Form

Unknown document format

yle="width:01.48%;border-top:1pt none #D9D9D9 ;border-left:1pt none #D9D9D9 ;border-bottom:1pt none #D9D9D9 ;border-right:1pt none #D9D9D9 ;padding:0pt;">

10.5%

379,341

(1) As of the fully phased-in date of January 1, 2019, including the capital conservation buffer.

Note 11 Revenue from Contracts with Clients

On January 1, 2018, the Company adopted ASU No. 2014-09 “Revenue from Contracts with Customers” (Topic 606) and all subsequent ASUs that modified Topic 606. As stated in Note 2, Recent Accounting Pronouncements, the implementation of the new standard did not have a material impact on the measurement or recognition of revenue; as such, a cumulative effect adjustment to opening retained earnings was not deemed necessary. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts were not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain noninterest income streams such as fees associated with mortgage servicing rights, financial guarantees, and derivatives are also not in scope of the new guidance. Topic 606 is applicable to noninterest revenue streams such as deposit related fees, interchange fees, and merchant income. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Substantially all of the Company’s revenue is generated from contracts with customers. Noninterest revenue streams in-scope of Topic 606 are discussed below.

Table of Contents

Service Charges and other fees

Service charge fees are primarily comprised of monthly service fees, check orders, and other deposit account related fees. Other fees include revenue from processing wire transfers, bill pay service, cashier's checks, and other services. The Company's performance obligation for account analysis fees and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account related fees are largely transactional based, and therefore, the Company's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to clients' accounts.

Bank card fees

Bank card fees are primarily comprised of debit card income, ATM fees, merchant services income, and other fees. Debit card income is primarily comprised of interchange fees earned whenever the Company's debit cards are processed through card payment networks such as Visa. ATM fees are primarily generated when a Company cardholder uses a non-Company ATM or a non-Company cardholder uses a Company ATM. Merchant services income mainly represents fees charged to merchants to process their debit card transactions. The Company's performance obligation for bank card fees are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month.

Loss (gain) on OREO Sales, net

Loss (gain) on OREO Sales, net is recognized when the Company meets its performance obligation to transfer title to the buyer. The gain or loss is measured as the excess of the proceeds received compared to the OREO carrying value. Sales proceeds are received in cash at the time of transfer.

The following table presents non-interest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, and non-interest expense in-scope of Topic 606 for the three and six months ended June 30, 2018 and 2017.

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Non-interest income				
In-scope of Topic 606:				

Service Charges and other fees	$ 5,008	$ 3,899	$ 10,183	$ 7,665
Bank card fees	3,672	3,134	7,034	5,938
Gain on banking center divestiture	—	2,942	—	2,942
Non-interest income (in-scope of Topic 606)	8,680	9,975	17,217	16,545
Non-interest income (out-of-scope of Topic 606)	10,882	1,981	20,181	4,107
Total non-interest income	$ 19,562	$ 11,956	$ 37,398	$ 20,652
Non-interest expense				
In-scope of Topic 606:				
Loss (gain) on OREO sales, net	(14)	(1,644)	64	(1,756)
Total revenue in-scope of Topic 606	$ 8,666	$ 8,331	$ 17,281	$ 14,789

Contract Balances

A contract asset balance occurs when an entity performs a service for a client before the client pays consideration (resulting in a contract receivable) or before payment is due (resulting in a contract asset). A contract liability balance is an entity's obligation to transfer a service to a client for which the entity has already received payment (or payment is due) from the client. The Company's noninterest revenue streams are largely based on transactional activity, or standard month-end revenue accruals. Consideration is often received immediately or shortly after the Company satisfies its performance obligation and revenue is recognized. The Company does not typically enter into long-term revenue contracts with clients, and therefore, does not experience significant contract balances. As of June 30, 2018 and December 31, 2017, the Company did not have any contract balances.

Table of Contents

Contract Acquisition Costs

In connection with the adoption of Topic 606, an entity is required to capitalize, and subsequently amortize into expense, certain incremental costs of obtaining a contract with a client if these costs are expected to be recovered. The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a client that it would not have incurred if the contract had not been obtained (for example, sales commission). The Company utilizes the practical expedient which allows entities to immediately expense contract acquisition costs when the asset that would have resulted from capitalizing these costs would have been amortized in one year or less. Upon adoption of Topic 606, the Company did not capitalize any contract acquisition cost.

Note 12 Stock-based Compensation and Benefits

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

Stock options

The Company issued stock options during the six months ended June 30, 2018 and 2017, which are primarily time-vesting with 1/3 vesting on each of the first, second and third anniversary of the date of grant or date of hire.

The expense associated with the awarded stock options was measured at fair value using a Black-Scholes option-pricing model. The outstanding option awards vest or have vested on a graded basis over 1-4 years of continuous service and have 7-10 year contractual terms.

The following table summarizes stock option activity for the six months ended June 30, 2018:

Weighted

	Options	Weighted average exercise price	average remaining contractual term in years	Aggregate intrinsic value
Outstanding at December 31, 2017	1,598,318	$ 20.62	4.07	$ 19,017
Granted	151,937	32.80		
Exercised	(441,161)	19.90		
Forfeited	(17,103)	28.57		
Outstanding at June 30, 2018	1,291,991	22.20	4.39	21,181
Options exercisable at June 30, 2018	1,039,372	20.16	3.25	19,161
Options vested and expected to vest	1,259,359	21.94	4.26	20,965

Stock option expense is a component of salaries and benefits in the consolidated statements of operations and totaled $0.2 million and $0.2 million for the three months ended June 30, 2018 and 2017, respectively, and $0.4 million and $0.4 million for the six months ended June 30, 2018 and 2017, respectively. At June 30, 2018, there was $1.0 million of total unrecognized compensation cost related to non-vested stock options granted under the plans. The cost is expected to be recognized over a weighted average period of 2.5 years.

Restricted stock awards

The Company issued time based restricted stock awards during the six months ended June 30, 2018 and 2017. The restricted stock awards vest over a range of a 1 - 3 year period. Restricted stock with time-based vesting was valued at the fair value of the shares on the date of grant as they are assumed to be held beyond the vesting period.

Table of Contents

No market-based stock awards were granted during the six months ended June 30, 2018 or June 30, 2017. During the six months ended June 30, 2016, the Company granted market-based stock awards of 26,594 shares in accordance with the 2014 Plan. These shares have a five-year performance period and vest upon the later of the Company's stock price achieving an established price goal during the performance period and the third anniversary of the date of grant. The $11.28 per share fair value of these awards was determined using a Monte Carlo Simulation at grant date. The market-based performance condition has been met for these awards and the total unrecognized compensation cost related to non-vested market-based stock awards totaled $0.1 million, and is expected to be recognized over a weighted average period of approximately 0.7 years.

Performance stock units

During the six months ended June 30, 2018 and 2017, the Company granted 77,125 and 49,758 performance stock units in accordance with the 2014 Plan, respectively. These performance stock units granted represent initial target awards and do not reflect potential increases or decreases resulting from the final performance results, which are to be determined at the end of the three-year performance period (vesting date). The actual number of shares to be awarded at the end of the performance period will range from 0% - 150% of the initial target awards. 60% of the award is based on the Company's cumulative earnings per share ("EPS target") during the performance period, and 40% of the award is based on the Company's cumulative total shareholder return ("TSR target"), or TSR, during the performance period. On the vesting date, the Company's TSR will be compared to the respective TSRs of the companies comprising the KBW Regional Index at the grant date to determine the shares awarded. The fair value of the EPS target portion of the award was determined based on the closing stock price of the Company's common stock on the grant date. The fair value of the TSR target portion of the award was determined using a Monte Carlo Simulation at the grant date. The weighted-average grant date fair value per unit for awards granted during the six months ended June 30, 2018 of the EPS target portion and the TSR target portion was $32.65 and $27.51, respectively.

The following table summarizes restricted stock and performance stock unit activity during the six months ended June 30, 2018:

	Restricted	Weighted average grant-	Performance	Weighted average grant-

	stock shares	date fair value	stock units	date fair value
Unvested at December 31, 2017	163,557	$ 22.60	125,082	$ 23.90
Granted	85,754	33.41	77,125	30.38
Vested	(80,092)	22.82	—	—
Forfeited	(13,136)	29.08	(9,884)	26.11
Unvested at June 30, 2018	156,083	$ 27.88	192,323	$ 26.39

As of June 30, 2018, the total unrecognized compensation cost related to the non-vested restricted stock awards and performance stock units totaled $3.0 million and $3.3 million, respectively, and is expected to be recognized over a weighted average period of approximately 2.3 years and 2.2 years, respectively. Expense related to non-vested restricted stock awards totaled $0.6 million and $0.6 million during the three months ended June 30, 2018 and 2017, respectively, and $1.0 million and $1.2 million during the six months ended June 30, 2018 and 2017, respectively. Expense related to non-vested performance stock units totaled $0.4 million and $0.2 million during the three months ended June 30, 2018 and 2017, respectively, and $0.7 million and $0.4 million during the six months ended June 30, 2018 and 2017, respectively. Expense related to non-vested restricted stock awards and units is a component of salaries and benefits in the Company's consolidated statements of operations.

Employee Stock Purchase Plan

The 2014 Employee Stock Purchase Plan ("ESPP") is intended to be a qualified plan within the meaning of Section 423 of the Internal Revenue Code of 1986 and allows eligible employees to purchase shares of common stock through payroll deductions up to a limit of $25,000 per calendar year and 2,000 shares per offering period. The price an employee pays for shares is 90.0% of the fair market value of Company common stock on the last day of the offering period. The offering periods are the six-month periods commencing on March 1 and June 1 of each year and ending on August 31 and February 28 (or February 29 in the case of a leap year) of each year. There are no vesting or other restrictions on the stock purchased by employees under the ESPP. Under the ESPP, the total number of shares of common stock reserved for issuance totaled 400,000 shares, of which 349,199 was available for issuance.

Table of Contents

Under the ESPP, employees purchased 5,960 shares during the six months ended June 30, 2018, respectively, and 5,373 shares during the six months ended June 30, 2017, respectively.

Note 13 Warrants

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

Note 14 Common Stock

The Company had 30,726,789 and 26,875,585 shares of Class A common stock outstanding at June 30, 2018 and December 31, 2017, respectively. Additionally, the Company had 156,083 and 163,557 shares outstanding at June 30, 2018 and December 31, 2017, respectively, of restricted Class A common stock issued but not yet vested under the 2014 Plan and the Prior Plan that are not included in shares outstanding until such time that they are vested; however, these shares do have voting and certain dividend rights during the vesting period.

On August 5, 2016, the Board of Directors authorized a new share repurchase program for up to $50.0 million from time to time in either the open market or through privately negotiated transactions. The remaining authorization under this program as of June 30, 2018 was $12.6 million.

Note 15 Earnings Per Share

The Company calculates earnings per share under the two-class method, as certain non-vested share awards contain non-forfeitable rights to dividends. As such, these awards are considered securities that participate in the earnings of the Company. Non-vested shares are discussed further in note 12.

The Company had 30,726,789 and 26,788,833 shares of Class A common stock outstanding as of June 30, 2018 and 2017, respectively, exclusive of issued non-vested restricted shares. Certain stock options and non-vested restricted shares are potentially dilutive securities, but are not included in the calculation of diluted earnings per share because to do so would have been anti-dilutive for the three and six months ended June 30, 2018 and 2017.

The following table illustrates the computation of basic and diluted earnings per share for the three and six months ended June 30, 2018 and 2017:

	For the three months ended		For the six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Net income	$ 17,512	$ 9,209	$ 25,977	$ 17,467
Less: income allocated to participating securities	(18)	(14)	(31)	(30)
Income allocated to common shareholders	$ 17,494	$ 9,195	$ 25,946	$ 17,437
Weighted average shares outstanding for basic earnings per common share	30,735,427	26,955,187	30,615,226	26,878,904
Dilutive effect of equity awards	651,748	642,256	660,133	742,001
Dilutive effect of warrants	—	—	—	16,627
Weighted average shares outstanding for diluted earnings per common share	31,387,175	27,597,443	31,275,359	27,637,532
Basic earnings per share	$ 0.57	$ 0.34	$ 0.85	$ 0.65
Diluted earnings per share	$ 0.56	$ 0.33	$ 0.83	$ 0.63

The Company had 1,291,991 and 1,683,867 outstanding stock options to purchase common stock at weighted average exercise prices of $22.20 and $20.61 per share at June 30, 2018 and 2017, respectively, which have time-vesting criteria, and as such, any dilution is derived only for the time frame in which the vesting criteria had been met and where the inclusion of those stock options is dilutive. Additionally, 250,750 warrants were exercised in a non-cash transaction during the first quarter of 2017, representing the remaining outstanding warrants to purchase shares of the Company’s common stock. The warrants had an exercise price of $20.00. The Company had 348,406 and 256,064 unvested restricted shares and units issued as of June 30, 2018 and 2017, respectively, which have performance, market and/or time-vesting criteria, and as such, any dilution is derived only for the time frame in which the vesting criteria had been met and where the inclusion of those restricted shares and units is dilutive.

Note 16 Income Taxes

The effective income tax rate for the three and six months ended June 30, 2018 was 13.8% and 14.8%, respectively, compared to 19.1% and 5.1% for the three and six months ended June 30, 2017, calculated based on a full year forecast method. The tax expense recorded for the three and six months ended June 30, 2018 was lowered by a $0.8 million and $1.2 million discrete tax benefit from stock compensation activity during the respective periods. Without the discrete benefits, the three and six months ended June 30, 2018 effective tax rate was 17.7% and 18.6%, respectively. The tax expense recorded for the three and six months ended June 30, 2017 was lowered by a $0.5 million and $3.4 million tax benefit from stock compensation activity. The quarterly tax rate differs from the federal statutory rate primarily due to tax benefits from stock compensation activity, interest income from tax-exempt lending, bank-owned life insurance income, and the relationship of these items to pre-tax income. See management’s discussion and analysis for further information.

Note 17 Derivatives

Risk management objective of using derivatives

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

Fair values of derivative instruments on the balance sheet

The table below presents the fair value of the Company’s derivative financial instruments as well as their classification on the consolidated statements of financial condition as of June 30, 2018 and December 31, 2017.

Information about the valuation methods used to measure fair value is provided in note 19.

	Balance Sheet location	Asset derivatives fair value June 30, 2018	December 31, 2017	Balance Sheet location	Liability derivatives fair value June 30, 2018	December 31, 2017
Derivatives designated as hedging instruments:						
Interest rate products	Other assets	$ 26,667	$ 10,489	Other liabilities	$ 3	$ 1,167
Total derivatives designated as hedging instruments		$ 26,667	$ 10,489		$ 3	$ 1,167
Derivatives not designated as hedging instruments:						
Interest rate products	Other assets	$ 4,014	$ 2,483	Other liabilities	$ 3,992	$ 2,584
Interest rate lock commitments	Other assets	1,466	128	Other liabilities	252	—
Forward contracts	Other assets	25	5	Other liabilities	538	7
Total derivatives not designated as hedging instruments		$ 5,505	$ 2,616		$ 4,782	$ 2,591

Fair value hedges

Interest rate swaps designated as fair value hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without the exchange of the underlying notional amount. As of June 30, 2018, the Company had interest rate swaps with a notional amount of $468.1 million, which were designated as fair value hedges of interest rate risk. These interest rate swaps were associated with $506.5 million of the Company's fixed-rate loans, before a $(27.0) million fair value hedge adjustment in the carrying amount, included in loans receivable on the statements of financial condition. As of December 31, 2017, the Company had interest rate swaps with a notional amount of $417.7 million that were designated as fair value hedges.

For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in earnings. The Company includes the gain or loss on the hedged items in the same line item as the offsetting loss or gain on the related derivatives.

Non-designated hedges

Derivatives not designated as hedges are not speculative and consist of interest rate swaps with commercial banking clients that facilitate their respective risk management strategies. Interest rate swaps are simultaneously hedged by offsetting interest rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. As the interest rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the client swaps and the offsetting swaps are recognized directly in earnings. As of June 30, 2018, the Company had matched interest rate swap transactions with an aggregate notional amount of $174.0 million related to this program. As of December 31, 2017, the Company had matched interest rate swap transactions with an aggregate notional amount of $202.2 million related to this program.

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

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

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

The Company had interest rate lock commitments with a notional value of $113.5 million and forward contracts with a notional value of $178.7 million at June 30, 2018. At December 31, 2017, the Company had interest rate lock commitments with a notional value of $8.0 million and forward contracts with a notional value of $9.0 million.

