National Bank Holdings Corp
Form 10-Q
November 09, 2015

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, 2015

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 (State or other jurisdiction of incorporation or organization)	27-0563799 (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, or a smaller reporting company. See definitions of "accelerated filer." and "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer		Accelerated filer
Non-accelerated filer	(do not check if a smaller reporting company)	Smaller Reporting Company

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

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 9, 2015, the registrant had outstanding 30,327,598 shares of Class A voting common stock, each with $0.01 par value per share, excluding 1,007,432 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 (including the impact of the joint final rules promulgated by the Federal Reserve Board, Office of the Comptroller of the Currency and the FDIC revising certain regulatory capital requirements to align with the Basel III capital standards and meet certain requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act);
· 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 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 successfully convert core operating systems, at the estimated cost, without significant business interruption and to realize the anticipated benefits;
· 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;
·

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;
- 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;
- 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;

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- 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, 2015	December 31, 2014
ASSETS		
Cash and due from banks	$ 58,859	$ 61,461
Due from banks	84,204	185,463
Interest bearing bank deposits	10,093	10,055
Cash and cash equivalents	153,156	256,979
Securities purchased under agreements to resell	50,000	—
Investment securities available-for-sale (at fair value)	1,244,267	1,479,214
Investment securities held-to-maturity (fair value of $450,148 and $534,637 at September 30, 2015 and December 31, 2014, respectively)	445,069	530,590
Non-marketable securities	27,049	27,045
Loans (including covered loans of $155,056 and $193,697 at September 30, 2015 and December 31, 2014, respectively)	2,523,128	2,162,409
Allowance for loan losses	(23,827)	(17,613)
Loans, net	2,499,301	2,144,796
Loans held for sale	11,246	5,146
Federal Deposit Insurance Corporation (“FDIC”) indemnification asset, net	18,155	39,082
Other real estate owned	19,034	29,120
Premises and equipment, net	104,452	106,341
Goodwill	59,630	59,630
Intangible assets, net	13,799	16,883
Other assets	142,891	124,820
Total assets	$ 4,788,049	$ 4,819,646
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing demand deposits	$ 820,269	$ 732,580
Interest bearing demand deposits	408,341	386,121
Savings and money market	1,390,054	1,290,436
Time deposits	1,255,973	1,357,051
Total deposits	3,874,637	3,766,188
Securities sold under agreements to repurchase	169,488	133,552
Federal Home Loan Bank advances	40,000	40,000

Due to FDIC	38,712	42,011
Other liabilities	44,019	43,320
Total liabilities	4,166,856	4,025,071
Shareholders’ equity:		
Common stock, par value $0.01 per share: 400,000,000 shares authorized; 52,380,124 and 52,223,460 shares issued; 30,318,684 and 38,884,953 shares outstanding at September 30, 2015 and December 31, 2014, respectively	513	512
Additional paid in capital	995,440	993,212
Retained earnings	36,778	40,528
Treasury stock of 21,104,160 and 12,383,109 shares at September 30, 2015 and December 31, 2014, respectively, at cost	(420,274)	(245,516)
Accumulated other comprehensive income, net of tax	8,736	5,839
Total shareholders’ equity	621,193	794,575
Total liabilities and shareholders’ equity	$ 4,788,049	$ 4,819,646

See accompanying notes to the unaudited 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,	
	2015	2014	2015	2014
Interest and dividend income:				
Interest and fees on loans	$ 32,650	$ 33,403	$ 96,797	$ 99,704
Interest and dividends on investment securities	9,144	11,749	29,480	37,523
Dividends on non-marketable securities	319	245	963	904
Interest on interest-bearing bank deposits	198	95	675	251
Total interest and dividend income	42,311	45,492	127,915	138,382
Interest expense:				
Interest on deposits	3,424	3,563	10,274	10,625
Interest on borrowings	205	34	625	92
Total interest expense	3,629	3,597	10,899	10,717
Net interest income before provision for loan losses	38,682	41,895	117,016	127,665
Provision for loan losses	3,710	1,515	7,021	4,944
Net interest income after provision for loan losses	34,972	40,380	109,995	122,721
Non-interest income:				
FDIC indemnification asset amortization	(5,798)	(6,252)	(20,751)	(19,819)
FDIC loss sharing income (expense)	(3)	(943)	325	(2,549)
Service charges	3,953	4,148	10,977	11,558
Bank card fees	2,808	2,615	8,057	7,548
Gain on sales of mortgages, net	628	264	1,574	674
Bank-owned life insurance income	421	—	1,217	—
Other non-interest income	475	836	2,568	2,557
Bargain purchase gain	1,048	—	1,048	—
Gain on previously charged-off acquired loans	46	147	143	675
OREO related write-ups and other income	183	799	871	2,777
Total non-interest income	3,761	1,614	6,029	3,421
Non-interest expense:				
Salaries and benefits	20,454	21,058	61,687	62,260
Occupancy and equipment	6,098	6,155	18,256	18,838
Telecommunications and data processing	2,933	2,848	8,573	8,978
Marketing and business development	1,016	757	3,277	3,542
FDIC deposit insurance	1,031	1,029	3,104	3,109
ATM/debit card expenses	924	799	2,470	2,312
Professional fees	924	854	3,006	2,180

Other non-interest expense	2,831	2,540	7,566	7,698
Other real estate owned expenses	468	594	456	3,629
Problem loan expenses	1,115	1,267	2,637	3,034
Intangible asset amortization	1,359	1,336	4,031	4,008
Gain from the change in fair value of warrant liability	(476)	(1,256)	(358)	(2,734)
Banking center closure related expenses	—	—	1,089	—
Total non-interest expense	38,677	37,981	115,794	116,854
Income before income taxes	56	4,013	230	9,288
Income tax (benefit) expense	(1,580)	676	(1,311)	2,391
Net income	$ 1,636	$ 3,337	$ 1,541	$ 6,897
Income per share—basic	$ 0.05	$ 0.08	$ 0.04	$ 0.16
Income per share—diluted	$ 0.05	$ 0.08	$ 0.04	$ 0.16
Weighted average number of common shares outstanding:				
Basic	32,681,181	41,837,485	35,605,180	43,403,791
Diluted	32,762,516	41,841,685	35,605,701	43,423,273

