National Bank Holdings Corp
Form 10-K
March 01, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2018

OR

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

For the transition period from to

Commission File Number: 001-35654

NATIONAL BANK HOLDINGS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	27-0563799
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

7800 East Orchard Road, Suite 300, Greenwood Village, Colorado 80111

(Address of principal executive offices) (Zip Code)

Registrant’s telephone, including area code:

(720) 529-3336

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A Common Stock, Par Value $0.01	New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer”, “accelerated filer”, “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

As of June 30, 2018, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately $1,156,200,000 based on the closing sale price as reported on the New York Stock Exchange.

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of February 27, 2019, NBHC had outstanding 30,862,685 shares of Class A voting common stock with $0.01 par value per share, excluding 146,494 shares of restricted Class A common stock issued but not yet vested.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for its 2019 Annual Meeting of Shareholders to be filed within 120 days of December 31, 2018 will be incorporated by reference into Part III of this form 10-K.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, notwithstanding that such statements are not specifically identified. Any statements about our expectations, beliefs, plans, predictions, forecasts, objectives, assumptions or future events or performance are not historical facts and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as “anticipate,” “believe,” “can,” “would,” “should,” “could,” “may,” “predict,” “seek,” “potential,” “will,” “estimate,” “t “continuing,” “ongoing,” “expect,” “intend” and similar words or phrases. These statements are only predictions and involve estimates, known and unknown risks, assumptions and uncertainties. We have based these statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, liquidity, results of operations, business strategy and growth prospects.

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

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

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

effects of a prolonged government shutdown;

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

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

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

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

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

changes in consumer spending, borrowings and savings habits;

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

our ability to identify potential candidates for, obtain regulatory approval for, and consummate, acquisitions, consolidations or other expansion opportunities on attractive terms, or at all;

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

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

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

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

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

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

continued consolidation in the financial services industry;

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

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

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

the effects of tax legislation, including the potential of future increases to prevailing tax rates, or challenges to our

tax position;

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

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

technological changes;

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

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

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

regulatory limitations on dividends from our bank subsidiary;

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

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

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

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

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

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

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

PART I: FINANCIAL INFORMATION

Item 1. BUSINESS.

Summary

National Bank Holdings Corporation ("NBHC" or the "Company") is a bank holding company that was incorporated in the State of Delaware in 2009 and is headquartered immediately south of Denver, in Greenwood Village, Colorado. Our primary operations are conducted through our wholly owned subsidiary, NBH Bank, referred to as the "Bank", or "NBH Bank", through which we provide a variety of banking products to both commercial and consumer clients. We service our clients through a network of 104 banking centers as of December 31, 2018, with the majority of those banking centers located in Colorado and the greater Kansas City region, and through online and mobile banking products and services. As of December 31, 2018, we had \$5.7 billion in assets, \$4.1 billion in loans, \$4.5 billion in deposits and \$0.7 billion in shareholders' equity.

The Company was formed through a private offering of our common stock in 2009. As part of our goal of becoming a leading regional community bank holding company, we are pursuing a strategy of organic growth through strong banking relationships with small- and medium-sized businesses and consumers in our markets, complemented by selective acquisitions of financial institutions and other complementary businesses. Our long-term business model utilizes our organic development infrastructure, low-risk balance sheet, continuous operational development and a disciplined acquisition strategy to create value and provide attractive returns.

NBH Bank is a Colorado state-chartered bank and a member of the Federal Reserve Bank of Kansas City. Through NBH Bank, we operate under the following brand names: Bank Midwest in Kansas and Missouri; Community Banks of Colorado in Colorado; and Hillcrest Bank in New Mexico, Texas and Utah. We believe that conducting our banking operations under a single state charter streamlines our operations and enables us to more effectively and efficiently execute our growth strategy.

Our Acquisitions

We began banking operations in October 2010 and, as of December 31, 2018, we have completed six bank acquisitions, three of which were FDIC-assisted. All loss share agreements associated with the FDIC-assisted acquisitions were terminated in 2015. We have transformed these six banks into one collective banking operation with strong organic growth, prudent underwriting, and meaningful market share with continued opportunity for expansion. We believe that we have established critical mass in our current markets and have structured acquisitions that limit our credit risk, which positions us for attractive returns.