Table of Contents

Effect of derivative instruments on the consolidated statements of operations

The tables below present the effect of the Company’s derivative financial instruments on the consolidated statements of operations for the three and six months ended June 30, 2018 and 2017:

Derivatives in fair value hedging relationships	Location of gain (loss) recognized in income on derivatives	Amount of gain (loss) recognized in income on derivatives For the three months ended June 30, 2018	2017	For the six months ended June 30, 2018	2017
Interest rate products	Interest and fees on loans	$ 5,288	$ —	$ 17,340	$ —
Interest rate products	Other non-interest income	—	(3,169)	—	(2,105)
Total		$ 5,288	$ (3,169)	$ 17,340	$ (2,105)

Hedged items	Location of gain (loss) recognized in income on hedged items	Amount of gain (loss) recognized in income on hedged items For the three months ended June 30, 2018	2017	For the six months ended June 30, 2018	2017
Interest rate products	Interest and fees on loans	$ (5,347)	$ —	$ (17,264)	$ —
Interest rate products	Other non-interest income	—	2,962	—	1,720
Total		$ (5,347)	$ 2,962	$ (17,264)	$ 1,720

Derivatives not designated as hedging instruments	Location of gain (loss) recognized in income on derivatives	Amount of gain (loss) recognized in income on derivatives For the three months ended June 30, 2018	2017	For the six months ended June 30, 2018	2017
Interest rate products	Other non-interest expense	$ 3	$ (47)	$ 124	$ (79)
Interest rate lock commitments	Mortgage banking income	(517)	(122)	(141)	1
Forward contracts	Mortgage banking income	305	63	1,413	(131)
Total		$ (209)	$ (106)	$ 1,396	$ (209)

Credit-risk-related contingent features

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

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

As of June 30, 2018, the termination value of derivatives in a net liability position related to these agreements was $4.0 million, which includes accrued interest but excludes any adjustment for nonperformance risk. The Company has minimum collateral posting thresholds with certain of its derivative counterparties and as of June 30, 2018 the Company had posted $0.2 million in eligible collateral. If the Company had breached any of these provisions at June 30, 2018, it could have been required to settle its obligations under the agreements at the termination value.

Note 18 Commitments and Contingencies

In the normal course of business, the Company enters into various off-balance sheet commitments to help meet the financing needs of clients. These financial instruments include commitments to extend credit, commercial and consumer lines of credit and standby letters of credit. The same credit policies are applied to these commitments as the loans on the consolidated statements of financial condition; however, these commitments involve varying degrees of credit risk in excess of the amount recognized in the consolidated statements of financial condition. At June 30, 2018 and December 31, 2017, the Company had loan commitments totaling $764.6 million and $680.8 million, respectively, and standby letters of credit that totaled $8.3 million and $7.2 million, respectively. The total amounts of unused commitments do not necessarily represent future credit exposure or cash requirements, as commitments often expire without being drawn upon. However, the contractual amount of these commitments, offset by any additional collateral pledged, represents the Company’s potential credit loss exposure.

Table of Contents

Total unfunded commitments at June 30, 2018 and December 31, 2017 were as follows:

	June 30, 2018	December 31, 2017
Commitments to fund loans	$ 231,844	$ 181,904
Unfunded commitments under lines of credit	532,778	498,857
Commercial and standby letters of credit	8,260	7,185
Total unfunded commitments	$ 772,882	$ 687,946

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

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

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

Mortgage loans sold to investors may be subject to repurchase or indemnification in the event of specific default by the borrower or subsequent discovery that underwriting standards were not met. The Company established a reserve liability for expected losses related to these representations and warranties based upon management’s evaluation of actual and historic loss history, delinquency trends in the portfolio and economic conditions. The Company recorded a repurchase reserve of $4.0 million at June 30, 2018, which is included in other liabilities on the consolidated statements of financial condition.

Contingencies

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

Note 19 Fair Value Measurements

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

· Level 1—Includes assets or liabilities in which the inputs to the valuation methodologies are based on unadjusted quoted prices in active markets for identical assets or liabilities.
· Level 2—Includes assets or liabilities in which the inputs to the valuation methodologies are based on similar assets or liabilities in inactive markets, quoted prices for identical or similar assets or liabilities in inactive markets, and inputs other than quoted prices that are observable, such as interest rates, yield curves, volatilities, prepayment speeds, and other inputs obtained from observable market input.
· Level 3—Includes assets or liabilities in which the inputs to the valuation methodology are based on at least one significant assumption that is not observable in the marketplace. These valuations may rely on management's judgment and may include internally-developed model-based valuation techniques.

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

Changes in the valuation inputs used for measuring the fair value of financial instruments may occur due to changes in current market conditions or other factors. Such changes may necessitate a transfer of the financial instruments to another level in the hierarchy based on the new inputs used. The Company recognizes these transfers at the end of the reporting period that the transfer occurs. During the six months ended June 30, 2018 and 2017, there were no transfers of financial instruments between the hierarchy levels.

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

Fair Value of Financial Instruments Measured on a Recurring Basis

Investment securities available-for-sale—Investment securities available-for-sale are carried at fair value on a recurring basis. To the extent possible, observable quoted prices in an active market are used to determine fair value and, as such, these securities are classified as level 1. At June 30, 2018 and December 31, 2017, the Company did not hold any level 1 securities. When quoted market prices in active markets for identical assets or liabilities are not available, quoted prices of securities with similar characteristics, discounted cash flows or other pricing characteristics are used to estimate fair values and the securities are then classified as level 2.

Loans held for sale—The Company has elected to record loans originated and intended for sale in the secondary market at estimated fair value. The portfolio consists primarily of fixed rate residential mortgage loans that are sold within 45 days. The Company estimates fair value based on quoted market prices for similar loans in the secondary market and is classifies as Level 2.

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

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

Table of Contents

The tables below present the financial instruments measured at fair value on a recurring basis as of June 30, 2018 and December 31, 2017 on the consolidated statements of financial condition utilizing the hierarchy structure described above:

	June 30, 2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Investment securities available-for-sale:				
Mortgage-backed securities:				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ —	$ 171,255	$ —	$ 171,255
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	—	683,983	—	683,983
Municipal securities	—	825	—	825
Loans held for sale	—	113,057	—	113,057
Interest rate swap derivatives	—	30,681	—	30,681
Mortgage banking derivatives	—	—	1,491	1,491
Total assets at fair value	$ —	$ 999,801	$ 1,491	$ 1,001,292
Liabilities:				
Interest rate swap derivatives	$ —	$ 3,995	$ —	$ 3,995
Mortgage banking derivatives	—	—	790	790
Total liabilities at fair value	$ —	$ 3,995	$ 790	$ 4,785

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Investment securities available-for-sale:				
Mortgage-backed securities:				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ —	$ 168,648	$ —	$ 168,648
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	—	685,230	—	685,230
Municipal securities	—	829	—	829
Loans held for sale	—	4,629	—	4,629
Interest rate swap derivatives	—	12,972	—	12,972
Mortgage banking derivatives	—	—	133	133
Total assets at fair value	$ —	$ 872,308	$ 133	$ 872,441
Liabilities:				
Interest rate swap derivatives	$ —	$ 3,751	$ —	$ 3,751
Mortgage banking derivatives	—	—	7	7
Total liabilities at fair value	$ —	$ 3,751	$ 7	$ 3,758

The table below details the changes in level 3 financial instruments during the six months ended June 30, 2018:

	Mortgage banking derivatives, net
Balance at December 31, 2017	$ 126
Gain included in earnings, net	575
Balance at June 30, 2018	$ 701

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

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

Table of Contents

The Company records collateral dependent loans that are considered to be impaired at their estimated fair value. A loan is considered impaired when it is probable that the Company will be unable to collect all contractual amounts due in accordance with the terms of the loan agreement. Collateral dependent impaired loans are measured based on the fair value of the collateral. The Company relies on third-party appraisals and internal assessments, utilizing a discount rate in the range of 0% - 25%, in determining the estimated fair values of these loans. The inputs used to determine the fair values of loans are considered level 3 inputs in the fair value hierarchy. At June 30, 2018, the Company measured six originated and acquired loans at fair value on a non-recurring basis, with a carrying balance of $6.3 million and specific reserve balance of $1.2 million. At June 30, 2017, the Company measured seven originated and acquired loans at fair value on a non-recurring basis, with a carrying balance of $14.5 million and specific reserve balance of $6.2 million.

OREO is recorded at the lower of the cost basis or the fair value of the collateral less estimated selling costs. The estimated fair values of OREO are updated periodically and further write-downs may be taken to reflect a new basis. The Company recognized $64 thousand and $46 thousand of OREO impairments in its consolidated statements of operations during the six months ended June 30, 2018 and 2017, respectively. The fair values of OREO are derived from third party price opinions or appraisals that generally use an income approach or a market value approach. If reasonable comparable appraisals are not available, then the Company may use internally developed models to determine fair values. The inputs used to determine the fair values of OREO are considered level 3 inputs in the fair value hierarchy.

Mortgage servicing rights represent the value associated with servicing residential real estate loans that have been sold to outside investors with servicing retained. The fair value for servicing assets is determined through discounted cash flow analysis and utilizes discount rates ranging from 9.5% to 10.5% at June 30, 2018 and prepayment speed assumption ranges of 8.6% to 11.8% at June 30, 2018 as inputs. Mortgage servicing rights are subject to impairment testing. The carrying values of these rights are reviewed quarterly for impairment based upon the calculation of fair value. For purposes of measuring impairment, the rights are stratified into certain risk characteristics including note type and note term. If the valuation model reflects a value less than the carrying value, mortgage servicing rights are adjusted to fair value through a valuation allowance. There was no valuation allowance recorded at June 30, 2018. The inputs used to determine the fair values of mortgage servicing rights are considered level 3 inputs in the fair value hierarchy.

The Company may be required to record fair value adjustments on other available-for-sale and municipal securities valued at par on a non-recurring basis.

The table below provides information regarding the assets recorded at fair value on a non-recurring basis during the six months ended June 30, 2018 and 2017:

June 30, 2018

	Total	Losses from fair value changes
Impaired loans	$ 34,822	$ 1,089
Other real estate owned	35,469	64
Mortgage servicing rights	3,915	—
Total	$ 74,205	$ 1,153

	June 30, 2017	
	Total	Losses from fair value changes
Impaired loans	$ 39,379	$ 327
Other real estate owned	14,297	46
Total	$ 53,676	$ 373

The Company did not record any liabilities measured at fair value on a non-recurring basis during the six months ended June 30, 2018.

Note 20 Fair Value of Financial Instruments

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal market at the measurement date under current market conditions. The fair value of the financial instruments listed below does not reflect a premium or discount that could result from offering all of the Company’s holdings of financial instruments at one time, nor does it reflect the underlying value of the Company, as ASC Topic 825 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies and are based on the exit price notion set forth by ASU 2016-01 effective January 1, 2018 and applied to this disclosure on a prospective basis. Considerable judgment is required to interpret market data in order to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange.

The fair value of financial instruments at June 30, 2018 and December 31, 2017, including methods and assumptions utilized for determining fair value of financial instruments, are set forth below:

	Level in fair value measurement hierarchy	June 30, 2018 Carrying amount	Estimated fair value	December 31, 2017 Carrying amount	Estimated fair value
ASSETS					
Cash and cash equivalents	Level 1	$ 137,917	$ 137,917	$ 257,364	$ 257,364
Mortgage-backed securities—residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises available-for-sale	Level 2	171,255	171,255	168,648	168,648
Mortgage-backed securities—other residential mortgage-backed securities issued or guaranteed by U.S. Government agencies or sponsored enterprises available-for-sale	Level 2	683,983	683,983	685,230	685,230
Municipal securities	Level 2	825	825	829	829
Municipal securities	Level 3	219	219	219	219
Other available-for-sale securities	Level 3	469	469	419	419
Mortgage-backed securities—residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises held-to-maturity	Level 2	178,946	175,471	204,352	204,048
Mortgage-backed securities—other residential mortgage-backed securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	Level 2	87,251	84,739	54,378	52,723

held-to-maturity					
Non-marketable securities	Level 2	20,070	20,070	15,030	15,030
Loans receivable	Level 3	3,825,555	3,776,564	3,178,947	3,167,508
Loans held for sale	Level 2	113,057	113,057	4,629	4,629
Accrued interest receivable	Level 2	18,147	18,147	14,255	14,255
Interest rate swap derivatives	Level 2	30,681	30,681	12,972	12,972
Mortgage banking derivatives	Level 3	1,491	1,491	133	133
LIABILITIES					
Deposit transaction accounts	Level 2	3,499,133	3,499,133	2,861,509	2,861,509
Time deposits	Level 2	1,132,331	1,132,331	1,118,050	1,118,050
Securities sold under agreements to repurchase	Level 2	73,441	73,441	130,463	130,463
Federal Home Loan Bank advances	Level 2	188,334	188,579	129,115	130,300
Accrued interest payable	Level 2	6,136	6,136	5,776	5,776
Interest rate swap derivatives	Level 2	3,995	3,995	3,751	3,751
Mortgage banking derivatives	Level 3	790	790	7	7

40

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

The following management's discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes as of and for the three and six months ended June 30, 2018, and with our annual report on Form 10-K (file number 001-35654), which includes our audited consolidated financial statements and related notes as of and for the years ended December 31, 2017, 2016, and 2015. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions that may cause actual results to differ materially from management's expectations. Factors that could cause such differences are discussed in the section entitled “Cautionary Note Regarding Forward-Looking Statements” located elsewhere in this quarterly report and in Item 1A“Risk Factors” in the annual report on Form 10-K, referenced above, and should be read herewith.

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

Overview

Our focus is on building strong banking relationships with small to medium-sized businesses and consumers, while maintaining a low risk profile designed to generate reliable income streams and attractive returns. We have established a solid financial services franchise with a sizable presence for deposit gathering and building client relationships necessary for growth. We believe that our established presence in core markets that are outperforming national averages positions us well for growth opportunities. As of June 30, 2018, we had $5.6 billion in assets, $3.8 billion in loans, $4.6 billion in deposits and $0.7 billion in equity.

Operating Highlights

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

On January 1, 2018, the Company completed its acquisition of Peoples, Inc. (“Peoples”), the bank holding company of Colorado-based Peoples National Bank and Kansas-based Peoples Bank. At the close of the acquisition, the Company acquired 20 banking centers located in the highly-attractive and geographically-relevant markets of Colorado Springs in Colorado, Overland Park and Lawrence in Kansas, and Taos and Albuquerque in New Mexico, and an in-market mortgage origination business. The acquisition added approximately $842 million in total assets, net of FHLB payoffs, $543 million in loans and $730 million in deposits. The merger consideration totaled $146.4 million and consisted of $110.2 million in Company stock and $36.2 million in cash. All operating systems were converted during the first and second quarters of 2018.

Increased profitability and returns

- Net income was $26.0 million, or $0.83 per diluted share, for the six months ended June 30, 2018 compared to net income of $17.5 million, or $0.63 per diluted share, for the same period in the prior year. Net income during the six months ended June 30, 2018 included $6.3 million, after-tax, of expenses related to the acquisition of Peoples. Adjusting for these expenses, net income would have been $32.3 million, or $1.03 per diluted share.
- The return on average tangible assets was 0.99% for the six months ended June 30, 2018 compared to 0.84% for the same period in the prior year. Adjusting for Peoples acquisition expenses, the return on average tangible assets was 1.22% for the six months ended June 30, 2018.
- The return on average tangible common equity was 10.29% for the six months ended June 30, 2018 compared to 7.93% for the same period prior year. Adjusting for Peoples acquisition expenses, the return on average tangible common equity was 12.71% for the six months ended June 30, 2018.

Strategic execution

- Completed the acquisition of Peoples on January 1, 2018.
- Grew originated and acquired loans outstanding to $3.7 billion, an increase of $684.3 million, or 45.1% annualized, since December 31, 2017, driven by Peoples acquired loans and originated loan growth of 15.8% annualized.
- Maintained a conservatively structured loan portfolio represented by diverse industries and concentrations with most industry sector concentrations at 5% or less of total loans, and all concentration levels remain well below our self-imposed limits.

41

Table of Contents

Continued to build and deepen relationships with our clients, resulting in strong average deposit growth of $723.9 million since December 31, 2017, due to the Peoples acquisition and transaction deposit growth during the period.
Maintained strong expense management as the Company begins to realize benefits from the completed system conversions of the Peoples acquisition during 2018.

Loan portfolio

Total loans ended the quarter at $3.8 billion and increased $646.6 million, or 20.3%, since December 31, 2017, primarily driven by the Peoples acquisition.
Originated loans grew 15.8% annualized due to strong growth in commercial loans of 32.1% annualized, offset partially by expected payoffs of non-owner occupied commercial real estate.

Credit quality

Credit quality remained strong, as non-performing originated and acquired loans (comprised of non-accrual loans and non-accrual TDRs) were 0.68% of total originated and acquired loans at June 30, 2018, compared to 0.69% at December 31, 2017. Non-performing assets to total loans and OREO totaled 1.58% at June 30, 2018 compared to 0.99% at December 31, 2017. Excluding OREO transferred from 310-30 loans, non-performing assets to total loans and OREO totaled 0.82% at June 30, 2018.
Provision for loan losses on originated and acquired loans totaled $1.7 million during the six months ended June 30, 2018, compared to $5.9 million during the same period prior year. The current period provision was recorded to support the increase in originated loans.