See accompanying notes to the unaudited 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,	
	2015	2014	2015	2014
Net income	$ 1,636	$ 3,337	$ 1,541	$ 6,897
Other comprehensive income, net of tax:				
Securities available-for-sale:				
Net unrealized gains (losses) arising during the period, net of tax (expense) benefit of ($2,981) and $1,480 for the three months ended September 30, 2015 and 2014, respectively; and net of tax expense of ($2,981) and ($6,824) for the nine months ended, September 30, 2015 and 2014, respectively	4,848	(2,407)	4,848	11,099
Less: amortization of net unrealized holding gains to income, net of tax benefit of $342 and $475 for the three months ended September 30, 2015 and 2014, respectively; and net of tax benefit of $1,120 and $1,505 for the nine months ended September 30, 2015 and 2014, respectively	(556)	(774)	(1,951)	(2,447)
Other comprehensive income (loss)	4,292	(3,181)	2,897	8,652
Comprehensive income	$ 5,928	$ 156	$ 4,438	$ 15,549

See accompanying notes to the unaudited 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, 2015 and 2014

(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, 2013	$ 512	$ 990,216	$ 39,966	$ (126,146)	$ (6,756)	$ 897,792
Net income	—	—	6,897	—	—	6,897
Stock-based compensation	—	2,750	—	—	—	2,750
Issuance of stock under equity compensation plan, including tax benefit of $4	—	(368)	—	—	—	(368)
Change in corporate tax benefit related to stock-based compensation	—	(11)	—	—	—	(11)
Repurchase of 5,085,458 shares	—	—	—	(100,084)	—	(100,084)
Dividends paid ($.15 per share)	—	—	(6,666)	—	—	(6,666)
Other comprehensive income	—	—	—	—	8,652	8,652
Balance, September 30, 2014	$ 512	$ 992,587	$ 40,197	$ (226,230)	$ 1,896	$ 808,962
Balance, December 31, 2014	$ 512	$ 993,212	$ 40,528	$ (245,516)	$ 5,839	$ 794,575
Net income	—	—	1,541	—	—	1,541
Stock-based compensation	—	2,514	—	—	—	2,514
Issuance of stock under purchase and equity compensation plans, including tax benefit of $8	1	(286)	—	290	—	5
Repurchase of 8,645,836 shares	—	—	—	(175,048)	—	(175,048)
Dividends paid ($.15 per share)	—	—	(5,291)	—	—	(5,291)
Other comprehensive income	—	—	—	—	2,897	2,897
Balance, September 30, 2015	$ 513	$ 995,440	$ 36,778	$ (420,274)	$ 8,736	$ 621,193

See accompanying notes to the unaudited 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,	
	2015	2014
Cash flows from operating activities:		
Net income	$ 1,541	$ 6,897
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Provision for loan losses	7,021	4,944
Depreciation and amortization	11,613	12,144
Current income tax receivable	(2,216)	20,364
Deferred income tax asset	(6,585)	(18,445)
Discount accretion, net of premium amortization on securities	3,229	3,828
Loan accretion	(38,073)	(48,978)
Net gain on sale of mortgage loans	(1,574)	(674)
Origination of loans held for sale, net of repayments	(78,760)	(29,622)
Proceeds from sales of loans held for sale	74,234	30,106
Bank-owned life insurance income	(1,217)	—
Amortization of indemnification asset	20,751	19,819
Gain on the sale of other real estate owned, net	(2,342)	(2,686)
Impairment on other real estate owned	799	1,789
Impairment on fixed assets related to banking center closures	1,089	—
Loss (gain) on sale of fixed assets	6	(123)
Bargain purchase gain	(1,048)	—
Stock-based compensation	2,514	2,750
Decrease in due to FDIC, net	(3,299)	(6,762)
Increase in other assets	(2,109)	(740)
(Decrease) increase in other liabilities	(799)	19,525
Net cash (used in) provided by operating activities	(15,225)	14,136
Cash flows from investing activities:		
Proceeds from redemption of FHLB stock	493	633
(Purchases of) proceeds from FRB stock	(238)	9,390
Proceeds from maturities of investment securities held-to-maturity	81,877	80,052
Proceeds from maturities of investment securities available-for-sale	242,159	246,422
Proceeds from sales of investment securities available-for-sale	29,748	—
Increase in securities purchased under agreements to resell	(50,000)	—
Net increase in loans	(272,019)	(274,575)
Purchase of premises and equipment, net	(3,623)	(894)
Purchase of bank-owned life insurance	—	(40,000)
Proceeds from sales of loans	11,702	3,607
Proceeds from sales of other real estate owned	14,260	27,656

Increase in FDIC indemnification asset	176	215
Net cash activity from acquisition	22,832	—
Net cash provided by investing activities	77,367	52,506
Cash flows from financing activities:		
Net decrease in deposits	(21,694)	(40,851)
Increase in repurchase agreements	35,936	10,399
Issuance of stock under purchase and equity compensation plans	(148)	(383)
Proceeds from exercise of stock options	160	—
Excess tax benefit on stock-based compensation	8	4
Payment of dividends	(5,179)	(6,528)
Repurchase of shares	(175,048)	(100,084)
Net cash used in financing activities	(165,965)	(137,443)
Decrease in cash and cash equivalents	(103,823)	(70,801)
Cash and cash equivalents at beginning of the year	256,979	189,460
Cash and cash equivalents at end of period	$ 153,156	$ 118,659
Supplemental disclosure of cash flow information during the period:		
Cash paid for interest	$ 9,913	$ 10,168
Net tax payments	$ 7,467	$ 489
Supplemental schedule of non-cash investing activities:		
Loans transferred to other real estate owned at fair value	$ 1,143	$ 2,519
FDIC submissions transferred to (other liabilities) other assets	$ (2,644)	$ 181
Loans purchased but not settled	$ —	$ 29,906

See accompanying notes to the unaudited consolidated interim financial statements.