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The following table summarizes certain highlights of our six historic acquisitions, including deposits and assets at fair value as of each acquisition date:

	Peoples	Pine River	Community Banks of Colorado	Bank of Choice	Bank Midwest
Date acquired	January 1, 2018	August 1, 2015	October 21, 2011	July 22, 2011	December 10, 2010
FDIC-assisted	No	No	Yes	Yes	No
Loss share	No	No	Yes(1)	No	No
Banking centers(3)	19	4	40	16	39
Deposits (millions)	$ 730	$ 130	$ 1,195	$ 760	$ 2,386
Assets (millions)	$ 875	$ 142	$ 1,228	$ 950	$ 2,426
Primary Market	Colorado	Colorado	Colorado	Colorado	Greater Kansas City Region

(1) Commercial loss-share agreement (terminated November 5, 2015).
(2) Single Family loss-share agreement and Commercial Shared-Loss Agreement (terminated November 5, 2015).
(3) During 2013, four California banking centers acquired with the Community Banks of Colorado acquisition and 32 retirement centers acquired with the Hillcrest Bank acquisition were closed. During 2015, three banking centers were consolidated in our Bank Midwest network. During 2016, seven banking centers were consolidated in our Community Banks of Colorado network. During 2017, six banking centers were consolidated or sold in our Bank Midwest and Community Banks of Colorado networks. One banking center in our Bank Midwest network was consolidated during 2018.

Peoples Acquisition

On January 1, 2018, the Company closed the acquisition of Peoples, Inc. ("Peoples"), the bank holding company of Colorado-based Peoples National Bank and Kansas-based Peoples Bank. The acquisition strengthened the NBH franchise in the attractive and growing markets along the Colorado Front Range, the greater Kansas City region, including expanding our existing Overland Park, Kansas market and extending into the college town markets of Lawrence and Ottawa, Kansas, and expands the NBH franchise into New Mexico. The transaction was valued at $146.4 million, including $36.2 million of cash consideration, and at the date of acquisition added $875.4 million in assets, $542.7 million in loans held for investment and $729.9 million of low cost deposits. Peoples' complementary, franchise-centric, retail mortgage platform added significant capabilities with over $1 billion in mortgage production and primarily serving NBH's markets with additional mortgage offices in Arizona, California and Utah. The acquisition added a solid core deposit base, expanding into New Mexico, with cost of deposits significantly below peers at 0.10%. All operating systems were converted during the first half of 2018. Refer to note 4 – Acquisition Activities for additional details.

All of our acquisitions were accounted for under the acquisition method of accounting, and accordingly, all assets acquired and liabilities assumed were recorded at their respective acquisition date fair values and the fair value discounts/premiums on loans are being accreted over the lives of the loans.

Our Market Area

Our core markets are broadly defined as Colorado, the greater Kansas City region, New Mexico, Texas and Utah. In January 2019, the Company announced its expansion into Utah with a focus on serving commercial and business banking clients in Salt Lake City’s Wasatch Front. We are the second largest banking center network among Colorado-based banks and the fifth largest banking center network in the greater Kansas City MSA among Missouri- and Kansas-based banks ranked by deposits as of June 30, 2018 (the last date as of which data are available), according to S&P Global. Other major MSAs in which we operate include Dallas-Fort Worth-Arlington, Texas, Austin-Round Rock, Texas, and Salt Lake City, Utah.

We believe that our established presence positions us well for growth opportunities in our markets. An integral component of our foundation and growth strategy has been to capitalize on market opportunities and acquire financial services franchises. Our primary focus has been on markets that we believe are characterized by some or all of the following: (i) attractive demographics with household income and population growth above the national average; (ii) concentration of business activity; (iii) high quality deposit bases; (iv) an advantageous competitive landscape that provides opportunity to achieve meaningful market presence; (v) consolidation opportunities as well as potential for add-on transactions; and (vi) markets sizeable enough to support our long-term organic growth objectives.