Client deposit funded balance sheet

Total deposits averaged $4.6 billion during the six months ended June 30, 2018, increasing $750.3 million, or 19.3%, compared to the same period prior year. The increase was driven by $730 million in total deposits added on January 1, 2018 from the Peoples acquisition, coupled with transaction deposit growth, partially offset by the sale of four banking centers in the second quarter of 2017.
Average transaction deposits totaled $3.5 billion during the six months ended June 30, 2018, increasing $760.6 million, or 27.9%, from the same period prior year, due to organic growth and the Peoples acquisition.
Time deposits averaged $1.2 billion during the six months ended June 30, 2018, decreasing $10.3 million from the same period prior year.
The mix of transaction deposits to total deposits improved to 75.6% from 71.9% at December 31, 2017, due to the Peoples acquisition and our continued focus on developing long-term banking relationships.

Cost of deposits totaled 0.41% during the six months ended June 30, 2018, increasing 0.01% from the same period prior year.

Revenues

Fully taxable equivalent (FTE) net interest income totaled $99.2 million during the six months ended June 30, 2018 and increased $24.9 million, or 33.6%, compared to the same period prior year.
The FTE net interest margin widened 0.41% to 3.90% during the six months ended June 30, 2018 as the yield on earning assets increased 0.42%, led by a 0.43% increase in the originated portfolio yields due to short-term rate increases, partially offset by an increase in the cost of deposits of 0.01%.
Non-interest income totaled $37.4 million during the six months ended June 30, 2018, increasing $16.7 million from the same period prior year, primarily due to the Peoples acquisition.

Expenses

Non-interest expense totaled $102.0 million during the six months ended June 30, 2018, representing an increase of $34.0 million from same period prior year, driven by the Peoples acquisition. Included in the first six months of 2018 were $8.0 million of pre-tax acquisition costs.

Income tax expense totaled $4.5 million during the six months ended June 30, 2018, compared to $1.0 million during the same period prior year. The tax expense recorded for the six months ended June 30, 2018 and 2017 were lowered by a $1.2 million and $3.4 million tax benefit from stock compensation activity, respectively. The June 30, 2018 and 2017 effective tax rate was 14.8% and 5.1%, respectively. Adjusting for the stock compensation activity, the June 30, 2018 and 2017 adjusted effective tax rate was 18.6% and 23.5%, respectively.

Strong capital position

Capital ratios are strong as our capital position remains in excess of federal bank regulatory thresholds. As of June 30, 2018, our consolidated tier 1 leverage ratio was 9.9% and our consolidated tier 1 risk-based capital and common equity tier 1 risk-based capital ratios were both 12.6%.

At June 30, 2018, common book value per share was $21.49, while tangible common book value per share was $17.63 and $18.43 after consideration of the excess accretable yield value of $0.80 per share.

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

Key Challenges

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

General economic conditions remained stable during the first six months of 2018. Residential real estate values remain strong in our markets and nationally, with many markets, including Denver, hitting new post-crisis highs. Commercial real estate property fundamentals also remain strong, with stable occupancy and increasing lease rates, along with cyclically low capitalization rates leading to increasing valuations. A significant portion of our loan portfolio is secured by real estate and any deterioration in real estate values or credit quality or elevated levels of non-performing assets would ultimately have a negative impact on the quality of our loan portfolio.

The agriculture industry is in the fourth year of depressed commodity prices. Our agriculture portfolio is only 5.1% of total loans and is well-diversified across crop and livestock types. We have maintained relationships with agriculture clients that generally possess low leverage and, correspondingly, low bank debt to assets, minimizing any potential credit losses in the future.

Our originated and acquired loans outstanding portfolio at June 30, 2018 totaled $3.7 billion, representing an increase of $684.2 million, or 45.1% annualized compared to December 31, 2017, due to an increase of $452.9 million in loans acquired from the Peoples acquisition and an increase of $231.3 million in loan originations, partially offset by loan paydowns and payoffs during the six months ended June 30, 2018. Our 310-30 loans have produced higher yields than our originated and acquired loans, due to accretion of fair value adjustments. During the six months ended June 30, 2018, our weighted average rate on new loan fundings at the time of origination was 4.90% (fully taxable equivalent), compared to the six months ended June 30, 2018 weighted average yield of our total loan portfolio of 5.04% (fully taxable equivalent). Downward pressure on the yields of our total loan portfolio will continue to the extent that our originated and acquired loan portfolio does not provide sufficient yields to replace the high yields on the 310-30 loan portfolio as they pay down or pay off. Fully taxable equivalent net interest income reached an inflection point in the second quarter of 2017 and continued during the second quarter of 2018 as the yields and volumes of originated and acquired loans outpaced the decrease in higher yielding 310-30 loan balances. The inflection point was driven by both the strong new loan originations as well as the short-term market rate increases in 2017 and 2018. Future growth in our interest income will ultimately be dependent on our ability to continue to generate sufficient volumes of high-quality originated loans.

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

Table of Contents

Performance Overview

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

	As of and for the three months ended			As of and for the six months ended	
	June 30, 2018	December 31, 2017	June 30, 2017	June 30, 2018	June 30, 2017
Key Ratios(1)					
Return on average assets	1.25%	(0.83)%	0.79%	0.93%	0.76%
Return on average tangible assets(2)	1.31%	(0.78)%	0.87%	0.99%	0.84%
Return on average tangible assets, adjusted(2)	1.33%	0.88%	0.89%	1.22%	0.85%
Return on average equity	10.75%	(7.26)%	6.78%	8.08%	6.50%
Return on average tangible common equity(2)	13.52%	(7.41)%	8.21%	10.29%	7.93%
Return on average tangible common equity, adjusted(2)	13.72%	8.41%	8.36%	12.71%	8.01%
Loans to deposits ratio (end of period)	82.60%	79.88%	80.05%	82.60%	80.05%
Non-interest bearing deposits to total deposits (end of period)	23.74%	22.68%	22.58%	23.74%	22.58%
Net interest margin(4)	3.86%	3.26%	3.42%	3.81%	3.37%
Net interest margin FTE(2)(4)(10)	3.95%	3.41%	3.55%	3.90%	3.49%
Interest rate spread FTE(5)(10)	3.80%	3.24%	3.41%	3.75%	3.36%
Yield on earning assets(3)	4.29%	3.70%	3.84%	4.23%	3.77%
Yield on earning assets FTE(2)(3)(10)	4.38%	3.84%	3.96%	4.31%	3.89%
Cost of interest bearing liabilities(3)	0.58%	0.60%	0.55%	0.56%	0.53%
Cost of deposits	0.42%	0.44%	0.40%	0.41%	0.40%
Non-interest income to total revenue FTE	27.93%	18.71%	23.80%	27.38%	21.76%
Non-interest expense to average assets	3.34%	2.79%	2.87%	3.66%	2.96%
Non-interest expense to average assets, adjusted	3.31%	2.58%	2.84%	3.38%	2.94%
Efficiency ratio FTE(2)(6)(10)	65.83%	69.08%	63.83%	73.75%	68.80%
Efficiency ratio FTE, adjusted for acquisition-related costs(2)(6)	65.31%	64.15%	63.24%	67.93%	68.48%
Originated and Acquired Loans Asset Quality Data(7)(8)(9)					
Non-performing loans to total loans	0.68%	0.69%	1.10%	0.68%	1.10%
Allowance for loan losses to total loans	0.86%	1.02%	1.18%	0.86%	1.18%
Allowance for loan losses to non-performing loans	124.94%	148.54%	107.28%	124.94%	107.28%
Net charge-offs (recoveries) to average loans(1)	0.03%	0.27%	(0.01)%	0.05%	0.00%

Total Loans Asset Quality Data(7)(8)(9)					
Non-performing loans to total loans	0.67%	0.66%	1.05%	0.67%	1.05%
Non-performing assets to total loans and OREO	1.58%	0.99%	1.51%	1.58%	1.51%
Allowance for loan losses to total loans	0.84%	0.98%	1.13%	0.84%	1.13%
Allowance for loan losses to non-performing loans	125.73%	148.88%	107.72%	125.73%	107.72%
Net charge-offs (recoveries) to average loans(1)	0.03%	0.26%	(0.01)%	0.05%	0.00%

(1) Ratios are annualized.
(2) Ratio represents non-GAAP financial measure. See non-GAAP reconciliation below.
(3) Interest earning assets include assets that earn interest/accretion or dividends. Any market value adjustments on investment securities are excluded from interest-earning assets. Interest bearing liabilities include liabilities that must be paid interest.
(4) Net interest margin represents net interest income, including accretion income on interest earning assets, as a percentage of average interest earning assets.
(5) Interest rate spread represents the difference between the weighted average yield on interest earning assets and the weighted average cost of interest bearing liabilities.
(6) The efficiency ratio represents non-interest expense, less intangible asset amortization, as a percentage of net interest income on a FTE basis plus non-interest income.
(7) Non-performing loans consist of non-accruing loans and restructured loans on non-accrual, but exclude any loans accounted for under ASC 310-30 in which the pool is still performing. These ratios may, therefore, not be comparable to similar ratios of our peers.
(8) Non-performing assets include non-performing loans, other real estate owned and other repossessed assets.
(9) Total loans are net of unearned discounts and fees.

44

(10) Presented on a fully taxable equivalent basis using the statutory rate of 21%, 35% and 35% for the three months ended June 30, 2018, December 31, 2017 and June 30, 2017, respectively. The taxable equivalent adjustments included above are $1,099, $1,676 and $1,389 for the three months ended June 30, 2018, December 31, 2017 and June 30, 2017, respectively. The taxable equivalent adjustments included above are $2,162 and $2,658 for the six months ended June 20, 2018 and June 30, 2017, respectively.

About Non-GAAP Financial Measures

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

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

Table of Contents

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

Tangible Common Book Value Ratios

	June 30, 2018	December 31, 2017	June 30, 2017
Total shareholders’ equity	$ 660,185	$ 532,407	$ 544,487
Less: goodwill and core deposit intangible assets, net	(125,805)	(61,237)	(63,840)
Add: deferred tax liability related to goodwill	6,869	10,873	10,098
Tangible common equity (non-GAAP)	$ 541,249	$ 482,043	$ 490,745
Total assets	$ 5,647,256	$ 4,843,465	$ 4,692,769
Less: goodwill and core deposit intangible assets, net	(125,805)	(61,237)	(63,840)
Add: deferred tax liability related to goodwill	6,869	10,873	10,098
Tangible assets (non-GAAP)	$ 5,528,320	$ 4,793,101	$ 4,639,027
Tangible common equity to tangible assets calculations:			
Total shareholders' equity to total assets	11.69%	10.99%	11.60%
Less: impact of goodwill and core deposit intangible assets, net	(1.90)%	(0.93)%	(1.02)%
Tangible common equity to tangible assets (non-GAAP)	9.79%	10.06%	10.58%
Tangible common book value per share calculations:			
Tangible common equity (non-GAAP)	$ 541,249	$ 482,043	$ 490,745
Divided by: ending shares outstanding	30,726,789	26,875,585	26,788,833
Tangible common book value per share (non-GAAP)	$ 17.61	$ 17.94	$ 18.32
Tangible common book value per share, excluding accumulated other comprehensive income (AOCI) calculations:			
Tangible common equity (non-GAAP)	$ 541,249	$ 482,043	$ 490,745
Accumulated other comprehensive loss, net of tax	17,406	6,242	1,196
Tangible common book value, excluding AOCI, net of tax (non-GAAP)	558,655	488,285	491,941
Divided by: ending shares outstanding	30,726,789	26,875,585	26,788,833
Tangible common book value per share, excluding AOCI, net of tax (non-GAAP)	$ 18.18	$ 18.17	$ 18.36

Return on Average Tangible Assets and Return on Average Tangible Equity

	As of and for the three months ended			As of and for the six months ended	
	June 30, 2018	December 31, 2017	June 30, 2017	June 30, 2018	June 30, 2017
Net income (loss)	$ 17,512	$ (10,119)	$ 9,209	$ 25,977	$ 17,467
Add: impact of core deposit intangible amortization expense, after tax	496	752	836	993	1,671
Net income (loss) adjusted for impact of core deposit intangible amortization expense, after tax	$ 18,008	$ (9,367)	$ 10,045	$ 26,970	$ 19,138
Average assets	$ 5,617,965	$ 4,845,738	$ 4,675,614	$ 5,616,831	$ 4,641,432
Less: average goodwill and core deposit intangible asset, net of deferred tax liability related to goodwill	(119,257)	(50,945)	(54,420)	(119,600)	(55,102)
Average tangible assets (non-GAAP)	$ 5,498,708	$ 4,794,793	$ 4,621,194	$ 5,497,231	$ 4,586,330
Average shareholders' equity	$ 653,630	$ 552,810	$ 545,167	$ 647,984	$ 541,563
Less: average goodwill and core deposit intangible asset, net of deferred tax liability related to goodwill	(119,257)	(50,945)	(54,420)	(119,600)	(55,102)
Average tangible common equity (non-GAAP)	$ 534,373	$ 501,865	$ 490,747	$ 528,384	$ 486,461
Return on average assets	1.25%	(0.83)%	0.79%	0.93%	0.76%
Return on average tangible assets (non-GAAP)	1.31%	(0.78)%	0.87%	0.99%	0.84%
Return on average equity	10.75%	(7.26)%	6.78%	8.08%	6.50%
Return on average tangible common equity (non-GAAP)	13.52%	(7.41)%	8.21%	10.29%	7.93%

Fully Taxable Equivalent Yield on Earning Assets and Net Interest Margin

	As of and for the three months ended			As of and for the six months ended	
	June 30, 2018	December 31, 2017	June 30, 2017	June 30, 2018	June 30, 2017
Interest income	$ 54,911	$ 41,889	$ 41,332	$ 107,702	$ 80,072
Add: impact of taxable equivalent adjustment	1,099	1,676	1,389	2,162	2,658
Interest income FTE (non-GAAP)	$ 56,010	$ 43,565	$ 42,721	$ 109,864	$ 82,730
Net interest income	$ 49,386	$ 36,913	$ 36,892	$ 97,033	$ 71,614
Add: impact of taxable equivalent adjustment	1,099	1,676	1,389	2,162	2,658
Net interest income FTE (non-GAAP)	$ 50,485	$ 38,589	$ 38,281	$ 99,195	$ 74,272
Average earning assets	$ 5,129,275	$ 4,495,651	$ 4,322,149	$ 5,134,907	$ 4,285,522
Yield on earning assets	4.29%	3.70%	3.84%	4.23%	3.77%
Yield on earning assets FTE (non-GAAP)	4.38%	3.84%	3.96%	4.31%	3.89%
Net interest margin	3.86%	3.26%	3.42%	3.81%	3.37%
Net interest margin FTE (non-GAAP)	3.95%	3.41%	3.55%	3.90%	3.49%

Table of Contents

Adjusted Financial Results

	As of and for the three months ended			As of and for the six months ended	
	June 30, 2018	December 31, 2017	June 30, 2017	June 30, 2018	June 30, 2017
Adjustments to net income (loss):					
Net income (loss)	$ 17,512	$ (10,119)	$ 9,209	$ 25,977	$ 17,467
Adjustments (non-GAAP)(1)	275	20,002	185	6,322	185
Adjusted net income (non-GAAP)	$ 17,787	$ 9,883	$ 9,394	32,299	$ 17,652
Adjustments to earnings (loss) per share:					
Earnings (loss) per share	$ 0.56	$ (0.37)	$ 0.33	$ 0.83	$ 0.63
Adjustments (non-GAAP)(1)	0.01	0.73	0.01	0.20	0.01
Adjusted earnings per share - diluted (non-GAAP)(1)	$ 0.57	$ 0.36	$ 0.34	$ 1.03	$ 0.64
Adjustments to return on average tangible assets:					
Adjusted net income (non-GAAP)(1)	$ 17,787	$ 9,883	$ 9,394	$ 32,299	$ 17,652
Add: impact of core deposit intangible amortization expense, after tax	496	752	836	993	1,671
Net income adjusted for impact of core deposit intangible amortization expense, after tax(1)	18,283	10,635	10,229	33,292	19,323
Average tangible assets (non-GAAP)	5,498,708	4,794,793	4,621,194	5,497,231	4,586,330
Adjusted return on average tangible assets (non-GAAP)	1.33%	0.88%	0.89%	1.22%	0.85%
Adjustments to return on average tangible common equity:					
Net income adjusted for impact of core deposit intangible amortization expense, after tax(1)	$ 18,283	$ 10,635	$ 10,229	$ 33,292	$ 19,323
Average tangible common equity (non-GAAP)	534,373	501,865	490,747	528,384	486,461
Adjusted return on average tangible common equity (non-GAAP)	13.72%	8.41%	8.36%	12.71%	8.01%
Adjustments to non-interest expense:					
Non-interest expense	$ 46,763	$ 34,028	$ 33,439	$ 102,045	$ 68,044
Adjustments (non-GAAP)(1)	359	2,492	298	7,957	298

Adjusted non-interest expense (non-GAAP)	46,404	31,536	33,141	94,088	67,746
Non-interest expense to average assets, adjusted (non-GAAP)	3.31%	2.58%	2.84%	3.38%	2.94%
Adjustments to efficiency ratio					
Efficiency ratio, FTE	65.83%	69.08%	63.83%	73.75%	68.80%
Adjustments (non-GAAP)(1)	359	2,492	298	7,957	298
Efficiency ratio FTE, adjusted for acquisition costs	65.31%	64.15%	63.24%	67.93%	68.48%
(1) Adjustments:					
Non-interest expense adjustments:					
Acquisition-related	$ 359	$ 2,001	$ 298	$ 7,957	298
Bonus accrual	—	491	—	—	—
Total pre-tax adjustments (non-GAAP)	359	2,492	298	7,957	298
Collective tax expense impact	(84)	(947)	(113)	(1,636)	(113)
Deferred tax asset re-measurement	—	18,457	—	—	—
Adjustments (non-GAAP)	$ 275	$ 20,002	$ 185	$ 6,321	$ 185

Application of Critical Accounting Policies

We use accounting principles and methods that conform to GAAP and general banking practices. We are required to apply significant judgment and make material estimates in the preparation of our financial statements and with regard to various accounting, reporting and disclosure matters. Assumptions and estimates are required to apply these principles where actual measurement is not possible or practical. The most significant of these estimates relate to the accounting for acquired loans and the determination of the ALL. These critical accounting policies and estimates are summarized in the sections captioned “Application of Critical Accounting Policies” in Management's Discussion and Analysis in our 2017 Annual Report on Form 10-K, and are further analyzed with other significant accounting policies in note 2, “Summary of Significant Accounting Policies” in the notes to our consolidated financial statements for the year ended December 31, 2017.