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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

September 30, 2015

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, N.A. (the "Bank"). The Company provides a variety of banking products to both commercial and consumer clients through a network of 97 banking centers located in Colorado, the greater Kansas City area and Texas, and through on-line 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, 2014 and include the accounts of the Company and the 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 the FDIC indemnification asset and clawback liability, 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 evaluation 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 these 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, 2014 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, 2014, with the exception of the following:

Income taxes - For the three and nine months ended September 30, 2015, the Company has utilized the discrete effective tax rate method, as allowed by Accounting Standards Codification (“ASC”) 740-270-30-18, “Income Taxes-Interim Reporting,” to calculate its interim income tax provision. The discrete method is applied when the application of the estimated annual effective tax rate is impractical because it is not possible to reliably estimate the annual effective tax rate. The discrete method treats the year to date period as if it was the annual period and determines the income tax expense or benefit on that basis. The Company believes that, at this time, the use of this discrete method is more appropriate than the annual effective tax rate method as the estimated annual effective tax rate method is not reliable due to (1) the levels of tax-exempt income in relation to pre-tax income, (2) the impact of the warrant liability which is non-taxable and (3) the impact and variability of FDIC Indemnification amortization on our pre-tax income.

The income tax rate for the three and nine months ended September 30, 2015 was (2,821.4)% and (570.0)%, respectively, based on application of the discrete approach. The quarterly tax rate differs from the federal statutory rate primarily due to interest income from tax-exempt lending, tax-exempt bank-owned life insurance income, non-taxable warrant liability fair value adjustment and the relationship of each of these items to pre-tax income. The three and nine month tax rates for 2015 are lower than prior period tax rates primarily because of the lower levels of pre-tax income in relation to the larger amounts of non-taxable income. Increased amounts from tax-exempt lending, bank-owned life insurance income, the change in the fair value of the warrant liability, and the bargain purchase gain for financial reporting purposes together exceeded the amount of pre-tax income and generated the tax benefit for the three and nine months ended September 30, 2015.

We are currently in an open IRS examination for the tax year 2012.

Note 2 Recent Accounting Pronouncements

Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure - In January 2014, the FASB issued Accounting Standards Update ("ASU") 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. This update amends ASC Topic 310-40 and clarifies that an “in substance repossession or foreclosure” has occurred upon the creditor obtaining either legal title to the property upon completion of foreclosure, or the borrower conveying all interest in the property through completion of a deed in lieu of foreclosure. Upon occurrence, the creditor derecognizes the loan receivable and recognizes the collateralized real estate property. The amendments in the ASU became effective for the Company for interim and annual periods beginning after December 15, 2014. Early adoption was permitted. The adoption of this standard did not have a material impact on the Company’s consolidated financial statements, results of operations or liquidity.

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 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. In July 2015, the FASB voted to approve deferring the effective date by one year (i.e., interim and annual reporting periods beginning after December 15, 2017). Early adoption is permitted, but not before the original effective date (i.e., interim and annual reporting periods beginning after December 15, 2016). The Company is in the process of evaluating the impact of the ASU's adoption on the Company's consolidated financial statements.

Simplifying the Accounting for Measurement-Period Adjustments - In September 2015, the FASB issued ASU 2015-16, Simplifying the Accounting for Measurement-Period Adjustments. This update amends ASC Topic 805-10 and clarifies that an acquirer must recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this ASU will become effective for the Company for interim and annual periods beginning after December 15, 2015. Early adoption is permitted. The Company adopted this ASU on September 30, 2015 with no material impact to the consolidated financial statements.

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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

September 30, 2015

Note 3 Acquisition Activities

On August 1, 2015, the Company completed the acquisition of Pine River Bank Corporation (“Pine River”) for $9.5 million cash. 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 initial fair values of fixed assets, loans, and OREO involve a high degree of judgment and complexity. The Company has made the determination of fair value using the best information available at the time; however, the assumptions used are subject to change and if changed, could have a material effect on the Company's financial position and results of operations.

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

Assets:	
Cash and due from banks	$ 32,314
Investment securities available-for-sale (at fair value)	31,866
Non-marketable securities	259
Loans, net	64,279
Other real estate owned	1,488
Premises and equipment, net	3,164
Core deposit intangible asset	948
Other assets	7,749
Total assets acquired	$ 142,067
Liabilities:	
Deposits:	
Non-interest bearing demand deposits	$ 41,432
Interest bearing demand deposits	19,632
Savings and money market	35,460
Time deposits	33,619

Total deposits	130,143
Other liabilities	1,394
Total liabilities assumed	$ 131,537
Identifiable net assets acquired	$ 10,530
Consideration:	
Cash	$ 9,482
Gain on bargain purchase	$ 1,048

In connection with the Pine River acquisition, the Company recognized approximately $1.0 million of bargain purchase gain and a $0.9 million core deposit intangible. The core deposit intangible will be amortized on a straight-line basis over seven years. The bargain purchase gain of $1.0 million, recorded at the date of acquisition, represents the amount by which the acquisition-date fair value of the net identifiable assets acquired exceeded the fair value of the consideration transferred.

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, although such adjustments are not expected to be significant. 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 $79.0 million. The Company's best estimate of the contractual cash flows for loans not expected to be collected was $1.4 million and recorded fair value was $64.3 million.

The results of Pine River are included in the results of the Company subsequent to the acquisition date. Included in other non-interest expenses in the Company's consolidated statements of operations for the nine months ending September 30, 2015 were $0.5 million of one-time expenses related to the acquisition of Pine River.

