	\$ 61,812	\$ (494,594)	\$ (1,856)	\$ 537,618
Balance, December 31, 2017	\$ 515	\$ 970,668	\$ 60,795	\$ (493,329)	\$ (6,242)	\$ 532,407
Net income	—	—	8,464	—	—	8,464
Stock-based compensation	—	833	—	—	—	833
Issuance of stock under purchase and equity compensation plans, including gain on reissuance of treasury stock of \$3,566, net	—	(1,476)	—	5,319	—	3,843
Reissuance of treasury stock of 3,398,477 for acquisition of Peoples, Inc.	—	42,243	—	67,970	—	110,213
Cash dividends declared (\$0.09 per share)	—	—	(2,756)	—	—	(2,756)

Reclassification of certain tax effects from accumulated other comprehensive income(1)	—	—	1,479	—	(1,479)	—
Cumulative effect adjustment(2)	—	—	26	—	—	26
Other comprehensive loss	—	—	—	—	(7,167)	(7,167)
Balance, March 31, 2018	\$ 515	\$ 1,012,268	\$ 68,008	\$ (420,040)	\$ (14,888)	\$ 645,863

- (1) Related to the adoption of Accounting Standards Update No. 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. Refer to note 2 – Recent Accounting Pronouncements of our consolidated financial statements for further details.
- (2) Related to the adoption of Accounting Standards Update No. 2017-12, Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities. Refer to note 2 – Recent Accounting Pronouncements of our consolidated financial statements for further details.

See accompanying notes to the consolidated interim financial statements.

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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	For the three months ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net income	\$ 8,464	\$ 8,258
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	41	1,795
Depreciation and amortization	2,983	3,341
Current income tax receivable	(4,233)	444
Deferred income taxes	(609)	(1,734)
Net excess tax benefit on stock-based compensation	(371)	(2,845)
Discount accretion, net of premium amortization on securities	821	703
Loan accretion	(6,508)	(6,191)
Gain on sale of mortgages, net	(6,803)	(454)
Origination of loans held for sale, net of repayments	(219,584)	(14,925)
Proceeds from sales of loans held for sale	235,104	32,194
Bank-owned life insurance income	(452)	(470)
Loss (gain) on the sale of other real estate owned, net	78	(112)
Impairment on other real estate owned	38	46
Gain on fixed assets	—	(3)
Stock-based compensation	833	902
Change in other assets	(5,630)	(3,280)
Change in other liabilities	6,337	3,576
Net cash provided by operating activities	10,509	21,245
Cash flows from investing activities:		
Purchase of FHLB stock	(2,950)	—
Proceeds from redemption of FHLB stock	8,690	1,884
Proceeds from maturities of investment securities held-to-maturity	15,526	18,350
Proceeds from maturities of investment securities available-for-sale	55,152	59,155
Proceeds from sales of investment securities available-for-sale	33,202	—
Purchase of investment securities available-for-sale	(42,199)	(96,948)
Purchase of investment securities held-to-maturity	(40,735)	—
Net decrease (increase) in loans	9,136	(87,543)
Purchases of premises and equipment, net	(1,905)	(783)
Proceeds from sales of loans	—	20,269
Proceeds from sales of other real estate owned	36	755
Net cash activity from acquisition	68,983	—
Net cash provided by (used in) investing activities	102,936	(84,861)
Cash flows from financing activities:		
Net (decrease) increase in deposits	(160)	99,294

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Increase (decrease) in repurchase agreements	10,724	(314)
Advances from FHLB	—	92,798
FHLB payoffs	(85,605)	(54,683)
Issuance of stock under purchase and equity compensation plans	(517)	(5,737)
Proceeds from exercise of stock options	4,360	—
Payment of dividends	(2,741)	(2,048)
Net cash (used in) provided by financing activities	(73,939)	129,310
Increase in cash, cash equivalents and restricted cash	39,506	65,694
Cash, cash equivalents and restricted cash at beginning of the year	257,364	152,736
Cash, cash equivalents and restricted cash at end of period	\$ 296,870	\$ 218,430
Supplemental disclosure of cash flow information during the period:		
Cash paid for interest	\$ 3,723	\$ 2,745
Net tax refunds (payments)	\$ 164	\$ (7)
Supplemental schedule of non-cash investing activities:		
Loans transferred to other real estate owned at fair value	\$ 127	\$ 578
(Decrease) increase in loans purchased but not settled	\$ (15,068)	\$ 16,141
Loans transferred from loans held for sale to loans	\$ 878	\$ 3,825
Treasury stock reissued for acquisition	\$ 110,213	\$ —

See accompanying notes to the consolidated interim financial statements.

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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

March 31, 2018

Note 1 Basis of Presentation

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

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

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

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

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

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

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

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

Note 2 Recent Accounting Pronouncements

Revenue from Contracts with Customers—In May 2014, the 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 2014-09 allows for either full retrospective or modified retrospective adoption.