Financial Condition

Total assets increased to $5.7 billion at June 30, 2018 from $4.8 billion at December 31, 2017. Total loans were $3.8 billion at June 30, 2018 and grew $646.6 million from December 31, 2017, primarily driven by the Peoples acquisition. Originated loans grew 15.8%

48

annualized as strong growth in commercial loans of 32.1% annualized was partially offset by scheduled payoffs of non-owner occupied commercial real estate loans. The 310-30 loan portfolio declined $37.7 million, or 31.2%, from December 31, 2017. Cash and cash equivalents totaled $137.9 million and decreased $119.5 million, or 46.4%, from December 31, 2017 due to cash held for the Peoples acquisition at December 31, 2017 and cash used to fund loan growth. The investment securities portfolio increased $8.8 million, or 0.8%, to $1.1 billion at June 30, 2018, due to investments purchased during the period and the Peoples acquisition. OREO increased $25.0 million due to the transfer of one large acquired 310-30 problem loan to OREO as part of the asset resolution process. During the six months ended June 30, 2018, demand, savings, and money market deposits ("transaction deposits") increased $637.6 million, or 22.3%, driven by the Peoples acquisition. Time deposits increased $14.3 million, or 1.3%, due to the Peoples acquisition.

Investment Securities

Available-for-sale

Total investment securities available-for-sale were $856.8 million at June 30, 2018 and $855.3 million at December 31, 2017, an increase of $1.4 million due to investments purchased during the period and the Peoples acquisition. During the six months ended June 30, 2018 and 2017, maturities and pay downs of available-for-sale securities totaled $112.7 million and $115.3 million, respectively. Purchases of available-for-sale securities during the six months ended June 30, 2018 and 2017 totaled $42.2 million and $96.9 million, respectively.

Our available-for-sale investment securities portfolio is summarized as of the dates indicated:

	June 30, 2018				December 31, 2017			
	Amortized cost	Fair value	Percent of portfolio	Weighted average yield	Amortized cost	Fair value	Percent of portfolio	Weighted average yield
Mortgage-backed securities:								
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ 172,595	$ 171,255	20.0%	2.47%	$ 167,269	$ 168,648	19.8%	2.39%

Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	710,097	683,983	79.8%	2.06%	702,107	685,230	80.1%	1.93%
Municipal securities	1,054	1,044	0.1%	2.60%	1,054	1,048	0.1%	2.60%
Other securities	469	469	0.1%	0.00%	419	419	0.0%	0.00%
Total investment securities available-for-sale	$ 884,215	$ 856,751	100.0%	2.14%	$ 870,849	$ 855,345	100.0%	2.02%

As of June 30, 2018 and December 31, 2017, generally the entire available-for-sale investment portfolio was backed by mortgages. The residential mortgage pass-through securities portfolio is comprised of both fixed rate and adjustable rate FHLMC, FNMA and GNMA securities. The other mortgage-backed securities are comprised of securities backed by FHLMC, FNMA and GNMA securities.

At June 30, 2018 and December 31, 2017, adjustable rate securities comprised 4.0% and 4.9%, respectively, of the available-for-sale MBS portfolio. The remainder of the portfolio was comprised of fixed rate amortizing securities with 10 to 30 year contractual maturities, with a weighted average coupon of 2.35% per annum and 2.18% per annum at June 30, 2018 and December 31, 2017, respectively.

The available-for-sale investment portfolio included $29.0 million and $18.2 million of gross unrealized losses at June 30, 2018 and December 31, 2017, respectively, which were partially offset by $1.5 million and $2.7 million of gross unrealized gains at June 30, 2018 and December 31, 2017, respectively. We believe any unrecognized losses are a result of prevailing interest rates, and as such, we do not believe that any of the securities with unrealized losses were other-than-temporarily-impaired.

Held-to-maturity

At June 30, 2018, we held $266.2 million of held-to-maturity investment securities, compared to $258.7 million at December 31, 2017, an increase of $7.5 million, or 2.9%. During the six months ended June 30, 2018 and 2017, maturities and pay downs of held-to-maturity securities totaled $32.2 million and $36.2 million, respectively. Purchases of held-to-maturity securities during the six months

Table of Contents

ended June 30, 2018 totaled $40.7 million. There were no purchases of held-to-maturity securities during the six months ended June 30, 2017.

Held-to-maturity investment securities are summarized as follows as of the date indicated:

	June 30, 2018				December 31, 2017			
	Amortized cost	Fair value	Percent of portfolio	Weighted average yield	Amortized cost	Fair value	Percent of portfolio	Weighted average yield
Mortgage-backed securities:								
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ 178,946	$ 175,471	67.2%	3.24%	$ 204,352	$ 204,048	79.0%	3.23%
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	87,251	84,739	32.8%	2.29%	54,378	52,723	21.0%	1.66%
Total investment securities held-to-maturity	$ 266,197	$ 260,210	100.0%	2.93%	$ 258,730	$ 256,771	100.0%	2.90%

The residential mortgage pass-through and other residential MBS held-to-maturity investment portfolios are comprised of fixed rate FHLMC, FNMA and GNMA securities.

The fair value of the held-to-maturity investment portfolio was $260.2 million and $256.8 million, at June 30, 2018 and December 31, 2017, respectively, and included $6.0 million of net unrealized losses and $2.0 million of net unrealized losses for the respective periods.

Loans Overview

At June 30, 2018, our loan portfolio was comprised of new loans that we have originated and loans that were acquired in connection with our six acquisitions to date. Beginning in the first quarter 2018, loans previously referred to as "non 310-30 loans" are referred to as "originated and acquired loans," which include originated loans and acquired loans not accounted for under ASC 310-30. No amounts were reclassified resulting from this change in terminology.

As discussed in note 5 to our consolidated financial statements, in accordance with applicable accounting guidance, all acquired loans are recorded at fair value at the date of acquisition, and an allowance for loan losses is not carried over with the loans but, rather, the fair value of the loans encompasses both credit quality and contractual interest rate considerations. Loans that exhibit signs of credit deterioration at the date of acquisition are accounted for in accordance with the provisions of ASC 310-30.

Table of Contents

The table below shows the loan portfolio composition at the respective dates:

	June 30, 2018	December 31, 2017	June 30, 2018 vs. December 31, 2017 % Change
Originated:			
Commercial:			
Commercial and industrial	$ 1,611,864	$ 1,375,028	17.2%
Owner-occupied commercial real estate	286,298	264,357	8.3%
Agriculture	188,185	135,397	39.0%
Energy	37,221	57,460	(35.2)%
Total commercial	2,123,568	1,832,242	15.9%
Commercial real estate non-owner occupied	411,953	464,121	(11.2)%
Residential real estate	625,940	633,578	(1.2)%
Consumer	23,235	23,398	(0.7)%
Total originated	3,184,696	2,953,339	7.8%
Acquired:			
Commercial:			
Commercial and industrial	68,509	994	6,792.3%
Owner-occupied commercial real estate	96,353	8,396	1,047.6%
Agriculture	6,611	3,498	89.0%
Total commercial	171,473	12,888	1,230.5%
Commercial real estate non-owner occupied	182,787	21,020	769.6%
Residential real estate	200,730	69,900	187.2%
Consumer	2,915	1,177	147.7%
Total acquired	557,905	104,985	431.4%
ASC 310-30 loans	82,954	120,623	(31.2)%
Total loans	$ 3,825,555	$ 3,178,947	20.3%

The table below shows the originated and acquired loans by loan segment at the respective dates:

	June 30, 2018	December 31, 2017	June 30, 2018 vs. December 31, 2017 % Change
Commercial	$ 2,295,041	$ 1,845,130	24.4%
Commercial real estate non-owner occupied	594,740	485,141	22.6%
Residential real estate	826,670	703,478	17.5%
Consumer	26,150	24,575	6.4%
Total originated and acquired loans	$ 3,742,601	$ 3,058,324	22.4%

Our loan portfolio totaled $3.8 billion at June 30, 2018, increasing $646.6 million, or 20.3%, since December 31, 2017, driven by the Peoples acquisition and originations during the period. Originated loans grew 15.8% annualized as strong growth in commercial loans of 32.1% annualized was partially offset by scheduled payoffs of non-owner occupied commercial real estate loans. The acquired 310-30 loan portfolio declined $37.7 million, or 31.2%, from December 31, 2017, largely due to the transfer of one large acquired 310-30 problem loan transferred to OREO during the six months ended June 30, 2018 as part of the asset resolution process.

We have successfully generated new relationships with small to medium-sized businesses and consumers, experiencing particularly strong loan growth in our commercial and industrial portfolio, which at June 30, 2018, was comprised of diverse industry segments. These segments included government and municipal loans of $433.8 million, finance and financial services, primarily lender finance loans of $361.3 million, healthcare-related loans of $169.3 million, manufacturing-related loans of $112.2 million and a variety of smaller subcategories of commercial and industrial loans. Agriculture loans totaled $194.8 million and were 33.4% of the Company's risk-based capital and 5.1% of total loans, and are well-diversified across crop and livestock types.

Originated and acquired non-owner occupied CRE loans were 101.8% of the Company's risk-based capital, or 15.5% of total loans, and no specific property type comprised more than 5.0% of total loans. The Company maintains very little exposure to retail properties, comprising less than 2.4% of total loans. Multi-family loans totaled $63.5 million, or 1.7% of total loans as of June 30, 2018.

New loan origination is a direct result of our ability to recruit and retain top banking talent, connect with clients in our markets and provide needed services at competitive rates. Loan originations totaled $972.4 million over the past twelve months, led by commercial loan originations of $737.2 million. Originations are defined as closed end funded loans and revolving lines of credit advances, net of any current period paydowns. Management utilizes this more conservative definition of originations to better approximate the impact of originations on loans outstanding and ultimately net interest income.

The following table represents new loan originations during 2018 and 2017:

	Second quarter 2018	First quarter 2018	Fourth quarter 2017	Third quarter 2017	Second quarter 2017
Commercial:					
Commercial and industrial	$ 232,643	$ 123,984	$ 167,699	$ 73,917	$ 159,340
Owner occupied commercial real estate	19,009	23,576	8,937	32,787	6,899
Agriculture	38,220	25,873	14,050	3,335	16,696
Energy	(929)	(10,778)	(8,121)	(6,993)	9,120
Total commercial	288,943	162,655	182,565	103,046	192,055
Commercial real estate non-owner occupied	28,316	20,694	21,323	46,654	47,312
Residential real estate	30,259	21,698	25,995	28,471	26,979
Consumer	3,588	3,238	1,815	3,122	3,233
Total	$ 351,106	$ 208,285	$ 231,698	$ 181,293	$ 269,579

Included in originations are net fundings under revolving lines of credit of $151,888, $59,236, $65,686, $(12,804) and $68,305 as of the second quarter 2018, first quarter 2018, fourth quarter 2017, third quarter 2017 and second quarter 2017, respectively.

The tables below show the contractual maturities of our total loans for the dates indicated:

	June 30, 2018			
	Due within 1 year	Due after 1 but within 5 years	Due after 5 years	Total
Commercial:				
Commercial and industrial	$ 158,074	$ 704,315	$ 819,010	$ 1,681,399
Owner occupied commercial real estate	41,826	129,639	226,522	397,987

Agriculture	20,362	148,250	32,900	201,512
Energy	888	36,333	—	37,221
Total commercial	221,150	1,018,537	1,078,432	2,318,119
Commercial real estate non-owner occupied	95,410	354,325	193,416	643,151
Residential real estate	28,992	65,310	743,733	838,035
Consumer	7,582	14,537	4,131	26,250
Total loans	$ 353,134	$ 1,452,709	$ 2,019,712	$ 3,825,555

	December 31, 2017			
	Due within 1 year	Due after 1 but within 5 years	Due after 5 years	Total
Commercial:				
Commercial and industrial	$ 83,314	$ 551,567	$ 745,746	$ 1,380,627
Owner occupied commercial real estate	18,044	115,421	156,306	289,771
Agriculture	14,513	102,390	29,845	146,748
Energy	25,970	31,489	—	57,459
Total commercial	141,841	800,867	931,897	1,874,605
Commercial real estate non-owner occupied	118,980	316,242	127,827	563,049
Residential real estate	6,820	38,824	670,593	716,237
Consumer	5,909	15,014	4,133	25,056
Total loans	$ 273,550	$ 1,170,947	$ 1,734,450	$ 3,178,947

Table of Contents

The stated interest rate (which excludes the effects of non-refundable loan origination and commitment fees, net of costs and the accretion of fair value marks) of originated and acquired loans with maturities over one year is as follows at the dates indicated:

	June 30, 2018					
	Fixed		Variable		Total	
	Balance	Weighted average rate	Balance	Weighted average rate	Balance	Weighted average rate
Commercial						
Commercial and industrial(1)	$ 789,282	3.57%	$ 733,397	4.57%	$ 1,522,679	4.05%
Owner occupied commercial real estate	152,144	4.10%	190,866	4.86%	343,010	4.79%
Agriculture	48,499	4.91%	126,581	4.79%	175,080	4.82%
Energy	50	4.49%	36,284	5.07%	36,334	5.07%
Total commercial	989,975	3.81%	1,087,128	4.66%	2,077,103	4.26%
Commercial real estate non-owner occupied	207,370	4.60%	298,992	4.78%	506,362	4.71%
Residential real estate	385,144	3.55%	412,947	4.41%	798,091	4.00%
Consumer	15,471	4.94%	3,097	5.19%	18,568	4.98%
Total loans with > 1 year maturity	$ 1,597,960	3.86%	$ 1,802,164	4.63%	$ 3,400,124	4.27%

	December 31, 2017					
	Fixed		Variable		Total	
	Balance	Weighted average rate	Balance	Weighted average rate	Balance	Weighted average rate
Commercial						
Commercial and industrial(1)	$ 696,224	3.34%	$ 597,253	4.14%	$ 1,293,477	3.71%
Owner occupied commercial real estate	125,821	4.20%	133,408	4.26%	259,229	4.39%
Agriculture	35,605	4.70%	89,487	4.42%	125,092	4.50%
Energy	132	4.37%	31,357	4.57%	31,489	4.57%
Total commercial	857,782	3.57%	851,505	4.20%	1,709,287	3.89%
Commercial real estate non-owner occupied	161,846	4.42%	237,772	4.46%	399,618	4.44%
Residential real estate	372,104	3.40%	325,227	3.94%	697,331	3.65%

Consumer	15,883	4.68%	2,805	4.59%	18,688	4.67%
Total loans with > 1 year maturity	$ 1,407,615	3.64%	$ 1,417,309	4.19%	$ 2,824,924	3.91%

(1) Included in commercial fixed rate loans are loans totaling $470,418 and $417,660 that have been swapped to variable rates at current market pricing at June 30, 2018 and December 31, 2017, respectively. Included in the commercial segment are tax exempt loans totaling $645,908 and $617,889 with a weighted average rate of 3.23% and 3.15% at June 30, 2018 and December 31, 2017, respectively.

Accretable Yield

At June 30, 2018, the accretable yield balance was $42.7 million compared to $46.6 million at December 31, 2017. We re-measure the expected cash flows quarterly for all 25 remaining loan pools accounted for under ASC 310-30 utilizing the same cash flow methodology used at the time of acquisition. This re-measurement resulted in a net $6.4 million and $7.2 million reclassification from non-accretable difference to accretable yield during the six months ended June 30, 2018 and 2017, respectively.