The following pro forma information combines the historical results of Pine River 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. The pro forma information below reflects adjustments made to exclude the impact of the bargain purchase gain of $1.0 million, acquisition-related expenses of $0.5 million, amortization and accretion of purchase discounts and premiums of $75 thousand, and amortization of acquired identifiable intangibles of $23 thousand during the nine month period ended September 30, 2015. 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 Pine River during the periods presented.

If the Pine River acquisition had been completed on January 1, 2014, total revenue would have been approximately $136.7 million and $146.2 million for the nine months ended September 30, 2015 and September 30, 2014, respectively. Net income would have been approximately $0.9 million and $6.6 million, respectively, for the same periods. Basic and dilutive earnings per share would have been $0.03 and $0.15, respectively, for the same periods.

The Company has determined that it is impractical to report the amounts of revenue and earnings of legacy Pine River 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 $1.7 billion at September 30, 2015 and were comprised of $1.2 billion of available-for-sale securities and $0.5 billion of held-to-maturity securities. At December 31, 2014, investment securities totaled $2.0 billion and were comprised of $1.5 billion of available-for-sale securities and $0.5 billion of held-to-maturity securities.

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Available-for-sale

Available-for-sale investment securities are summarized as follows as of the dates indicated:

	September 30, 2015			
	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	$ 327,281	$ 9,091	$ —	$ 336,372
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	911,902	6,015	(12,560)	905,357
Other securities	2,538	—	—	2,538
Total	$ 1,241,721	$ 15,106	$ (12,560)	$ 1,244,267

	December 31, 2014			
	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	$ 395,244	$ 9,014	$ (43)	$ 404,215
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	1,088,834	7,464	(21,718)	1,074,580
Other securities	419	—	—	419
Total	$ 1,484,497	$ 16,478	$ (21,761)	$ 1,479,214

At September 30, 2015 and December 31, 2014, 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 unrealized losses as of the dates shown, along with the length of the impairment period:

	September 30, 2015					
	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	$ —	$ —	$ —	$ —	$ —	$ —
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	—	—	623,372	(12,560)	623,372	(12,560)
Total	$ —	$ —	$ 623,372	$ (12,560)	$ 623,372	$ (12,560)

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	December 31, 2014					
	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	$ 17	$ —	$ 89,749	$ (43)	$ 89,766	$ (43)
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	88,854	(2,053)	667,368	(19,665)	756,222	(21,718)
Total	$ 88,871	$ (2,053)	$ 757,117	$ (19,708)	845,988	$ (21,761)

Management evaluated all of the available-for-sale securities in an unrealized loss position and concluded that no other-than-temporary impairment existed at September 30, 2015 or December 31, 2014. The unrealized losses in the Company's investments issued or guaranteed by U.S. government agencies or sponsored enterprises at September 30, 2015 were caused by changes in interest rates. The portfolio included 52 securities, having an aggregate fair value of $0.6 billion, which were in an unrealized loss position at September 30, 2015, compared to 62 securities, with a fair value of $0.8 billion, at December 31, 2014.

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.

Available-for-sale securities acquired from the Pine River acquisition totaled $31.9 million at the date of acquisition. Shortly after the acquisition date, the Company sold $29.8 million of the acquired securities and recorded no gain or loss.

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, if needed. The fair value of available-for-sale investment securities pledged as collateral totaled $0.3 billion at September 30, 2015 and $0.3 billion at December 31, 2014. The increase in pledged available-for-sale investment securities was primarily attributable to an increase in average deposit account balances and client repurchase account balances during the nine months ended September 30, 2015. Certain investment securities may also be pledged as collateral for the line of credit at the Federal Home Loan Bank ("FHLB") of Des Moines; however, no investment securities were pledged for this purpose at September 30, 2015 or December 31, 2014.

Mortgage-backed securities do not have a single maturity date and actual maturities may differ from contractual maturities depending on the repayment characteristics and experience of the underlying financial instruments. The estimated weighted average life of the available-for-sale mortgage-backed securities portfolio was 3.5 years as of September 30, 2015 and 3.5 years as of December 31, 2014. This estimate is based on assumptions and actual results may differ. Other securities of $1.7 million have a maturity date between October 2015 and October 2017. Other securities of $0.8 million have no stated contractual maturity date as of September 30, 2015.

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Held-to-maturity

At September 30, 2015 and December 31, 2014, the Company held $445.1 million and $530.6 million of held-to-maturity investment securities, respectively. Held-to-maturity investment securities are summarized as follows as of the dates indicated:

	September 30, 2015			
	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	$ 353,026	$ 5,801	$ (15)	$ 358,812
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	92,043	358	(1,065)	91,336
Total investment securities held-to-maturity	$ 445,069	$ 6,159	$ (1,080)	$ 450,148

	December 31, 2014			
	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	$ 422,622	$ 5,773	$ (72)	$ 428,323
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	107,968	217	(1,871)	106,314
Total investment securities held-to-maturity	$ 530,590	$ 5,990	$ (1,943)	$ 534,637

The table below summarizes the unrealized losses as of the dates shown, along with the length of the impairment period:

	September 30, 2015					
	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	$ 973	$ (3)	$ 1,046	$ (12)	$ 2,019	$ (15)
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	—	—	48,258	(1,065)	48,258	(1,065)
Total	$ 973	$ (3)	$ 49,304	$ (1,077)	$ 50,277	$ (1,080)

	December 31, 2014					
	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	$ —	$ —	$ 35,139	$ (72)	$ 35,139	$ (72)
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	—	—	75,139	(1,871)	75,139	(1,871)
Total	$ —	$ —	$ 110,278	$ (1,943)	$ 110,278	$ (1,943)

The portfolio included 7 securities, having an aggregate fair value of $50.3 million, which were in an unrealized loss position at September 30, 2015, compared to 12 securities, with a fair value of $110.3 million, at December 31, 2014.