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The table below describes certain key demographic statistics regarding our markets:

	Deposits (billions)	# of businesses (thousands)	Population (millions)	Unemployment rate(1)	Population growth(2)	Median household income	Top 3 competitor combined deposit market share
Denver, CO	$ 83.4	114.9	3.0	3.3%	16.4%	$ 78,251	55%
Front Range, CO(3)	113.7	182.7	4.7	3.3%	16.5%	75,762	53%
Kansas City, MO-KS MSA	57.4	76.0	2.2	2.7%	7.4%	66,838	43%
Austin, TX	42.3	68.1	2.2	3.2%	27.4%	78,089	56%
Dallas, TX	271.0	240.9	7.6	3.3%	17.9%	69,458	58%
Salt Lake City, UT	38.2	43.2	1.2	2.7%	12.9%	74,919	72%
U.S.				3.5%	6.6%	63,174	55%(4)

(1) Unemployment data is as of November 30, 2018.
(2) For the period 2010 through 2018.
(3) CO Front Range is a population weighted average of the following Colorado MSAs: Denver, Boulder, Colorado Springs, Fort Collins and Greeley.
(4) Based on U.S. Top 20 MSAs (determined by population).

Source: S&P Global as of December 31, 2018, except Deposits and Top 3 Competitor Combined Deposit Market Shares, which reflects data as of June 30, 2018.

Our Business Strategy

As part of our goal of becoming a leading regional community bank holding company, we seek to continue to generate strong organic growth, as well as pursue selective acquisitions of financial institutions and other complementary businesses. Our focus is on building organic growth through strong banking relationships with small- and medium-sized businesses and consumers in our primary markets, while maintaining a low-risk profile designed to generate reliable income streams and attractive returns. We view our core market areas as Colorado, the greater Kansas City region, New Mexico, Texas and Utah. The key components of our strategic plan are:

- Focus on client-centered, relationship-driven banking strategy. Our small business and commercial bankers focus on small- and medium-sized businesses with an advisory approach that emphasizes understanding the client's business and offering a complete array of loan, deposit and treasury management products and services. Our business and commercial bankers are supported by treasury management teams in each of their markets, which allows us to more effectively deliver a comprehensive suite of products and services to our business clients and further deepen our banking relationships. Our consumer bankers focus on knowing their clients in order to best meet their financial needs, offering a full complement of loan, deposit, online and mobile banking solutions.

- Expansion of commercial banking, business banking and specialty businesses. We have made significant investments in our commercial relationship managers, as well as developed significant capabilities across our business banking and several specialty commercial banking offerings. Our strategy is to originate a high-quality loan portfolio that is diversified across industries and granular in loan size. We have preferred lender status with the Small Business Administration ("SBA") providing a leveraged platform for growth in the business lending segment. We believe we are well-positioned to leverage our operating and risk management infrastructure through organic growth, and we intend to continue to add or repurpose our commercial relationship managers to higher growth opportunities and markets in order to drive increased profitability.

- Expansion through organic growth and competitive product offerings. We believe that our focus on serving consumers and small- to medium-sized businesses, coupled with our competitive product offerings, will provide an expanded revenue base and new sources of fee income. We conduct regular market and competitive analysis to determine which products and services are best suited for our clients. Our teams also continue to pursue

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opportunities to deepen client relationships, which we believe will further increase our organic loan origination volumes and attract new transaction accounts that offer lower cost of funds and higher fee generating activity.

- Continue to strengthen profitability through organic growth and operating efficiencies. We continue to utilize our comprehensive underwriting and risk management processes under one operating platform while maintaining local branding, leadership and decision making, which allows us to support growth and realize operating efficiencies throughout our enterprise. We believe that we have the infrastructure in place to support our future revenue growth without causing non-interest expenses to increase by a corresponding amount. Our growth strategy is focused on organic initiatives in order to accelerate our growth in profitability. Key priorities to strengthen profitability include the continued ramp-up of loan production, growing low-cost core deposits, implementing additional fee-based business initiatives and further enhancing operational efficiencies.

- Maintain conservative risk profile and sound risk management practices. Strong risk management is an important element of our operating philosophy. We maintain a conservative risk culture with adherence to mature and seasoned policies across all areas of the organization. We implement self-imposed concentration limits on our loan portfolio to ensure a granular and diverse loan portfolio and protect against downside risk to any particular industry or real estate sector. Our risk management approach seeks to identify, assess and mitigate risk and minimize any resulting losses. We have implemented processes to identify, measure, monitor, report and analyze the types of risk to which we are subject. We believe our risk management policies establish appropriate limitations that allow for the prudent oversight of such risks that include, but are not limited to the following: credit, liquidity, market, operational, legal and compliance, reputational, and strategic and business risk.