In addition to the accretable yield on loans accounted for under ASC 310-30, the fair value adjustments on loans outside the scope of ASC 310-30 are also accreted to interest income over the life of the loans. The Peoples acquisition added accretable fair value marks of $9.8 million on originated and acquired loans. Total remaining accretable yield and fair value mark was as follows for the dates indicated:

	June 30, 2018	December 31, 2017
Remaining accretable yield on loans accounted for under ASC 310-30	$ 42,702	$ 46,568
Remaining accretable fair value mark on originated and acquired loans	9,806	1,771
Total remaining accretable yield and fair value mark	$ 52,508	$ 48,339

Asset Quality

Asset quality is fundamental to our success and remains a strong point, driven by our disciplined adherence to our self-imposed concentration limits across industry sector and real estate property type. Accordingly, for the origination of loans, we have established a credit policy that allows for responsive, yet controlled lending with credit approval requirements that are scaled to loan size. Within the scope of the credit policy, each prospective loan is reviewed in order to determine the appropriateness and the adequacy of the loan characteristics and the security or collateral prior to making a loan. We have established underwriting standards and loan origination procedures that require appropriate documentation, including financial data and credit reports. For loans secured by real property, we require property appraisals, title insurance or a title opinion, hazard insurance and flood insurance, in each case where appropriate.

Additionally, we have implemented procedures to timely identify loans that may become problematic in order to ensure the most beneficial resolution to the Company. Asset quality is monitored by our credit risk management department and evaluated based on quantitative and subjective factors such as the timeliness of contractual payments received. Additional factors that are considered, particularly with commercial loans over $500,000, include the financial condition and liquidity of individual borrowers and guarantors, if any, and the value of our collateral. To facilitate the oversight of asset quality, loans are categorized based on the number of days past due and on an internal risk rating system, and both are discussed in more detail below.

In the event of borrower default, we may seek recovery in compliance with state lending laws, the respective loan agreements, and credit monitoring and remediation procedures that may include modifying or restructuring a loan from its original terms, for economic or legal reasons, to provide a concession to the borrower from their original terms due to borrower financial difficulties in order to facilitate repayment. Such restructured loans are considered TDRs in accordance with ASC 310-40, Troubled Debt Restructurings by Creditors. Under this guidance, modifications to loans that fall within the scope of ASC 310-30 are not considered troubled debt restructurings, regardless of otherwise meeting the definition of a troubled debt restructuring. Assets that have been foreclosed on or acquired through deed-in-lieu of foreclosure are classified as OREO until sold, and are carried at the lower of the related loan balance or the fair value of the collateral less estimated costs to sell, with any initial valuation adjustments charged to the ALL and any subsequent declines in carrying value charged to impairments on OREO.

Non-performing Assets

Non-performing assets consist of non-accrual loans, TDRs on non-accrual, OREO and other repossessed assets. Non-accrual loans and TDRs on non-accrual accounted for under ASC 310-30, as described below, may be excluded from our non-performing assets to the extent that the cash flows of the loan pools are still estimable. Interest income that would have been recorded had non-accrual loans performed in accordance with their original contract terms during the three and six months ended June 30, 2018 was $0.4 million and $0.7 million, respectively, and $0.5 million and $1.0 million during the three and six months ended June 30, 2017, respectively.

All loans accounted for under ASC 310-30 were classified as performing assets at June 30, 2018, as the future cash flows on the loan pools were considered estimable. While individual loans making up the pools may be accounted for on a cost recovery basis, the cash flows on the loan pools are considered estimable and, therefore, interest income, through accretion of the difference between the carrying value of the loans in the pool and the pool's expected future cash flows, is being recognized on all acquired loan pools accounted for under ASC 310-30.

On January 1, 2018, we completed the acquisition of Peoples, adding $542.7 million in loans to our consolidated statements of financial condition. As a result, originated and acquired special mention loans increased by $16.0 million from December 31, 2017 to June 30, 2018, with the additions from Peoples partially offset by upgrades within the agriculture sector. Originated and acquired substandard loans increased during the same period by $8.3 million, with the addition from Peoples partially offset by upgrades to pass within the multi-family sector, as well as paydowns of other substandard loans. Despite the increases in these categories from the acquisition of Peoples, the ratios of criticized loans and classified loans to total originated and acquired loans trended positively from March 31, 2018 to June 30, 2018. Additionally, the loans added for the Peoples acquisition included $4.7 million of non-accrual loans and $0.5 million of loans 90 days or more past due and still accruing interest as of January 1, 2018, which represented 0.9% and 0.1% of Peoples acquired loans as of that date, respectively.

Table of Contents

The following table sets forth the non-performing assets as of the dates presented:

	June 30, 2018	December 31, 2017
Non-accrual loans:		
Commercial:		
Commercial and industrial	$ 4,507	$ 3,747
Owner occupied commercial real estate	6,188	3,336
Agriculture	1,534	2,003
Energy	—	—
Total commercial	12,229	9,086
Commercial real estate non-owner occupied	2,502	784
Residential real estate	6,900	3,846
Consumer	42	29
Total non-accrual loans, excluding restructured loans	21,673	13,745
Restructured loans on non-accrual:		
Commercial:		
Commercial and industrial	1,037	4,020
Owner occupied commercial real estate	292	143
Agriculture	574	—
Energy	796	1,645
Total commercial	2,699	5,808
Commercial real estate non-owner occupied	—	—
Residential real estate	1,263	1,336
Consumer	—	111
Total restructured loans on non-accrual	3,962	7,255
Total non-performing loans	25,635	21,000
OREO	35,469	10,491
Total non-performing assets	$ 61,104	$ 31,491
Loans 90 days or more past due and still accruing interest	$ 1,104	$ 150
Accruing restructured loans	$ 6,939	$ 8,461
ALL	$ 32,230	$ 31,264
Total non-performing loans to total loans	0.67%	0.66%
Loans 90 days or more past due and still accruing interest to total loans	0.03%	0.00%
Total non-performing assets to total loans and OREO	1.58%	0.99%
ALL to non-performing loans	125.73%	148.88%

During the six months ended June 30, 2018, total non-performing loans increased $4.6 million, or 22.1%, from December 31, 2017 due to acquired Peoples loans, partially offset by one previously identified commercial and industrial loan placed back on accrual during the first quarter of 2018 as well as paydowns during the period. During the six months ended June 30, 2018, accruing TDRs decreased $1.5 million primarily due to decreases in the commercial segment totaling $1.1 million.

The Peoples acquisition added $1.4 million of OREO at January 1, 2018. During the six months ended June 30, 2018, the Company transferred one large acquired 310-30 problem loan totaling $24.1 million from 310-30 loans to OREO as part of the asset resolution process. During the six months ended June 30, 2018, $0.5 million of OREO was sold resulting in a net loss of $0.1 million while OREO write-downs were immaterial. Total non-performing assets to total loans and OREO was 1.58% and 0.99% at June 30, 2018 and December 31, 2017, respectively. Included in this ratio at June 30, 2018 are acquired non-performing loans and OREO of 0.47% compared to 0.46% at December 31, 2017. Excluding OREO transferred from 310-30 loans, total non-performing assets to total loans and OREO was 0.82% at June 30, 2018.

Past Due Loans

Past due status is monitored as an indicator of credit deterioration. 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. Originated and acquired loans that are 90 days or more past due and are put on non-accrual status unless the loan is well secured and in the process of collection.

Table of Contents

The table below shows the past due status of originated and acquired loans, based on contractual terms of the loans as of June 30, 2018 and December 31, 2017:

	June 30, 2018	December 31, 2017
Loans 30-89 days past due and still accruing interest	$ 9,587	$ 3,681
Loans 90 days past due and still accruing interest	1,104	150
Non-accrual loans	25,635	21,000
Total past due and non-accrual loans	$ 36,326	$ 24,831
Total 90 days past due and still accruing interest and non-accrual loans to total originated and acquired loans	0.71%	0.69%
Total non-accrual loans to total originated and acquired loans	0.68%	0.69%

Loans 30-89 days past due and still accruing interest increased $5.9 million from December 31, 2017 to June 30, 2018, and loans 90 days or more past due and still accruing interest increased $1.0 million from December 31, 2017 to June 30, 2018, for a collective increase in total past due loans of $6.9 million, primarily due to the Peoples acquisition. Non-accrual loans increased $4.6 million at June 30, 2018 compared to December 31, 2017, further described within the Non-Performing Assets discussion of Management’s Discussion and Analysis. There were no ASC 310-30 loan pools past due or on non-accrual at June 30, 2018.

Allowance for Loan Losses

The ALL represents the amount that we believe is necessary to absorb probable losses inherent in the loan portfolio at the balance sheet date and involves a high degree of judgment and complexity. Determination of the ALL is based on an evaluation of the collectability of loans, the realizable value of underlying collateral, economic conditions, historical net loan losses, the estimated loss emergence period, estimated default rates, any declines in cash flow assumptions from acquisition, loan structures, growth factors and other elements that warrant recognition and, to the extent applicable, prior loss experience. The ALL is critical to the portrayal and understanding of our financial condition, liquidity and results of operations. The determination and application of the ALL accounting policy involves judgments, estimates, and uncertainties that are subject to change. Changes in these assumptions, estimates or the conditions surrounding them may have a material impact on our financial condition, liquidity or results of operations.

In accordance with the applicable guidance for business combinations, acquired loans were recorded at their acquisition date fair values, which were based on expected future cash flows and included an estimate for future loan losses; therefore, no ALL was recorded as of the acquisition date. Any estimated losses on acquired loans that arise after the acquisition date are reflected in a charge to the provision for loan losses on the consolidated statements of operations.

310-30 ALL

Loans accounted for under the accounting guidance provided in ASC 310-30 have been grouped into pools based on the predominant risk characteristics of purpose and/or type of loan. The timing and receipt of expected principal, interest and any other cash flows of these loans are periodically remeasured and the expected future cash flows of the collective pools are compared to the carrying value of the pools. To the extent that the expected future cash flows of each pool is less than the book value of the pool, an allowance for loan losses will be established through a charge to the provision for loan losses. If the remeasured expected future cash flows are greater than the book value of the pools, then the improvement in the expected future cash flows is accreted into interest income over the remaining expected life of the loan pool. During the six months ended June 30, 2018 and 2017, these re-measurements resulted in overall increases in expected cash flows in certain loan pools, which, absent previous valuation allowances within the same pool, are reflected in increased accretion as well as an increased amount of accretable yield and are recognized over the expected remaining lives of the underlying loans as an adjustment to yield.

During the three and six months ended June 30, 2018, loans accounted for under ASC 310-30 had $150 thousand and $191 thousand of provision, respectively. During the three and six months ended June 30, 2017, loans accounted for under ASC 310-30 had $78 thousand and $83 thousand of recoupment, respectively.

Originated and Acquired ALL

For all originated and acquired loans, the determination of the ALL follows a process to determine the appropriate level of ALL that is designed to account for changes in credit quality and other risk factors. This process provides an ALL consisting of a specific allowance component based on certain individually evaluated loans and a general allowance component based on estimates of reserves needed for all other loans, segmented based on similar risk characteristics.

Impaired loans less than $250,000 are included in the general allowance population. Impaired loans over $250,000 are subject to individual evaluation on a regular basis to determine the need, if any, to allocate a specific reserve to the impaired loan. Typically, these loans consist of commercial, commercial real estate and agriculture loans and exclude homogeneous loans such as residential real estate and consumer loans. Specific allowances are determined by collectively analyzing:

- the borrower's resources, ability, and willingness to repay in accordance with the terms of the loan agreement;
- the likelihood of receiving financial support from any guarantors;
- the adequacy and present value of future cash flows, less disposal costs, of any collateral;
- the impact current economic conditions may have on the borrower's financial condition and liquidity or the value of the collateral.

In evaluating the loan portfolio for an appropriate ALL level, unimpaired loans are grouped into segments based on broad characteristics such as primary use and underlying collateral. We have identified four primary loan segments that are further stratified into eleven loan classes to provide more granularity in analyzing loss history and to allow for more definitive qualitative adjustments based upon specific factors affecting each loan class. Following are the loan classes within each of the four primary loan segments:

Commercial	Non-owner occupied commercial real estate	Residential real estate	Consumer
Commercial and industrial	Construction	Senior lien	Total Consumer
Owner occupied commercial real estate	Acquisition and development	Junior lien	
Agriculture	Multifamily		
Energy	Non-owner occupied		

Appropriate ALL levels are determined by segment and class utilizing risk ratings, loss history, peer loss history and qualitative adjustments. The qualitative adjustments consider the following risk factors:

- economic/external conditions;
- loan administration, loan structure and procedures;
- risk tolerance/experience;
- loan growth;
- trends;

concentrations; and
other.

Management derives an estimated annual loss rate adjusted for an estimated loss emergence period based on historical loss data categorized by segment and class. The loss rates are applied at the loan segment and class level. Our historical loss history began in 2012, resulting in minimal losses in our originated portfolio. In order to address this lack of historical data, we incorporate not only our own historical loss rates since the beginning of 2012, but we also utilize peer historical loss data, including a historical average net charge-off ratio on each loan type, relying on the Uniform Bank Performance Reports compiled by the Federal Financial Institutions Examinations Council (“FFIEC”). We may also apply a long-term estimated loss rate to pass rated credits as necessary to account for inherent risks to the portfolio. For originated loans, we assign a slightly higher portion of our loss history, but still rely on the peer loss history to account for our limited historical data. For acquired loans, we use solely our internal loss history as those loans are more seasoned and more of the actual losses in the portfolio have been from the acquired portfolio.

The collective resulting ALL for originated and acquired loans is calculated as the sum of the specific reserves and the general reserves. While these amounts are calculated by individual loan or segment and class, the entire ALL is available for any loan that, in our judgment, should be charged-off.

During the three and six months ended June 30, 2018, we recorded $1.7 million and $1.7 million, respectively, of provision for loan losses for originated and acquired loans, for general reserves on loan growth. Net charge-offs for originated and acquired loans during the three and six months ended June 30, 2018 totaled $0.3 million and $0.9 million. Specific reserves on impaired loans totaled $1.2 million and $1.5 million at June 30, 2018 and December 31, 2017, respectively.

Table of Contents

During the three and six months ended June 30, 2017, we recorded $4.1 million and $5.9 million, respectively, of provision for loan losses for originated and acquired loans. The three months ended June 30, 2017 provision included specific reserves totaling $2.1 million on one commercial loan and general reserves on net loan growth. The six months ended June 30, 2017 provision included specific reserves totaling $3.4 million on one energy sector and one commercial sector loan. Net recoveries for originated and acquired loans during the three months ended June 30, 2017 totaled $84 thousand. Net charge-offs for originated and acquired loans during the six months ended June 30, 2017 totaled $35 thousand. Specific reserves on impaired loans totaled $6.2 million at June 30, 2017.

Total ALL

After considering the above-mentioned factors, we believe that the ALL of $32.2 million is adequate to cover probable losses inherent in the loan portfolio at June 30, 2018. However, it is likely that future adjustments to the ALL will be necessary and any changes to the assumptions, circumstances or estimates used in determining the ALL could adversely affect the Company's results of operations, liquidity or financial condition.

The following table presents, by class stratification, the changes in the ALL during the three months ended June 30, 2018 and 2017:

	June 30, 2018			June 30, 2017		
	Originated and acquired loans	ASC 310-30 loans	Total	Originated and acquired loans	ASC 310-30 loans	Total
Beginning allowance for loan losses	$ 30,574	$ 112	$ 30,686	$ 30,630	$ 220	$ 30,850
Charge-offs:						
Commercial	—	(61)	(61)	—	—	—
Commercial real estate non owner-occupied	(11)	—	(11)	—	—	—
Residential real estate	(90)	—	(90)	(2)	—	(2)
Consumer	(234)	—	(234)	(119)	—	(119)
Total charge-offs	(335)	(61)	(396)	(121)	—	(121)
Recoveries	67	—	67	205	—	205
Net (charge-offs) recoveries	(268)	(61)	(329)	84	—	84
Provision (recoupment) for loan loss	1,723	150	1,873	4,103	(78)	4,025
Ending allowance for loan losses	$ 32,029	$ 201	$ 32,230	$ 34,817	$ 142	$ 34,959
	0.03%	0.26%	0.03%	(0.01)%	0.00%	(0.01)%

Ratio of annualized net charge-offs (recoveries) to average total loans during the period, respectively						
Average total loans outstanding during the period	$ 3,675,956	$ 95,033	$ 3,770,989	$ 2,865,329	$ 136,662	$ 3,001,991

58

Table of Contents

The following table presents, by class stratification, the changes in the ALL during the six months ended June 30, 2018 and 2017:

	June 30, 2018 Originated and acquired loans	ASC 310-30 loans	Total	June 30, 2017 Originated and acquired loans	ASC 310-30 loans	Total
Beginning allowance for loan losses	$ 31,193	$ 71	$ 31,264	$ 28,949	$ 225	$ 29,174
Charge-offs:						
Commercial	(437)	(61)	(498)	(20)	—	(20)
Commercial real estate non-owner occupied	(11)	—	(11)	—	—	—
Residential real estate	(90)	—	(90)	(10)	—	(10)
Consumer	(513)	—	(513)	(301)	—	(301)
Total charge-offs	(1,051)	(61)	(1,112)	(331)	—	(331)
Recoveries	164	—	164	296	—	296
Net charge-offs	(887)	(61)	(948)	(35)	—	(35)
Provision (recoupment) for loan loss	1,723	191	1,914	5,903	(83)	5,820
Ending allowance for loan losses	$ 32,029	$ 201	$ 32,230	$ 34,817	$ 142	$ 34,959
Ratio of net charge-offs to average total loans during the period, respectively	0.05%	0.12%	0.05%	0.00%	0.00%	0.00%
Ratio of ALL to total loans outstanding at period end, respectively	0.86%	0.24%	0.84%	1.18%	0.11%	1.13%
Ratio of ALL to total non-performing loans at period end, respectively	124.94%	0.00%	125.73%	107.28%	0.00%	107.71%
Total loans	$ 3,742,601	$ 82,954	$ 3,825,555	$ 2,953,518	$ 134,427	$ 3,087,945
Average total loans outstanding during the period	$ 3,635,411	$ 105,176	$ 3,740,587	$ 2,801,467	$ 139,416	$ 2,940,883
Non-performing loans	$ 25,635	$ —	$ 25,635	$ 32,455	$ —	$ 32,455

The following tables present the allocation of the ALL and the percentage of the total amount of loans in each loan category listed as of the dates presented:

	June 30, 2018			
				ALL as a %
			Related	
	Total loans	% of total loans	ALL	of total ALL
Commercial	$ 2,318,119	60.6%	$ 23,570	73.2%
Commercial real estate non-owner occupied	643,151	16.8%	4,573	14.2%
Residential real estate	838,035	21.9%	3,781	11.7%
Consumer	26,250	0.7%	306	0.9%
Total	$ 3,825,555	100.0%	$ 32,230	100.0%

	December 31, 2017			
				ALL as a %
			Related	
	Total loans	% of total loans	ALL	of total ALL
Commercial	$ 1,874,605	59.0%	$ 21,385	68.4%
Commercial real estate non-owner occupied	563,049	17.7%	5,609	17.9%
Residential real estate	716,237	22.5%	3,965	12.7%
Consumer	25,056	0.8%	305	1.0%
Total	$ 3,178,947	100.0%	$ 31,264	100.0%

The ALL allocated to commercial loans increased to 73.2% at June 30, 2018 from 68.4% at December 31, 2017 due to the provision recorded during the period to support the increase in originated loans.