Management evaluated all of the held-to-maturity securities in an unrealized loss position and concluded that no other-than-temporary impairment existed at September 30, 2015 or December 31, 2014. The unrealized losses in the Company's investments issued or guaranteed by U.S. government agencies or sponsored enterprises at September 30, 2015 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 $120.1 million and $88.3 million at September 30, 2015 and December 31, 2014, 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, 2015 and December 31, 2014 was 3.5 years and 3.4 years, respectively. This estimate is based on assumptions and actual results may differ.

Note 5 Loans

The loan portfolio is comprised of loans originated by the Company and loans that were acquired in connection with the Company’s acquisitions of Bank of Choice and Community Banks of Colorado in 2011, Hillcrest Bank and Bank Midwest in 2010, and Pine River in 2015. The loans acquired from Pine River totaled $64.3 million and were accounted for in accordance with ASC 805, and classified as non-covered, non 310-30 loans. The majority of the loans acquired in the Hillcrest Bank and Community Banks of Colorado transactions are covered by loss sharing agreements with the FDIC. Covered loans are presented separately from non-covered loans due to the FDIC loss sharing agreements associated with these loans. Covered loans comprised 6.1% of the total loan portfolio at September 30, 2015, compared to 9.0% of the total loan portfolio at December 31, 2014.

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 our originated loans. The table also shows the amounts covered by the FDIC loss sharing agreements as of September 30, 2015 and December 31, 2014. The carrying value of loans are net of discounts, fees and costs on loans excluded from ASC 310-30 of $8.6 million and $10.5 million as of September 30, 2015 and December 31, 2014, respectively:

	September 30, 2015			
	ASC 310-30 loans	Non 310-30 loans	Total loans	% of total
Commercial	$ 19,226	$ 999,400	$ 1,018,626	40.4 %
Agriculture	17,908	131,119	149,027	5.9
Commercial real estate	153,546	480,709	634,255	25.1
Residential real estate	26,975	659,475	686,450	27.2
Consumer	3,237	31,533	34,770	1.4
Total	$ 220,892	$ 2,302,236	$ 2,523,128	100.0 %
Covered	$ 128,289	$ 26,767	$ 155,056	6.1 %
Non-covered	92,603	2,275,469	2,368,072	93.9
Total	$ 220,892	$ 2,302,236	$ 2,523,128	100.0 %

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	December 31, 2014			
	ASC 310-30 loans	Non 310-30 loans	Total loans	% of total
Commercial	$ 22,956	$ 772,440	$ 795,396	36.8 %
Agriculture	19,063	118,468	137,531	6.4
Commercial real estate	192,330	369,264	561,594	26.0
Residential real estate	40,761	591,939	632,700	29.2
Consumer	4,535	30,653	35,188	1.6
Total	$ 279,645	$ 1,882,764	$ 2,162,409	100.0 %
Covered	$ 160,876	$ 32,821	$ 193,697	9.0 %
Non-covered	118,769	1,849,943	1,968,712	91.0
Total	$ 279,645	$ 1,882,764	$ 2,162,409	100.0 %

Included in commercial loans are $147.5 million and $161.8 million of energy-related loans at September 30, 2015 and December 31, 2014, respectively. Energy prices declined significantly during 2014 and remain at cyclically low levels; prolonged or further pricing pressure could increase stress on energy clients and ultimately the credit quality of this portfolio. However, loans have been structured to mitigate credit loss under a variety of circumstances, including the impact on energy loans as a result of depressed oil prices for a sustained period. Also included in the commercial segment are tax exempt loans totaling $311.0 million and $112.6 million at September 30, 2015 and December 31, 2014, respectively.

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. Total non-accrual loans excluded from the scope of ASC 310-30 totaled $28.6 million and $10.8 million at September 30, 2015 and December 31, 2014, respectively. Loan delinquency for all loans is shown in the following tables at September 30, 2015 and December 31, 2014, respectively:

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	Total Loans September 30, 2015							
	30-59 days past due	60-89 days past due	Greater than 90 days past due	Total past due	Current	Total loans	Loans > 90 days past due and still accruing	Non-accrual
Loans excluded from ASC 310-30								
Commercial	$ 231	$ 50	$ 1,044	$ 1,325	$ 998,075	$ 999,400	$ 92	$ 20,339
Agriculture	59	1,289	34	1,382	129,737	131,119	—	2,123
Commercial real estate								
Construction	34	—	—	34	24,607	24,641	—	58
Acquisition/development	—	—	—	—	3,681	3,681	—	—
Multifamily	—	—	—	—	17,216	17,216	—	—
Owner-occupied	—	—	94	94	170,915	171,009	—	756
Non owner-occupied	100	—	829	929	263,233	264,162	—	876
Total commercial real estate	134	—	923	1,057	479,652	480,709	—	1,690
Residential real estate								
Senior lien	1,117	676	1,549	3,342	601,372	604,714	92	3,999
Junior lien	209	123	142	474	54,287	54,761	82	464
Total residential real estate	1,326	799	1,691	3,816	655,659	659,475	174	4,463
Consumer	91	10	—	101	31,432	31,533	—	30
Total loans excluded from ASC 310-30	$ 1,841	$ 2,148	$ 3,692	$ 7,681	$ 2,294,555	$ 2,302,236	$ 266	$ 28,645
Covered loans excluded from ASC 310-30	$ —	$ —	$ 978	$ 978	$ 25,790	$ 26,768	$ —	$ 1,088
Non-covered loans excluded from ASC 310-30	1,841	2,148	2,714	6,703	2,268,765	2,275,468	266	27,557
Total loans excluded from ASC 310-30	$ 1,841	$ 2,148	$ 3,692	$ 7,681	$ 2,294,555	$ 2,302,236	$ 266	$ 28,645
Loans accounted for under ASC 310-30								
Commercial	$ 298	$ —	$ 311	$ 609	$ 18,617	$ 19,226	$ 311	$ —
Agriculture	133	944	152	1,229	16,679	17,908	152	—
Commercial real estate	522	—	16,287	16,809	136,737	153,546	16,286	—