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

Leases—In February 2016, the FASB issued ASU 2016-02, Leases. The guidance in ASU 2016-02 supersedes the lease recognition requirements in ASC Topic 840, Leases. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statements. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. 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. The Company expects to 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

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interim periods within those fiscal years. Early adoption in fiscal years beginning after December 15, 2018 is permitted. The amendment requires the use of the modified retrospective approach for adoption. The Company is in the process of evaluating the impact of the ASU's adoption on the Company's consolidated financial statements.

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

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

The company adopted ASU 2016-01, *Financial Instruments - Recognition and Measurement of Financial Assets and Financial Liabilities (Topic 825)*, ASU 2016-18, *Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, ASU 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments* and ASU 2017-05 *Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20)* with no material impact on its financial statements.

The Company reviewed ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, and does not expect the adoption of this pronouncement to have a material impact on its financial statements.

Note 3 Acquisition Activities

On January 1, 2018, the Company completed its acquisition of Peoples, Inc., the bank holding company of Colorado-based Peoples National Bank and Kansas-based Peoples Bank. Immediately following the completion of the acquisition, Peoples National Bank and Peoples Bank merged into NBH Bank. Pursuant to the merger agreement executed in June 2017, the Company paid \$36.2 million of cash consideration and 3,398,477 shares of the Company's Class A common stock in exchange for all of the outstanding common stock of Peoples. Included in the cash consideration is \$10.0 million of restricted cash placed in escrow for certain potential liabilities the Company is indemnified for pursuant to the merger agreement. The restricted cash is included in other assets in the Company's consolidated statements of financial condition at March 31, 2018. The transaction has a value of \$146.4 million in the aggregate, based on the Company's closing price of \$32.43 on the acquisition date. Acquisition related costs of \$7.6 million were included in the Company's consolidated statements of operations for the three months ended March 31, 2018. The results of Peoples are included in the results of the Company subsequent to the acquisition date.

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

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

Assets:	
Cash and due from banks	\$ 105,173
Investment securities available-for-sale	118,512
Non-marketable securities	4,796
Loans	542,707
Loans held for sale	54,260
Other real estate owned	1,409
Premises and equipment	18,584
Core deposit intangible asset	10,477
Mortgage servicing rights	4,301
Other assets	15,324
Total assets acquired	\$ 875,543
Liabilities:	
Total deposits	729,911
FHLB borrowings	33,825
Other liabilities	20,683
Total liabilities assumed	\$ 784,419
Identifiable net assets acquired	\$ 91,124
Consideration:	
NBHC common stock paid at January 1, 2018, closing price of \$32.43	\$ 110,213
Cash	36,189
Total	\$ 146,402
Estimated goodwill created	\$ 55,278

In connection with the Peoples acquisition, the Company recorded \$55.3 million of goodwill, a \$10.5 million core deposit intangible asset, a \$4.3 million mortgage servicing rights intangible asset and a \$4.0 million mortgage repurchase reserve, included in other liabilities. The core deposit intangible will be amortized straight-line over ten years and the mortgage servicing rights intangible is amortized in proportion to and over the period of the estimated net servicing income. The FHLB borrowings of \$33.9 million were paid off during the first quarter of 2018.

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

At the date of acquisition, none of the loans were accounted for under the guidance of ASC Topic 310-30, and the gross contractual amounts receivable, inclusive of all principal and interest, was \$713.6 million. The Company's best estimate of the contractual cash flows for loans not expected to be collected was \$6.1 million.

The following pro forma information combines the historical results of Peoples and the Company. The pro forma financial information does not include the potential impacts of possible business model changes, current market conditions, revenue enhancements, expense efficiencies, or other factors. If the Peoples acquisition had been completed on January 1, 2017, pro forma total revenue for the Company would have been approximately \$65.5 million and \$61.6 million for the three months ended March 31, 2018 and 2017, respectively. Pro forma net income for the Company would have been approximately \$14.5 million and \$9.9 million for the three month ended March 31, 2018 and 2017, respectively. Pro forma basic and dilutive earnings per share for the Company would have been \$0.48 and \$0.47 for the three months ended March 31, 2018, respectively, and \$0.33 and \$0.32 for the three months ended March 31, 2017, respectively.

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For the three months ended March 31, 2018, the pro forma information reflects adjustments made to exclude acquisition-related expenses of the Company of \$7.6 million. For the three months ended March 31, 2017, the pro-forma information reflects adjustments made to include estimated amortization and accretion of purchase discounts and premiums of \$0.2 million and estimated amortization of acquired identifiable intangibles of \$0.3 million. The pro forma information is theoretical in nature and not necessarily indicative of future consolidated results of operations of the Company or the consolidated results of operations which would have resulted had the Company acquired Peoples during the periods presented.

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

Note 4 Investment Securities

The Company’s investment securities portfolio is comprised of available-for-sale and held-to-maturity investment securities. These investment securities totaled \$1.2 billion at March 31, 2018 and included \$0.9 billion of available-for-sale securities and \$0.3 billion of held-to-maturity securities. At December 31, 2017, investment securities totaled \$1.1 billion and included \$0.8 billion of available-for-sale securities and \$0.3 billion of held-to-maturity securities.

Available-for-sale

At March 31, 2018 and December 31, 2017, 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:

	March 31, 2018			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities (“MBS”):				