Table of Contents

Other Assets

Significant components of other assets were as follows as of the dates indicated:

	June 30, 2018	December 31, 2017	Increase (decrease) Amount	% Change
Bank-owned life insurance	$ 65,274	$ 64,387	$ 887	1.4%
Deferred tax asset	34,345	35,630	(1,285)	-3.6%
Derivative asset	32,172	13,105	19,067	145.5%
Accrued interest on loans	15,520	11,784	3,736	31.7%
Accrued income taxes receivable	6,067	3,992	2,075	52.0%
Accrued interest on interest bearing bank deposits and investment securities	2,627	2,471	156	6.3%
Other miscellaneous assets	27,330	7,879	19,451	246.9%
Total other assets	$ 183,335	$ 139,248	$ 44,087	31.7%

Other assets totaled $183.3 million and $139.2 million at June 30, 2018 and December 31, 2017, respectively, representing an increase of $44.1 million, or 31.7%, during the six months ended June 30, 2018. Deferred tax asset decreased during the six months ended June 30, 2018 due to stock compensation activity. Derivative assets and accrued interest on loans increased during the six months ended June 30, 2018 due to higher volumes of loans related to the Peoples acquisition. Accrued income taxes receivable increased due to the Peoples acquisition and stock compensation activity. Included in other miscellaneous assets at June 30, 2018 is $10.0 million of restricted cash related to the Peoples acquisition for certain potential liabilities and $3.1 million of other assets acquired from Peoples. Refer to note 17 of our consolidated financial statements for further discussion of the derivative asset.

Other Liabilities

Significant components of other liabilities were as follows as of the dates indicated:

	June 30, 2018	December 31, 2017	Increase (decrease) Amount	% Change
Pending loan purchase settlement	$ 20,144	$ 30,181	$ (10,037)	(33.3)%
Accrued expenses	20,014	16,172	3,842	23.8%
Accrued interest payable	6,136	5,776	360	6.2%
Derivative liability	4,785	3,758	1,027	27.3%

Other miscellaneous liabilities	42,753	15,346	27,407	178.6%
Participant interest in OREO	—	688	(688)	100.0%
Total other liabilities	$ 93,832	$ 71,921	$ 21,911	30.5%

Other liabilities totaled $93.8 million and $71.9 million at June 30, 2018 and December 31, 2017, respectively, representing an increase of $21.9 million, or 30.5%, during the six months ended June 30, 2018. Pending loan purchase settlement decreased due to timing of loan settlements. Included in accrued expenses and accrued interest payable at June 30, 2018 is $3.5 million of expenses related to the Peoples acquisition. Included in other miscellaneous liabilities is a $10.0 million contingent liability related to the Peoples acquisition, a $4.0 million mortgage repurchase reserve and an increase in derivative collateral reserves of $11.3 million. Refer to note 17 and note 18 of our consolidated financial statements for further discussion of the derivative liability and mortgage repurchase reserve, respectively.

Deposits

Deposits from banking clients serve as a primary funding source for our banking operations and our ability to gather and manage deposit levels is critical to our success. Deposits not only provide a low cost funding source for our loans, but also provide a foundation for the client relationships that are critical to future loan growth.

Table of Contents

The following table presents information regarding our deposit composition at June 30, 2018 and December 31, 2017:

	June 30, 2018		December 31, 2017		Increase (decrease) Amount	% Change
Non-interest bearing demand deposits	$ 1,099,601	23.7%	$ 902,439	22.7%	$ 197,162	21.8%
Interest bearing demand deposits	682,998	14.7%	474,607	11.9%	208,391	43.9%
Savings accounts	568,323	12.3%	472,852	11.9%	95,471	20.2%
Money market accounts	1,148,211	24.8%	1,011,611	25.4%	136,600	13.5%
Total transaction deposits	3,499,133	75.6%	2,861,509	71.9%	637,624	22.3%
Time deposits < $100,000	648,799	14.0%	637,789	16.0%	11,010	1.7%
Time deposits > $100,000	483,532	10.4%	480,261	12.1%	3,271	0.7%
Total time deposits	1,132,331	24.4%	1,118,050	28.1%	14,281	1.3%
Total deposits	$ 4,631,464	100.0%	$ 3,979,559	100.0%	$ 651,905	16.4%

The following table shows scheduled maturities of certificates of deposit with denominations greater than or equal to $100,000 as of June 30, 2018:

	June 30, 2018
Three months or less	$ 64,006
Over 3 months through 6 months	77,296
Over 6 months through 12 months	130,329
Thereafter	211,901
Total time deposits > $100,000	$ 483,532

Total deposits increased $651.9 million during the six months ended June 30, 2018, driven by the addition of $730 million in total deposits from the Peoples acquisition on January 1, 2018. The mix of transaction deposits (defined as total deposits less time deposits) to total deposits improved to 75.6% at June 30, 2018, from 71.9% at December 31, 2017, due to the Peoples acquisition and our continued focus on developing long-term banking relationships.

At June 30, 2018 and December 31, 2017, time deposits that were scheduled to mature within 12 months totaled $684.3 million and $684.6 million, respectively. Of the $684.3 million in time deposits scheduled to mature within 12 months at June 30, 2018, $271.7 million were in denominations of $100,000 or more, and $412.6 million were in denominations less than $100,000.

Other Borrowings

As of June 30, 2018 and December 31, 2017, the Company sold securities under agreements to repurchase totaling $73.4 million and $130.5 million, respectively. In addition, as a member of the FHLB, the Bank has access to a line of credit and term financing from the FHLB with total available credit of $966.1 million. At June 30, 2018 and December 31, 2017, the Bank had $77.3 million and $129.1 million in term advances from the FHLB, respectively. The term advances have fixed rates between 1.55% - 2.33%, with maturity dates of 2018 - 2020.

Results of Operations

Our net income depends largely on net interest income, which is the difference between interest income from interest earning assets and interest expense on interest bearing liabilities. Our results of operations are also affected by provisions for loan losses and non-interest income, such as service charges, bank card income, swap fee income, and gain on sale of mortgages, net. Our primary operating expenses, aside from interest expense, consist of salaries and benefits, occupancy costs, telecommunications data processing and marketing and business development. Any expenses related to the resolution of problem assets are also included in non-interest expense.

Overview of Results of Operations

We recorded net income of $17.5 million and $26.0 million, or $0.56 and $0.83 per diluted share, during the three and six months ended June 30, 2018, respectively, compared to net income of $9.2 million and $17.5 million, or $0.33 and $0.63 per diluted share, during the three and six months ended June 30, 2017, respectively. Fully taxable equivalent net interest income totaled $50.5 million and $99.2 million for the three and six months ended June 30, 2018, respectively, and increased $12.2 million and $24.9 million from the three and six months ended June 30, 2017, respectively.

Provision for loan loss expense on originated and acquired loans was $1.7 million and $1.7 million during the three and six months ended June 30, 2018, respectively, compared to $4.1 million and $5.9 million during the three and six months ended June 30, 2017, respectively, a decrease of $2.4 million and $4.2 million, respectively. Annualized net charge-offs on originated and acquired loans totaled 0.03% and 0.05% during the three and six months ended June 30, 2018, respectively, compared to net recoveries of 0.01% during the three months ended June 30, 2017 and net charge-offs of 0.00% during the six months ended June 30. 2017, respectively.

Non-interest income totaled $19.6 million and $37.4 million during the three and six months ended June 30, 2018, respectively, compared to $12.0 million and $20.7 million during the three and six months ended June 30, 2017, respectively, an increase of $7.6 million and $16.7 million, respectively. Organic growth and the addition of the Peoples client base drove a $1.3 million and $3.1 million increase in service charges and bank card interchange fees during the three and six months ended June 30, 2018, respectively. Mortgage banking income increased $8.3 million and $15.8 million during the three and six months ended June 30, 2018, respectively, due to increased volume from the Peoples acquisition.

Non-interest expense totaled $46.8 million and $102.0 million for the three and six months ended June 30, 2018, respectively, compared to $33.4 million and $68.0 million for the three and six months ended June 30, 2017, respectively, increasing from the prior periods due to the Peoples acquisition. Included in total non-interest expense for the three and six months ended June 30, 2018 were $0.4 million and $8.0 million of acquisition costs, respectively.

Income tax expense totaled $2.8 million and $4.5 million for the three and six months ended June 30, 2018, respectively, compared to an expense of $2.2 million and $0.9 million for the three and six months ended June 30, 2017, respectively. The tax expense recorded for the three and six months ended June 30, 2018 was lowered by a $0.8 million and $1.2 million tax benefit from stock compensation activity, respectively. The tax expense recorded for the three and six months ended June 30, 2017 was lowered by a $0.5 million and $3.4 million tax benefit from stock compensation activity, respectively. Without the discrete items related to stock compensation activity, the tax rates for the three and six months ended June 30, 2018 were 17.7% and 22.4%, respectively and compared to 23.9% and 23.5% for the three and six months ended June 30, 2017, respectively.

Net Interest Income

We regularly review net interest income metrics to provide us with indicators of how the various components of net interest income are performing. We regularly review: (i) our loan mix and the yield on loans; (ii) the investment portfolio and the related yields; (iii) our deposit mix and the cost of deposits; and (iv) net interest income simulations for various forecast periods.

The following tables present the components of net interest income for the periods indicated. The tables include: (i) the average daily balances of interest earning assets and interest bearing liabilities; (ii) the average daily balances of non-interest earning assets and non-interest bearing liabilities; (iii) the total amount of interest income earned on interest earning assets on a fully taxable equivalent basis; (iv) the total amount of interest expense incurred on interest bearing liabilities; (v) the resultant average yields and rates; (vi) net interest spread; and (vii) net interest margin, which represents the difference between interest income and interest expense, expressed as a percentage of interest earning assets. The effects of trade-date accounting of investment securities for which the cash had not settled are not considered interest earning assets and are excluded from this presentation for time frames prior to their cash settlement, as are the market value adjustments on the investment securities available-for-sale.

Table of Contents

The table below presents the components of net interest income on a fully taxable equivalent basis for the three months ended June 30, 2018 and 2017:

	For the three months ended June 30, 2018			For the three months ended June 30, 2017		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate
Interest earning assets:						
Originated loans FTE(1)(2)(3)	$ 3,079,727	$ 34,165	4.45%	$ 2,732,733	$ 27,481	4.03%
Acquired loans	596,229	8,687	5.84%	132,596	2,005	6.07%
ASC 310-30 loans	95,033	4,831	20.33%	136,662	6,180	18.09%
Loans held for sale	83,258	950	4.58%	6,691	134	8.03%
Investment securities available-for-sale	916,133	4,840	2.11%	906,738	4,358	1.92%
Investment securities held-to-maturity	276,141	1,970	2.85%	305,722	2,131	2.79%
Other securities	16,735	248	5.93%	15,657	218	5.57%
Interest earning deposits and securities purchased under agreements to resell	66,019	319	1.94%	85,350	214	1.01%
Total interest earning assets FTE(2)	$ 5,129,275	$ 56,010	4.38%	$ 4,322,149	$ 42,721	3.96%
Cash and due from banks	$ 95,823			$ 66,651		
Other assets	424,288			318,429		
Allowance for loan losses	(31,421)			(31,615)		
Total assets	$ 5,617,965			$ 4,675,614		
Interest bearing liabilities:						
Interest bearing demand, savings and money market deposits	$ 2,437,404	$ 1,929	0.32%	$ 1,871,814	$ 1,424	0.31%
Time deposits	1,138,924	2,935	1.03%	1,147,037	2,479	0.87%
Securities sold under agreements to repurchase	93,625	36	0.15%	85,022	40	0.19%
Federal Home Loan Bank advances	132,297	625	1.89%	130,795	497	1.52%
Total interest bearing liabilities	$ 3,802,250	$ 5,525	0.58%	$ 3,234,668	$ 4,440	0.55%
Demand deposits	$ 1,069,146			$ 858,299		
Other liabilities	92,939			37,480		
Total liabilities	4,964,335			4,130,447		
Shareholders' equity	653,630			545,167		
Total liabilities and shareholders' equity	$ 5,617,965			$ 4,675,614		
Net interest income FTE(2)		$ 50,485			$ 38,281	
Interest rate spread FTE(2)			3.80%			3.41%

Net interest earning assets	$ 1,327,025		$ 1,087,481	
Net interest margin FTE(2)		3.95%		3.55%
Average transaction deposits	$ 3,506,550		$ 2,730,113	
Average total deposits	$ 4,645,474		$ 3,877,150	
Ratio of average interest earning assets to average interest bearing liabilities	134.90%		133.62%	

(1) Originated loans are net of deferred loan fees, less costs, which are included in interest income over the life of the loan.
(2) Presented on a fully taxable equivalent basis using the statutory tax rate of 21% and 35% for the three months ended June 30, 2018 and 2017, respectively. The taxable equivalent adjustments included above are $1,099 and $1,389 for the three months ended June 30, 2018 and 2017, respectively.
(3) Loan fees included in interest income totaled $1,599 and $1,098 for the three months ended June 30, 2018 and 2017, respectively.

Net interest income totaled $49.4 million and $36.9 million during the three months ended June 30, 2018 and 2017, respectively. Fully taxable equivalent net interest income totaled $50.5 million for the three months ended June 30, 2018, and increased $12.2 million, or 31.9%, from the three months ended June 30, 2017. The fully taxable equivalent net interest margin widened 0.40% to 3.95% as the yield on earning assets increased 0.42%, led by a 0.42% increase in the originated portfolio yields due to short-term rate increases, partially offset by an increase in the cost of deposits of 0.02%.

Average loans comprised $3.9 billion, or 75.1%, of total average interest earning assets during the three months ended June 30, 2018, compared to $3.0 billion, or 69.6%, during the three months ended June 30, 2017. The increase in average loan balances from the three months ended June 20, 2017 was driven by an increase of $463.6 million in acquired loans primarily from the Peoples acquisition and a $347.0 million increase in originated loans. The originated loan portfolio yield increased to 4.45% during the three months ended June 30, 2018, compared to 4.03% during the three months ended June 30, 2017, benefitting from higher yields on variable rate loans, primarily driven by the short-term market rate increases. The yield on the ASC 310-30 loan portfolio was 20.33% and 18.09% during the three months ended June 30, 2018 and 2017, respectively, increasing due to $0.4 million of accelerated accretion during the three months ended June 30, 2018.

Average investment securities comprised 23.2% and 28.1% of total interest earning assets during the three months ended June 30, 2018 and 2017, respectively. The decrease in the investment portfolio was a result of scheduled paydowns and reflects the re-mixing of the interest-earning assets as we have utilized the paydowns of the investment portfolio to fund loan originations. Short-term investments, comprised of the interest earning deposits and securities purchased under agreements to resell, were 1.3% and 2.0% of interest earning assets during the three months ended June 30, 2018 and 2017, respectively.