Residential real estate	85	—	2,171	2,256	24,719	26,975	2,172	—
Consumer	54	—	21	75	3,162	3,237	21	—
Total loans accounted for under ASC 310-30	$ 1,092	$ 944	$ 18,942	$ 20,978	$ 199,914	$ 220,892	$ 18,942	$ —
Covered loans accounted for under ASC 310-30	$ 845	$ 944	$ 17,816	$ 19,605	$ 108,683	$ 128,288	$ 17,816	$ —
Non-covered loans accounted for under ASC 310-30	247	—	1,126	1,373	91,231	92,604	1,126	—
Total loans accounted for under ASC 310-30	$ 1,092	$ 944	$ 18,942	$ 20,978	$ 199,914	$ 220,892	$ 18,942	$ —
Total loans	$ 2,933	$ 3,092	$ 22,634	$ 28,659	$ 2,494,469	$ 2,523,128	$ 19,208	$ 28,645
Covered loans	$ 845	$ 944	$ 18,794	$ 20,583	$ 134,473	$ 155,056	$ 17,816	$ 1,088
Non-covered loans	2,088	2,148	3,840	8,076	2,359,996	2,368,072	1,392	27,557
Total loans	$ 2,933	$ 3,092	$ 22,634	$ 28,659	$ 2,494,469	$ 2,523,128	$ 19,208	$ 28,645

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	Total Loans December 31, 2014							
	30-59 days past due	60-89 days past due	Greater than 90 days past due	Total past due	Current	Total loans	Loans > 90 days past due and still accruing	Non-accrual
Loans excluded from ASC 310-30								
Commercial	$ 83	$ 97	$ 318	$ 498	$ 771,942	$ 772,440	$ 215	$ 4,215
Agriculture	47	—	10	57	118,411	118,468	10	495
Commercial real estate								
Construction	—	—	—	—	11,748	11,748	—	—
Acquisition/development	41	—	—	41	4,532	4,573	—	—
Multifamily	—	—	—	—	10,856	10,856	(1)	—
Owner-occupied	336	78	101	515	119,710	120,225	—	843
Non owner-occupied	158	—	222	380	221,482	221,862	—	222
Total commercial real estate	535	78	323	936	368,328	369,264	(1)	1,065
Residential real estate								
Senior lien	378	1,403	732	2,513	537,022	539,535	—	4,335
Junior lien	133	1	101	235	52,169	52,404	—	476
Total residential real estate	511	1,404	833	2,748	589,191	591,939	—	4,811
Consumer	266	21	39	326	30,327	30,653	39	227
Total loans excluded from ASC 310-30	$ 1,442	$ 1,600	$ 1,523	$ 4,565	$ 1,878,199	$ 1,882,764	$ 263	$ 10,813
Covered loans excluded from ASC 310-30	$ 17	$ 1,016	$ 152	$ 1,185	$ 31,636	$ 32,821	$ 75	$ 1,317
Non-covered loans excluded from ASC 310-30	1,425	584	1,371	3,380	1,846,563	1,849,943	188	9,496
Total loans excluded from ASC 310-30	$ 1,442	$ 1,600	$ 1,523	$ 4,565	$ 1,878,199	$ 1,882,764	$ 263	$ 10,813
Loans accounted for under ASC 310-30								
Commercial	$ 152	$ —	$ 1,755	$ 1,907	$ 21,049	$ 22,956	$ 1,754	$ —
Agriculture	—	—	367	367	18,696	19,063	367	—
Commercial real estate	564	92	31,013	31,669	160,661	192,330	31,013	—
Residential real estate	2,014	3,826	646	6,486	34,275	40,761	646	—
Consumer	369	—	54	423	4,112	4,535	54	—

Total loans accounted for under ASC 310-30	$ 3,099	$ 3,918	$ 33,835	$ 40,852	$ 238,793	$ 279,645	$ 33,834	$ —
Covered loans accounted for under ASC 310-30	$ 576	$ 3,892	$ 31,239	$ 35,707	$ 125,169	$ 160,876	$ 31,238	$ —
Non-covered loans accounted for under ASC 310-30	2,523	26	2,596	5,145	113,624	118,769	2,596	—
Total loans accounted for under ASC 310-30	$ 3,099	$ 3,918	$ 33,835	$ 40,852	$ 238,793	$ 279,645	$ 33,834	$ —
Total loans	$ 4,541	$ 5,518	$ 35,358	$ 45,417	$ 2,116,992	$ 2,162,409	$ 34,097	$ 10,813
Covered loans	$ 593	$ 4,908	$ 31,391	$ 36,892	$ 156,805	$ 193,697	$ 31,313	$ 1,317
Non-covered loans	3,948	610	3,967	8,525	1,960,187	1,968,712	2,784	9,496
Total loans	$ 4,541	$ 5,518	$ 35,358	$ 45,417	$ 2,116,992	$ 2,162,409	$ 34,097	$ 10,813

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The Company's commercial substandard loans excluded from ASC 310-30 totaled $48.9 million and $19.3 million at September 30, 2015 and December 31, 2014, respectively. The increase was primarily due to four loan relationships totaling $28.8 million at September 30, 2015. Migration to special mention and substandard ratings during 2015 has been driven by a small number of agricultural clients, pressure in the energy sector, and isolated weakening in a small number of commercial and industrial clients. Two of these substandard loans were energy related and totaled $12.0 million at September 30, 2015. Credit exposure for all loans as determined by the Company’s internal risk rating system was as follows as of September 30, 2015 and December 31, 2014, respectively:

	Total Loans September 30, 2015				
	Pass	Special mention	Substandard	Doubtful	Total
Loans excluded from ASC 310-30					
Commercial	$ 904,627	$ 42,795	$ 48,906	$ 3,072	$ 999,400
Agriculture	120,138	8,524	2,457	—	131,119
Commercial real estate					
Construction	21,113	3,049	479	—	24,641
Acquisition/development	3,681	—	—	—	3,681
Multifamily	17,216	—	—	—	17,216
Owner-occupied	161,637	4,507	4,865	—	171,009
Non owner-occupied	250,768	9,388	4,002	4	264,162
Total commercial real estate	454,415	16,944	9,346	4	480,709
Residential real estate					
Senior lien	598,228	482	5,826	178	604,714
Junior lien	53,230	26	1,505	—	54,761
Total residential real estate	651,458	508	7,331	178	659,475
Consumer	31,388	69	76	—	31,533
Total loans excluded from ASC 310-30	$ 2,162,026	$ 68,840	$ 68,116	$ 3,254	$ 2,302,236
Covered loans excluded from ASC 310-30	$ 15,579	$ 159	$ 10,916	$ 114	$ 26,768
Non-covered loans excluded from ASC 310-30	2,146,447	68,681	57,200	3,140	2,275,468
Total loans excluded from ASC 310-30	$ 2,162,026	$ 68,840	$ 68,116	$ 3,254	$ 2,302,236
Loans accounted for under ASC 310-30					
Commercial	$ 9,060	$ 391	$ 9,775	$ —	$ 19,226
Agriculture	10,053	5,069	2,786	—	17,908
Commercial real estate	68,753	2,138	78,886	3,769	153,546
Residential real estate	19,438	1,673	5,864	—	26,975
Consumer	2,774	96	367	—	3,237

Total loans accounted for under ASC 310-30	$ 110,078	$ 9,367	$ 97,678	$ 3,769	$ 220,892
Covered loans accounted for under ASC 310-30	$ 35,474	$ 6,773	$ 82,272	$ 3,769	$ 128,288
Non-covered loans accounted for under ASC 310-30	74,604	2,594	15,406	—	92,604
Total loans accounted for under ASC 310-30	$ 110,078	$ 9,367	$ 97,678	$ 3,769	$ 220,892
Total loans	$ 2,272,104	$ 78,207	$ 165,794	$ 7,023	$ 2,523,128
Total covered	$ 51,053	$ 6,932	$ 93,188	$ 3,883	$ 155,056
Total non-covered	2,221,051	71,275	72,606	3,140	2,368,072
Total loans	$ 2,272,104	$ 78,207	$ 165,794	$ 7,023	$ 2,523,128

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	Total Loans December 31, 2014				
	Pass	Special mention	Substandard	Doubtful	Total
Loans excluded from ASC 310-30					
Commercial	$ 742,944	$ 10,166	$ 19,250	$ 80	$ 772,440
Agriculture	114,642	85	3,741	—	118,468
Commercial real estate					
Construction	11,748	—	—	—	11,748
Acquisition/development	4,573	—	—	—	4,573
Multifamily	10,856	—	—	—	10,856
Owner-occupied	115,178	158	4,889	—	120,225
Non owner-occupied	199,817	17,607	4,430	8	221,862
Total commercial real estate	342,172	17,765	9,319	8	369,264
Residential real estate					
Senior lien	533,630	23	5,744	138	539,535
Junior lien	51,059	—	1,345	—	52,404
Total residential real estate	584,689	23	7,089	138	591,939
Consumer	30,426	—	227	—	30,653
Total loans excluded from ASC 310-30	$ 1,814,873	$ 28,039	$ 39,626	$ 226	$ 1,882,764
Covered loans excluded from ASC 310-30	$ 21,240	$ 171	$ 11,301	$ 109	$ 32,821
Non-covered loans excluded from ASC 310-30	1,793,633	27,868	28,325	117	1,849,943
Total loans excluded from ASC 310-30	$ 1,814,873	$ 28,039	$ 39,626	$ 226	$ 1,882,764
Loans accounted for under ASC 310-30					
Commercial	$ 11,038	$ 282	$ 11,092	$ 544	$ 22,956
Agriculture	16,854	30	2,179	—	19,063
Commercial real estate	82,603	3,770	101,966	3,991	192,330
Residential real estate	29,069	1,403	10,289	—	40,761
Consumer	3,641	105	789	—	4,535
Total loans accounted for under ASC 310-30	$ 143,205	$ 5,590	$ 126,315	$ 4,535	$ 279,645
Covered loans accounted for under ASC 310-30	$ 49,856	$ 3,036	$ 103,451	$ 4,533	$ 160,876
Non-covered loans accounted for under ASC 310-30	93,349	2,554	22,864	2	118,769
Total loans accounted for under ASC 310-30	$ 143,205	$ 5,590	$ 126,315	$ 4,535	$ 279,645
Total loans	$ 1,958,078	$ 33,629	$ 165,941	$ 4,761	$ 2,162,409
Total covered	$ 71,096	$ 3,207	$ 114,752	$ 4,642	$ 193,697

Total non-covered	1,886,982	30,422	51,189	119	1,968,712
Total loans	$ 1,958,078	$ 33,629	$ 165,941	$ 4,761	$ 2,162,409

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, accruing troubled debt restructurings (“TDRs”), loans in the process of bankruptcy, and restructured loans that are in compliance with their modified terms for one year or longer and are current as to principal and interest payments. 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, 2015, the Company measured $9.9 million of impaired loans using discounted cash flows, the loan’s initial contractual effective interest rate and observable market valuations and $31.5 million of impaired loans based on the fair value of the collateral less selling costs. Impaired loans that individually were less than $250 thousand were measured through the general allowance reserves due to their relatively small size totaled $9.1 million and $8.9 million at September 30, 2015 and December 31, 2014, respectively.