Average balances of interest bearing liabilities increased $567.6 million during the three months ended June 30, 2018, compared to the three months ended June 30, 2017. The Peoples acquisition added $730 million in total deposits on January 1, 2018, coupled with transaction deposit growth, partially offset by the sale of four banking centers in the second quarter of 2017. Interest bearing demand, savings and money market deposits increased $565.6 million, securities sold under agreements to repurchase increased $8.6 million and Federal Home Loan Bank advances increased $1.5 million, offset by a decrease in time deposits of $8.1 million. Total interest expense related to interest bearing liabilities was $5.5 million and $4.4 million during the three months ended June 30, 2018 and 2017, respectively, at an average cost of 0.58% and 0.55% during the three months ended June 30, 2018 and 2017, respectively. Additionally, the cost of deposits increased two basis points to 0.42% during the three months ended June 30, 2018, compared to 0.40% during the three months ended June 30, 2017.

Table of Contents

The table below presents the components of net interest income on a fully taxable equivalent basis for the six months ended June 30, 2018 and 2017:

	For the six months ended June 30, 2018			For the six months ended June 30, 2017		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate
Interest earning assets:						
Originated loans FTE(1)(2)(3)	$ 3,017,641	$ 65,619	4.39%	$ 2,663,528	$ 52,323	3.96%
Acquired loans	617,771	17,617	5.75%	137,939	4,179	6.11%
ASC 310-30 loans	105,176	10,224	19.44%	139,416	12,051	17.29%
Loans held for sale	68,888	1,516	4.44%	8,377	279	6.72%
Investment securities available-for-sale	925,693	9,615	2.08%	918,628	8,719	1.90%
Investment securities held-to-maturity	266,447	3,721	2.79%	315,015	4,383	2.78%
Other securities	16,405	492	6.00%	14,527	385	5.30%
Interest earning deposits and securities purchased under agreements to resell	116,886	1,060	1.83%	88,092	411	0.94%
Total interest earning assets FTE(2)	$ 5,134,907	$ 109,864	4.31%	$ 4,285,522	$ 82,730	3.89%
Cash and due from banks	$ 97,799			$ 66,875		
Other assets	415,644			319,771		
Allowance for loan losses	(31,519)			(30,736)		
Total assets	$ 5,616,831			$ 4,641,432		
Interest bearing liabilities:						
Interest bearing demand, savings and money market deposits	$ 2,422,976	$ 3,773	0.31%	$ 1,883,969	$ 2,791	0.30%
Time deposits	1,153,034	5,725	1.00%	1,163,338	4,900	0.85%
Securities sold under agreements to repurchase	112,875	86	0.15%	81,693	73	0.18%
Federal Home Loan Bank advances	124,036	1,085	1.76%	89,856	694	1.56%
Total interest bearing liabilities	$ 3,812,921	$ 10,669	0.56%	$ 3,218,856	$ 8,458	0.53%
Demand deposits	$ 1,063,416			$ 841,814		
Other liabilities	92,510			39,199		
Total liabilities	4,968,847			4,099,869		
Stockholders' equity	647,984			541,563		
Total liabilities and shareholders’ equity	$ 5,616,831			$ 4,641,432		
		$ 99,195			$ 74,272	

Net interest income FTE(2)				
Interest rate spread FTE(2)		3.75%		3.36%
Net interest earning assets	$ 1,321,986		$ 1,066,666	
Net interest margin FTE(2)		3.90%		3.49%
Average transaction deposits	$ 3,486,392		$ 2,725,783	
Average total deposits	$ 4,639,426		$ 3,889,121	
Ratio of average interest earning assets to average interest bearing liabilities	134.67%		134.06%	

(1) Originated loans are net of deferred loan fees, less costs, which are included in interest income over the life of the loan.
(2) Presented on a fully taxable equivalent basis using the statutory tax rate of 21% and 35% for the six months ended June 30, 2018 and 2017, respectively. The taxable equivalent adjustments included above are $2,162 and $2,658 for the six months ended June 30, 2018 and 2017, respectively.
(3) Loan fees included in interest income totaled $3,387 and $1,943 for the six months ended June 30, 2018 and 2017, respectively.

Net interest income totaled $97.0 million and $71.6 million for the six months ended June 30, 2018 and 2017, respectively. Fully taxable equivalent net interest income totaled $99.2 million for the six months ended June 30, 2018 and increased $24.9 million, or 33.6%, from the six months ended June 30, 2017. The fully taxable equivalent net interest margin widened 0.41% to 3.90% as the yield on earnings assets increased 0.42%, led by a 0.43% increase in the originated portfolio yields due to short-term rate increases, partially offset by an increase in the cost of deposits of 0.01%.

Average loans comprised $3.8 billion, or 74.2%, of total average interest earning assets during the six months ended June 30, 2018, compared to $2.9 billion, or 68.8%, of total average interest earning assets during the six months ended June 30, 2017. The increase in average loan balances was driven by an increase of $479.8 million in acquired loans primarily from the Peoples acquisition and a $354.1 million increase in originated loans. The originated loan portfolio yield increased to 4.39% during the six months ended June 30, 2018, compared to 3.96% during the six months ended June 30, 2017, benefitting from higher yields in variable rate loans, primarily driven by the short-term market rate increases. The yield on the ASC 310-30 loan portfolio was 19.44% and 17.29% during the six months ended June 30, 2018 and 2017, respectively, increasing due to $1.2 million of accelerated accretion during the six months ended June 30, 2018.

Average investment securities comprised 23.2% and 28.8% of total interest earning assets during the six months ended June 30, 2018 and 2017, respectively. The decrease in the investment portfolio was a result of scheduled paydowns and reflects the re-mixing of the interest-earning assets as we have utilized the paydowns of the investment portfolio to fund loan originations. Short-term investments, comprised of interest earning deposits and securities purchased under agreements to resell, were 2.3% and 2.1% of interest earning assets during the six months ended June 30, 2018 and 2017, respectively.

Average balances of interest bearing liabilities increased $594.1 million during the six months ended June 30, 2018, compared to the six months ended June 30, 2017. The Peoples acquisition added $730 million in total deposits on January 1, 2018, coupled with transaction deposit growth, partially offset by the sale of four banking centers in the second quarter of 2017. Interest-bearing demand, savings and money market deposits increased $539.0 million, Federal Home Loan Bank increased $34.2 million and securities sold under agreements to repurchase increased $31.2 million, offset by a decrease in time deposits of $10.3 million. Total interest expense related to interest bearing liabilities was $10.7 million and $8.5 million during the six months ended June 30, 2018 and 2017, respectively, at an average cost of 0.56% and 0.53% during the six months ended June 30, 2018 and 2017, respectively. Additionally, the cost of deposits increased one basis points to 0.41% during the six months ended June 30, 2018, compared to 0.40% during the six months ended June 30, 2017.

Table of Contents

The following table summarizes the changes in net interest income on a fully taxable equivalent basis by major category of interest earning assets and interest bearing liabilities, identifying changes related to volume and changes related to rates for the three and six months ended June 30, 2018 compared to the three and six months ended June 30, 2017:

	Three months ended June 30, 2018 compared to Three months ended June 30, 2017 Increase (decrease) due to			Six months ended June 30, 2018 compared to Six months ended June 30, 2017 Increase (decrease) due to		
	Volume	Rate	Net	Volume	Rate	Net
Interest income:						
Originated loans FTE(1)(2)(3)	$ 3,849	$ 2,835	$ 6,684	$ 7,700	$ 5,596	$ 13,296
Acquired loans	6,755	(73)	6,682	13,683	(245)	13,438
ASC 310-30 loans	(2,116)	767	(1,349)	(3,328)	1,501	(1,827)
Loans held for sale	874	(58)	816	1,332	(95)	1,237
Investment securities available-for-sale	50	432	482	73	823	896
Investment securities held-to-maturity	(211)	50	(161)	(678)	16	(662)
Other securities	16	14	30	56	51	107
Interest earning deposits and securities purchased under agreements to resell	(93)	198	105	261	388	649
Total interest income	$ 9,124	$ 4,165	$ 13,289	$ 19,099	$ 8,035	$ 27,134
Interest expense:						
Interest bearing demand, savings and money market deposits	$ 448	$ 57	$ 505	$ 839	$ 143	$ 982
Time deposits	(21)	477	456	(51)	876	825
Securities sold under agreements to repurchase	3	(7)	(4)	24	(11)	13
Federal Home Loan Bank advances	7	121	128	299	92	391
Total interest expense	437	648	1,085	1,111	1,100	2,211
Net change in net interest income	$ 8,687	$ 3,517	$ 12,204	$ 17,988	$ 6,935	$ 24,923

(1) Originated loans are net of deferred loan fees, less costs, which are included in interest income over the life of the loan.

(2) Presented on a fully taxable equivalent basis using the statutory tax rate of 21% for the three and six months ended June 30, 2018 and 35% for the three and six months ended June 30, 2017. The taxable equivalent adjustments included above are $1,099 and $1,389 for the three months ended June 30, 2018 and 2017, respectively. The taxable equivalent adjustments included above are $2,162 and $2,658 for the six months ended June 30, 2018 and 2017, respectively.

(3) Loan fees included in interest income totaled $1,599 and $1,098 for the three months ended June 30, 2018 and 2017, respectively. Loan fees included in interest income totaled $3,387 and $1,943 for the six months ended June 30, 2018 and 2017, respectively.

Below is a breakdown of deposits and the average rates paid during the periods indicated:

	For the three months ended				For the six months ended			
	June 30, 2018		June 30, 2017		June 30, 2018		June 30, 2017	
	Average balance	Average rate paid	Average balance	Average rate paid	Average balance	Average rate paid	Average balance	Average rate paid
Non-interest bearing demand	$ 1,069,145	0.00%	$ 858,299	0.00%	$ 1,063,416	0.00%	$ 841,814	0.00%
Interest bearing demand	695,884	0.12%	415,498	0.10%	679,612	0.13%	418,980	0.10%
Money market accounts	1,164,140	0.41%	1,029,480	0.38%	1,168,081	0.40%	1,056,922	0.38%
Savings accounts	577,381	0.37%	426,836	0.32%	575,283	0.37%	408,067	0.29%
Time deposits	1,138,924	1.03%	1,147,037	0.87%	1,153,034	1.00%	1,163,338	0.85%
Total average deposits	$ 4,645,474	0.42%	$ 3,877,150	0.40%	$ 4,639,426	0.41%	$ 3,889,121	0.40%

Provision for Loan Losses

The provision for loan losses represents the amount of expense that is necessary to bring the ALL to a level that we deem appropriate to absorb probable losses inherent in the loan portfolio as of the balance sheet date. The ALL is in addition to the remaining purchase accounting marks of $9.8 million on acquired loans not accounted for under ASC 310-30 that were established at the time of acquisition. The Company recorded $9.8 million of purchase accounting marks on January 1, 2018 related to the Peoples acquisition. Refer to note 3 of our consolidated financial statements for further discussion of the acquisition. The determination of the ALL, and the resultant provision for loan losses, is subjective and involves significant estimates and assumptions.

Below is a summary of the provision for loan losses recorded in the consolidated statements of operations for the periods indicated:

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Provision (recoupment) for loans accounted for under ASC 310-30	$ 150	$ (78)	$ 191	$ (83)
Provision for loan losses on originated and acquired loans	1,723	4,103	1,723	5,903
Total provision for loan losses	$ 1,873	$ 4,025	$ 1,914	$ 5,820

Provision for loan loss expense was $1.9 million and $1.9 million during the three and six months ended June 30, 2018, respectively, compared to $4.0 million and $5.8 million during the three and six months ended June 30, 2017, respectively. To support loan growth, the Company recorded $1.7 million of provision for loan losses on originated and acquired loans during the three and six months ended June 30, 2018. Annualized net charge-offs on originated and acquired loans during the three and six months ended June 2018 were 0.03% and 0.05%, respectively, compared to net recoveries of 0.01% during the three months ended June 30, 2017 and net charge-offs of 0.00% during the six months ended June 30, 2017. The originated and acquired allowance for loan losses totaled 0.86% and 1.18% of originated and acquired loans at June 30, 2018 and 2017, respectively, and decreased as the acquired loans from the Peoples acquisition were recorded at fair value.

For the three and six months ended June 30, 2018, we recorded a provision of $150 thousand and $191 thousand, respectively, of provision for loan losses accounted for under ASC 310-30 in connection with our re-measurements of expected cash flows. For the three and six months ended June 30, 2017, we recorded a recoupment of $78 thousand and $83 thousand, respectively, of provision for loan losses accounted for under ASC 310-30 in connection with our re-measurements of expected cash flow.

Non-Interest Income

The table below details the components of non-interest income for the periods presented:

	For the three months ended June 30,		For the six months ended June 30,		Three months Increase (decrease)		Six months Increase (decrease)	
	2018	2017	2018	2017	Amount	% Change	Amount	% Change
Service charges	$ 4,371	$ 3,546	$ 8,881	$ 6,872	$ 825	23.3 %	$ 2,009	29.2 %
Bank card fees	3,672	3,134	7,034	5,938	538	17.2 %	1,096	18.5 %
Mortgage banking income	8,911	594	16,882	1,048	8,317	1400.2 %	15,834	1510.9 %
Bank-owned life insurance income	446	472	898	942	(26)	(5.5)%	(44)	(4.7)%
Other non-interest income	1,711	4,124	2,862	5,538	(2,413)	(58.5)%	(2,676)	(48.3)%
OREO related income	451	86	841	314	365	424.4 %	527	167.8 %
Total non-interest income	$ 19,562	$ 11,956	$ 37,398	$ 20,652	$ 7,606	63.6 %	$ 16,746	81.1 %

Non-interest income totaled $19.6 million and $37.4 million for the three and six months ended June 30, 2018, respectively, compared to $12.0 million and $20.7 million for the three and six months ended June 30, 2017, respectively. Service charges represent various fees charged to clients for banking services, including fees such as non-sufficient (“NSF”) charges and service charges on deposit accounts. Organic growth and the addition of the Peoples client base drove a $1.3 million and $3.1 million increase in service charges and bank card interchange fees during the three and six months ended June 30, 2018, respectively. Mortgage banking income increased during the three and six months ended June 30, 2018 due to increased volume from the Peoples acquisition. Other non-interest income decreased during the three and six months ended June 30, 2018, primarily driven by a $2.9 million gain from banking center divestitures during the three months ended June 30, 2017.

OREO related income includes rental income and insurance proceeds received on OREO properties and write-ups to the fair value of collateral that exceed the loan balance at the time of foreclosure. During the three and six months ended June 30, 2018, this income increased $0.4 million and $0.5 million, respectively, compared to prior periods.

Table of Contents

Non-Interest Expense

The table below details the components of non-interest expense for the periods presented:

	For the three months ended June 30,		For the six months ended June 30,		Three months Increase (decrease)		Six months Increase (decrease)	
	2018	2017	2018	2017	Amount	% Change	Amount	% Change
Salaries and benefits	$ 29,123	$ 19,909	$ 59,795	$ 40,299	$ 9,214	46.3 %	$ 19,496	48.4 %
Occupancy and equipment	7,190	5,242	15,145	10,679	1,948	37.2 %	4,466	41.8 %
Telecommunications and data processing	2,101	1,552	6,467	3,139	549	35.4 %	3,328	106.0 %
Marketing and business development	1,237	545	2,461	1,196	692	127.0 %	1,265	105.8 %
FDIC deposit insurance	757	686	1,510	1,391	71	10.3 %	119	8.6 %
Bank card expense	1,097	896	3,233	1,779	201	22.4 %	1,454	81.7 %
Professional fees	738	1,270	3,557	1,686	(532)	(41.9)%	1,871	111.0 %
Other non-interest expense	3,106	2,733	6,951	5,139	373	13.6 %	1,812	35.3 %
Problem asset workout	775	880	1,556	1,752	(105)	(11.9)%	(196)	(11.2)%
(Gain) loss on OREO sales, net	(14)	(1,644)	64	(1,756)	1,630	(99.1)%	1,820	(103.6)%
Core deposit intangible asset amortization	653	1,370	1,306	2,740	(717)	(52.3)%	(1,434)	(52.3)%
Total non-interest expense	$ 46,763	$ 33,439	$ 102,045	$ 68,044	$ 13,324	39.8 %	$ 34,001	50.0 %

Non-interest expense totaled $46.8 million and $102.0 million for the three and six months ended June 30, 2018, respectively, compared to $33.4 million and $68.0 million for the three and six months ended June 30, 2017, respectively, increasing from the prior periods due to the Peoples acquisition. Included in non-interest expense for the three and six months ended June 30, 2018 are $0.4 million and $8.0 million of acquisition costs, respectively. Problem asset workout expense and gain on OREO sales increased a combined $1.5 million and $1.6 million during the three and six months ended June 30, 2018, respectively, due to OREO gains in the prior periods. The core deposits intangible asset amortization decreased during the three and six months ended June 30, 2018 compared to prior periods, due to fully amortized core deposit intangibles from historic acquisitions.