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At September 30, 2015 and December 31, 2014, the Company's recorded investments in impaired loans were $50.5 million and $32.1 million, respectively, of which $10.9 million and $11.1 million, respectively, were covered by loss sharing agreements, for the aforementioned periods. The increase in impaired loans during the nine months ended September 30, 2015, was primarily due to three relationships totaling $19.0 million that were deemed impaired during the period. All three of the relationships were in the commercial and industrial segment, were non-covered, and on non-accrual status at September 30, 2015. Impaired loans had a collective related allowance for loan losses allocated to them of $3.3 million and $0.3 million at September 30, 2015 and December 31, 2014, respectively. Additional information regarding impaired loans at September 30, 2015 and December 31, 2014 is set forth in the table below:

	Impaired Loans					
	September 30, 2015			December 31, 2014		
	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	$ 20,776	$ 20,582	$ —	$ 16,953	$ 16,771	$ —
Agriculture	1,977	1,978	—	3,065	3,061	—
Commercial real estate						
Construction	—	—	—	—	—	—
Acquisition/development	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
Owner-occupied	1,789	1,595	—	1,164	970	—
Non-owner occupied	829	829	—	—	—	—
Total commercial real estate	2,618	2,424	—	1,164	970	—
Residential real estate						
Senior lien	343	304	—	694	248	—
Junior lien	—	—	—	—	—	—
Total residential real estate	343	304	—	694	248	—
Consumer	—	—	—	—	—	—
Total impaired loans with no related allowance recorded	$ 25,714	$ 25,288	$ —	$ 21,876	$ 21,050	$ —
With a related allowance recorded:						
Commercial	$ 15,255	$ 14,980	$ 3,065	$ 894	$ 693	$ 82
Agriculture	257	229	1	177	145	—
Commercial real estate						
Construction	—	—	—	—	—	—

Acquisition/development	—	—	—	—	—	—
Multifamily	38	38	—	—	—	—
Owner-occupied	1,595	1,191	2	1,321	1,024	5
Non-owner occupied	927	823	5	1,140	1,060	9
Total commercial real estate	2,560	2,052	7	2,461	2,084	14
Residential real estate						
Senior lien	7,083	6,441	169	7,360	6,359	172
Junior lien	1,702	1,438	10	1,768	1,515	9
Total residential real estate	8,785	7,879	179	9,128	7,874	181
Consumer	79	78	1	277	245	2
Total impaired loans with a related allowance recorded	$ 26,936	$ 25,218	$ 3,253	$ 12,937	$ 11,041	$ 279
Total impaired loans	$ 52,650	$ 50,506	$ 3,253	$ 34,813	$ 32,091	$ 279

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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 nine months ended September 30, 2015		September 30, 2014	
	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
With no related allowance recorded:				
Commercial	$ 21,200	$ 772	$ 25,947	$ 342
Agriculture	1,978	—	9,045	217
Commercial real estate				
Construction	—	—	—	—
Acquisition/development	—	—	—	—
Multifamily	—	—	—	—
Owner-occupied	1,635	59	1,578	63
Non-owner occupied	829	—	—	—
Total commercial real estate	2,464	59	1,578	63
Residential real estate				
Senior lien	312	12	391	8
Junior lien	—	—	—	—
Total residential real estate	312	12	391	8
Consumer	—	—	—	—
Total impaired loans with no related allowance recorded	$ 25,954	$ 843	$ 36,961	$ 630
With a related allowance recorded:				
Commercial	$ 15,096	$ 72	$ 987	$ 6
Agriculture	345	3	165	—
Commercial real estate				
Construction	—	—	—	—
Acquisition/development	—	—	—	—
Multifamily	39	1	156	—
Owner-occupied	1,260	20	627	10
Non-owner occupied	852	39	1,086	42
Total commercial real estate	2,151	60	1,869	52
Residential real estate				
Senior lien	6,621	89	6,738	81
Junior lien	1,478	39	1,515	45
Total residential real estate	8,099	128	8,253	126

Consumer	82	1	266	1
Total impaired loans with a related allowance recorded	$ 25,773	$ 264	$ 11,540	$ 185
Total impaired loans	$ 51,727	$ 1,107	$ 48,501	$ 815

Troubled debt restructurings

It is the Company's policy to review each prospective credit in order to determine the appropriateness and the adequacy of security or collateral prior to making a loan. In the event of borrower default, the Company seeks recovery in compliance with lending laws, the respective loan agreements, and credit monitoring and remediation procedures that may include restructuring a loan to provide a concession by the Company to the borrower from their original terms due to borrower financial difficulties in order to facilitate repayment. Additionally, if a borrower's repayment obligation has been discharged by a court, and that debt has not been reaffirmed by the borrower, regardless of past due status, the loan is considered to be a TDR. At September 30, 2015 and December 31, 2014, the Company had $11.0 million and $19.3 million, respectively, of accruing TDRs that had been restructured from the original terms in order to facilitate repayment. Of these, $1.7 million and $9.8 million were covered by FDIC loss sharing agreements as of September 30, 2015 and December 31, 2014, respectively. Approximately $10.0 million of loans reported as TDRs at December 31, 2014 were in compliance with their modified terms at September 30, 2015, and therefore, are no longer reportable as TDRs at September 30, 2015.

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Non-accruing TDRs at September 30, 2015 and December 31, 2014 totaled $21.4 million and $7.0 million, respectively. Of these, $1.0 million and $1.2 million were covered by the FDIC loss sharing agreements as of September 30, 2015 and December 31, 2014, respectively.

During the nine months ended September 30, 2015, the Company restructured fourteen loans with a recorded investment of $20.4 million to facilitate repayment. 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, 2015 and December 31, 2014:

	Accruing TDRs September 30, 2015			
	Recorded investment	Average year-to-date recorded investment	Unpaid principal balance	Unfunded commitments to fund TDRs
Commercial	$ 8,381	$ 9,038	$ 8,582	$ 1,943
Agriculture	84	85	87	—
Commercial real estate	388	396	392	—
Residential real estate	2,161	2,214	2,209	—
Consumer	13	15	13	—
Total	$ 11,027	$ 11,748	$ 11,283	$ 1,943

	Accruing TDRs December 31, 2014			
	Recorded	Average year-to-date recorded	Unpaid	Unfunded commitments