Income taxes

Income tax expense attributable to income before income taxes was $2.8 million and $4.5 million for the three and six months ended June 30, 2018, respectively, compared to an expense of $2.2 million and $1.0 million for the three and six months ended June 30, 2017, respectively. The tax expense recorded for the three and six months ended June 30, 2018 was lowered by a $0.8 million and $1.2 million tax benefit from stock compensation activity, respectively. The tax expense recorded for the three and six months ended June 30, 2017 was lowered by a $0.5 million and $3.4 million tax benefit from stock compensation activity, respectively. Without the discrete items related to stock compensation activity, the tax rates for the three and six months ended June 30, 2018 were 17.7% and 18.6%, respectively and compared to 23.9% and 23.5% for the three and six months ended June 30, 2017, respectively. The quarterly effective tax rate differs from the federal statutory rate primarily due to tax benefits from stock compensation activity, interest income from tax-exempt lending, bank-owned life insurance income, and the relationship of these items to pre-tax income. The Company forecasts the full year estimated effective tax rate in accordance with ASC 740; as a result, the relationship between pre-tax income and tax-exempt income within each reporting period can create fluctuations in the effective tax rate from period-to-period.

The Company has unvested stock-based compensation awards outstanding at June 30, 2018, including stock options, restricted stock and performance stock units. The strike prices for options range from $18.09 to $35.36, with a large portion of the awards having strike prices of $20.00. The option awards and restricted stock awards vest over a range of a 1-3 year period. The performance stock units cliff vest over 3 years and the number of shares issued is determined by the final performance results. Depending on the movement in our stock price, these stock-based compensation awards may create either an excess tax benefit or tax deficiency depending on the relationship between the fair value at the time of vesting or exercise and the estimated fair value recorded at the time of grant. As of June 30, 2018, the Company had $2.5 million of deferred tax assets related to stock-based compensation, $1.9 million of which is associated with executive officers still employed by the Company.

Additional information regarding income taxes can be found in note 16 of this Form 10-Q and 19 of our audited consolidated financial statements in our 2017 Annual Report on Form 10-K.

Liquidity and Capital Resources

Liquidity is monitored and managed to ensure that sufficient funds are available to operate our business and pay our obligations to depositors and other creditors, while providing ample available funds for opportunistic and strategic investments. On-balance sheet

liquidity is represented by our cash and cash equivalents, and unencumbered investment securities, and is detailed in the table below as of June 30, 2018 and December 31, 2017:

	June 30, 2018	December 31, 2017
Cash and due from banks	$ 137,417	$ 193,297
Cash segregated for Peoples acquisition	—	(36,189)
Unsegregated cash and due from banks	137,417	157,108
Interest bearing bank deposits	500	64,067
Unencumbered investment securities, at fair value	654,461	637,048
Total	$ 792,378	$ 858,223

Total on-balance sheet liquidity decreased $65.8 million at June 30, 2018 compared to December 31, 2017. The decrease was due to lower interest bearing bank deposits of $63.6 million and lower cash and due from banks of $19.7 million, partially offset by an increase of $17.4 million in unencumbered available-for-sale and held-to-maturity securities balances.

Our primary sources of funds are deposits, securities sold under agreements to repurchase, prepayments and maturities of loans and investment securities, the sale of investment securities, and funds provided from operations. We anticipate having access to other third party funding sources, including the ability to raise funds through the issuance of shares of our common stock or other equity or equity-related securities, incurrence of debt, and federal funds purchased, that may also be a source of liquidity. We anticipate that these sources of liquidity will provide adequate funding and liquidity for at least a 12 month period.

Our primary uses of funds are loan originations, investment security purchases, withdrawals of deposits, settlement of repurchase agreements, capital expenditures, operating expenses, and dividend payments. For additional information regarding our operating, investing, and financing cash flows, see our consolidated statements of cash flows in the accompanying unaudited consolidated financial statements.

Exclusive from the investing activities related to acquisitions, our primary investing activities are originations and pay-offs and pay downs of loans and purchases and sales of investment securities. At June 30, 2018, pledgeable investment securities represented a significant source of liquidity. Our available-for-sale investment securities are carried at fair value and our held-to-maturity securities are carried at amortized cost. Our collective investment securities portfolio totaled $1.1 billion at June 30, 2018, inclusive of pre-tax net unrealized losses of $27.5 million on the available-for-sale securities portfolio and net unrealized losses of $6.0 million in our held-to-maturity securities portfolio at June 30, 2018. The gross unrealized gains and losses are detailed in note 4 of our consolidated financial statements. As of June 30, 2018, our investment securities portfolio consisted primarily of mortgage-backed securities, all of which were issued or guaranteed by U.S. Government agencies or sponsored enterprises. The anticipated repayments and marketability of these securities offer substantial resources and flexibility to meet new loan demand, reinvest in the investment securities portfolio, or provide optionality for reductions in our deposit funding base.

At present, financing activities primarily consist of changes in deposits and repurchase agreements, and advances from the FHLB, in addition to the payment of dividends and the repurchase of our common stock. Maturing time deposits represent a potential use of funds. As of June 30, 2018, $684.3 million of time deposits were scheduled to mature within 12 months. Based on the current interest rate environment, market conditions, and our consumer banking strategy focusing on both lower cost transaction accounts and term deposits, our strategy is to replace a significant portion of those maturing time deposits with transaction deposits and market-rate time deposits.

Through our membership with the FHLB, we have pledged qualifying loans and investment securities allowing us to obtain additional liquidity through FHLB advances and lines of credit. FHLB advances and lines of credit available totaled $1.2 billion, of which $188.3 million was used at June 30, 2018. We can obtain additional liquidity through FHLB advances if required. The Bank also has access to federal funds lines of credit with corresponding banks.

The Basel III Capital rules, effective January 1, 2015, changed the components of regulatory capital, changed the way in which risk ratings are assigned to various categories of bank assets, and defined a new Tier 1 common risk-based ratio. In addition, a capital conservation buffer requirement, designed to strengthen an institution’s financial resilience during economic cycles through the restriction of capital distributions and other payments, became effective in 2017 with full phase-in beginning January 1, 2019. When fully phased-in, the capital conservation buffer adds a 2.5% capital requirement above existing regulatory minimum ratios. Under the Basel III requirements, at June 30, 2018, the Company and the Bank met all capital adequacy requirements and the Bank had regulatory capital ratios in excess of the levels established for well-capitalized institutions. For more information on regulatory capital, see note 10 in our consolidated financial statements.

Our shareholders' equity is impacted by earnings, changes in unrealized gains and losses on securities, net of tax, stock-based compensation activity, share repurchases and the payment of dividends.

The Board of Directors has authorized multiple programs to repurchase shares of the Company’s common stock from time to time either in open market or in privately negotiated transactions in accordance with applicable regulations of the SEC.

On August 5, 2016, the Company announced that its Board of Directors authorized a program to repurchase up to an additional $50.0 million of the Company’s common stock. The remaining authorization under this program as of June 30, 2018 was $12.6 million. During the three and six months ended June 30, 2018, we did not repurchase any shares of our common stock.

Asset/Liability Management and Interest Rate Risk

Management and the Board of Directors are responsible for managing interest rate risk and employing risk management policies that monitor and limit this exposure. Interest rate risk is measured using net interest income simulations and market value of portfolio equity analyses. These analyses use various assumptions, including the nature and timing of interest rate changes, yield curve shape, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, and reinvestment/replacement of asset and liability cash flows.

The principal objective of the Company's asset and liability management function is to evaluate the interest rate risk within the balance sheet and pursue a controlled assumption of interest rate risk while maximizing earnings and preserving adequate levels of liquidity and capital. The asset and liability management function is under the guidance of the Asset Liability Committee from direction of the Board of Directors. The Asset Liability Committee meets monthly to review, among other things, the sensitivity of the Company's assets and liabilities to interest rate changes, local and national market conditions and rates. The Asset Liability Committee also reviews the liquidity, capital, deposit mix, loan mix and investment positions of the Company.

Instantaneous parallel rate shift scenarios are modeled and utilized to evaluate risk and establish exposure limits for acceptable changes in net interest margin. These scenarios, known as rate shocks, simulate an instantaneous change in interest rates and use various assumptions, including, but not limited to, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, reinvestment and replacement of asset and liability cash flows.

We also analyze the economic value of equity as a secondary measure of interest rate risk. This is a complementary measure to net interest income where the calculated value is the result of the market value of assets less the market value of liabilities. The economic value of equity is a longer term view of interest rate risk because it measures the present value of the future cash flows. The impact of changes in interest rates on this calculation is analyzed for the risk to our future earnings and is used in conjunction with the analyses on net interest income.

Our interest rate risk model indicated that the Company was asset sensitive in terms of interest rate sensitivity at June 30, 2018. During the six months ended June 30, 2018, we decreased our asset sensitivity as a result of the changes in beta assumptions for our interest bearing deposits. The table below illustrates the impact of an immediate and sustained 200 and 100 basis point increase and a 100 basis point decrease in interest rates on net interest income based on the interest rate risk model at June 30, 2018 and December 31, 2017:

Hypothetical shift in interest rates (in bps)	% change in projected net interest income	
	June 30, 2018	December 31, 2017
200	7.25%	6.93%
100	3.70%	4.82%
(100)	(6.45)%	(7.75)%

Many assumptions are used to calculate the impact of interest rate fluctuations. Actual results may be significantly different than our projections due to several factors, including the timing and frequency of rate changes, market conditions and the shape of the yield curve. The computations of interest rate risk shown above do not include actions that management may undertake to manage the risks in response to anticipated changes in interest rates and actual results may also differ due to any actions taken in response to the changing rates.

As part of the asset/liability management strategy to manage primary market risk exposures expected to be in effect in future reporting periods, management has emphasized the origination of shorter duration loans as well as variable rate loans to limit the negative exposure to a rate increase. The strategy with respect to liabilities has been to emphasize transaction accounts, particularly non-interest or low interest bearing non-maturing deposit accounts which are less sensitive to changes in interest rates. Non-maturing deposit accounts have grown $637.6 million during the six months June 30, 2018, and totaled 75.6% of total deposits at June 30, 2018 compared to 71.9% at December 31, 2017. We currently have no brokered time deposits and intend to continue to focus on our strategy of increasing non-interest or low-cost interest bearing non-maturing deposit accounts.

Off-Balance Sheet Activities

In the normal course of business, we are a party to various contractual obligations, commitments and other off-balance sheet activities that contain credit, market, and operational risk that are not required to be reflected in our consolidated financial statements. The most significant of these are the loan commitments that we enter into to meet the financing needs of clients, including commitments to extend credit, commercial and consumer lines of credit and standby letters of credit. As of June 30, 2018 and December 31, 2017, we had loan commitments totaling $764.6 million and $680.8 million, respectively, and standby letters of credit that totaled $8.3 million and $7.2 million, respectively. Unused commitments do not necessarily represent future credit exposure or cash requirements, as commitments often expire without being drawn upon. We do not anticipate any material losses arising from commitments or contingent liabilities, and we do not believe that there are any material commitments to extend credit that represent risks of an unusual nature.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by this item is provided under the caption Asset/Liability Management and Interest Rate Risk in Part I, Item 2-Management's Discussion and Analysis of Financial Condition and Results of Operations and is incorporated herein by reference.

Item 4. CONTROLS AND PROCEDURES

Our management, with the participation of our principal executive officer and principal financial officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as of June 30, 2018. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of June 30, 2018.

During the most recently completed fiscal quarter, there were no changes made in the Company's internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II: OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

From time to time, we are a party to various litigation matters incidental to the conduct of our business. We are not presently party to any legal proceedings the resolution of which we believe would have a material adverse effect on our business, prospects, financial condition, liquidity, results of operation, cash flows or capital levels.

Item 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2017, except for the addition of:

The value of our mortgage servicing rights can decline during periods of falling interest rates, and we may be required to take a charge against earnings for the decreased value.

A mortgage servicing right is the right to service a mortgage loan for a fee. We capitalize MSRs when we originate mortgage loans and retain the servicing rights after we sell the loans. We carry MSRs at the lower of amortized cost or estimated fair value. Fair value is the present value of estimated future net servicing income, calculated based on a number of variables, including assumptions about the likelihood of prepayment by borrowers. Changes in interest rates can affect prepayment assumptions. When interest rates fall, borrowers are more likely to prepay their mortgage loans by refinancing them at a lower rate. As the likelihood of prepayment increases, the fair value of our MSRs can decrease. Each quarter we evaluate our MSRs for impairment based on the difference between the carrying amount and fair value, and, if temporary impairment exists, we establish a valuation allowance through a charge that negatively affects our earnings.

We may be required to repurchase mortgage loans or reimburse investors and others as a result of breaches in contractual representations and warranties.

We sell residential mortgage loans to various parties, including GSEs and other financial institutions that purchase mortgage loans for investment or private label securitization. The agreements under which we sell mortgage loans and the insurance or guaranty agreements with the FHA and VA contain various representations and warranties regarding the origination and characteristics of the mortgage loans, including 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 compliance with applicable origination laws. We may be required to repurchase mortgage loans, indemnify the investor or insurer, or reimburse the investor or insurer for credit losses incurred on loans in the event of a breach of contractual representations or warranties that is not remedied within a period (usually 90 days or less) after we receive notice of the breach. Contracts for mortgage loan sales to the GSEs include various types of specific remedies and penalties that could be applied to inadequate responses to repurchase requests. Similarly, the agreements under which we sell mortgage loans require us to deliver various documents to the investor, and we may be obligated to repurchase any mortgage loan as to which the required documents are not delivered or are defective. We establish a mortgage repurchase liability related to the various representations and warranties that reflect management's estimate of losses for loans which we have a repurchase obligation. Our mortgage repurchase liability represents management's best estimate of the probable loss that we may expect to incur for the representations and warranties in the contractual provisions of our sales of mortgage loans. Because the level of mortgage loan repurchase losses depends upon economic factors, investor demand strategies and other external conditions that may change over the life of the underlying loans, the level of the liability for mortgage loan repurchase losses is difficult to estimate and requires considerable management judgment. If economic conditions and the housing market deteriorate or future investor repurchase demand and our success at appealing repurchase requests differ from past experience, we could experience increased repurchase obligations and increased loss severity on repurchases, requiring additions to the repurchase liability.

The required accounting treatment of loans we acquire through acquisitions, including purchase credit impaired loans, could result in higher net interest margins and interest income in current periods and lower net interest margins and interest income in future periods.

Under U.S. GAAP, we are required to record loans acquired through acquisitions, including purchase credit impaired loans, at fair value. Estimating the fair value of such loans requires management to make estimates based on available information and facts and circumstances on the acquisition date. Any discount, which is the excess of the amount of reasonably estimable and probable discounted future cash collections over the purchase price, is accreted into interest income over the weighted average remaining contractual life of the loans. Therefore, our net interest margins may initially increase due to the discount accretion. We expect the yields on the total loan portfolio will decline as our acquired loan portfolios pay down or mature and the corresponding accretion of the discount decreases. We expect downward pressure on our interest income to the extent that the runoff of our acquired loan portfolios is not replaced with comparable high-yielding loans. This could result in higher net interest margins and interest income in current periods and lower net interest margins and interest income in future periods.

We have recorded goodwill as a result of acquisitions that can significantly affect our earnings if it becomes impaired.

Under current accounting standards, goodwill is not amortized but, instead, is subject to impairment tests on at least an annual basis or more frequently if an event occurs or circumstances change that reduce the fair value of a reporting unit below its carrying value.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Period	Total number of shares (or units) purchased	Average price paid per share (or unit)	Total number of shares (or units) purchased as part of publicly announced plans or programs	Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs (2)
April 1 - April 30, 2018(1)	31,119	$ 34.73	—	$ 12,562,825
May 1 - May 31, 2018(1)	17,283	37.38	—	12,562,825
June 1 - June 30, 2018(1)	4,972	40.23	—	12,562,825
Total	53,374	$ 36.10	—	$ 12,562,825

(1) These shares represent shares purchased other than through publicly announced plans and were purchased pursuant to the Company’s stock incentive plans. Pursuant to the plans, shares were purchased from plan participants at the then current market value in satisfaction of stock option exercise prices, settlements of restricted stock and tax withholdings.

(2) On August 5, 2016, the Company’s Board of Directors authorized the repurchase of up to an additional $50.0 million of common stock. Under this authorization, $12,562,825 remained available for purchase at June 30, 2018.

Item 5. OTHER INFORMATION

None.

Table of Contents

Item 6. EXHIBITS

3.1	Second Amended and Restated Certificate of Incorporation (incorporated herein by reference to Exhibit 3.1 to our Form S-1 Registration Statement (Registration No. 333-177971), filed August 22, 2012)
3.2	Second Amended and Restated By-Laws (incorporated herein by reference to Exhibit 3.2 to our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2014, filed November 7, 2014)
10.1	Transition Agreement, dated May 2, 2018, by and between Brian F. Lilly and National Bank Holdings Corporation (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on May 2, 2018)
10.2	Employment Agreement, dated May 2, 2018, by and between Aldis Birkans and National Bank Holdings Corporation (incorporated herein by reference to Exhibit 10.2 to our Form 8-K, filed on May 2, 2018)
31.1	Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certifications of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Shareholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Consolidated Financial Statements, tagged as blocks of text and in detail

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

National Bank Holdings Corporation

By /s/ Brian F. Lilly
Brian F. Lilly
Chief Financial Officer; Chief of M&A and Strategy
(principal financial officer)

Date: August 9, 2018