- Pursue disciplined acquisitions or other expansionary opportunities. We expect that acquisitions or other expansionary opportunities will continue to be a component of our growth strategy, and we intend to carefully select opportunities that we believe have stable core franchises, have significant local market share or will add asset generation capabilities or fee income streams while structuring the opportunities to limit risk. Further, we seek transactions that offer opportunities for clear financial benefits with valuations that have acceptable levels of earnings accretion, tangible book value dilution/earn-back, and internal rates of return. We seek to acquire or expand into financial services franchises in markets that exhibit attractive demographic attributes and business growth trends, and we believe that our focus on attractive markets will provide long-term opportunities for organic growth. Our focus is on our primary markets of Colorado, the greater Kansas City region, New Mexico, Texas and Utah, including teams, asset portfolios, specialty commercial finance businesses, and whole banks.

We believe our strategy of strong organic growth through the retention, expansion and development of client-centered relationships and growth through selective acquisitions or other expansionary opportunities in attractive markets provides flexibility regardless of economic conditions. Our established platform for assessing, executing and integrating acquisitions creates opportunities in an economic downturn, and our attractive market factors, franchise scale in our targeted markets and our relationship-centered banking focus create opportunities in an improving economic environment.

Products and Services

Through NBH Bank, our primary business is to offer a full range of traditional banking products and financial services to our commercial, business and consumer clients, who are predominantly located in Colorado, the greater Kansas City region, New Mexico, Texas and Utah. We conduct our banking business through 104 banking centers, with 50 of those located in Colorado, 46 in Kansas and Missouri, six in New Mexico and two in Texas as of December 31, 2018. Our distribution network also includes 128 ATMs as well as fully integrated online banking and mobile banking services. We offer a high level of personalized service to our clients through our relationship managers and banking center associates. We believe that a banking relationship that includes multiple services, such as loan and deposit services, online and mobile banking solutions and treasury management products and services, is the key to profitable and long-lasting client relationships and that our local focus and decision making provide us with a competitive advantage over banks that do not have these attributes.

Our primary strategic objective is to serve small- to medium-sized businesses in our markets with a variety of unique and useful services, including a full array of banking products, while maintaining a strong and disciplined credit culture and delivering excellent client service. We offer a variety of products and services that are focused on the following areas:

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Commercial and Specialty Banking

Our commercial bankers focus on small- and medium-sized businesses with an advisory approach that emphasizes understanding the client's business and offering a complete suite of loan, deposit and treasury management products and services. We have invested significantly in our commercial banking capabilities, attracting experienced commercial bankers from competing institutions in our markets, which have resulted in significant growth in our originated loan portfolio. Our commercial relationship managers offer a wide range of commercial loan products, including:

Commercial and Industrial Loans—We originate commercial and industrial loans and leases, including working capital loans, equipment loans, lender finance loans, food and agriculture loans, government and non-profit loans, owner occupied commercial real estate loans and other commercial loans and leases. The terms of these loans vary by purpose and by type of underlying collateral, if any.

Working capital loans generally have terms of up to one year, are usually secured by accounts receivable and inventory and carry the personal guarantees of the principals of the business. Equipment loans are generally secured by the financed equipment at advance rates that we believe are appropriate for the equipment type. In the case of owner-occupied commercial real estate loans, we are usually the primary provider of financial services for the company and/or the principals and the primary source of repayment is through the cash flows generated by the borrowers' business operations. Owner-occupied commercial real estate loans are typically secured by a first lien mortgage on real property plus assignments of all leases related to the properties. Underwriting guidelines generally require borrowers to contribute cash equity that results in an 80% or less loan-to-value ratio on owner-occupied properties. As of December 31, 2018, substantially all of our commercial and industrial loans were secured.

Non-Owner Occupied Commercial Real Estate Loans—Non-owner occupied commercial real estate loans ("CRE") consist of loans to finance the purchase of commercial real estate and development loans. Our non-owner occupied CRE loans include commercial properties such as office buildings, warehouse/distribution buildings, multi-family and retail buildings. These loans are typically secured by a first lien mortgage or deed of trust, as well as assignments of all related leases. Underwriting guidelines generally require borrowers to contribute cash equity that results in a 75% or less loan to value ratio.

We seek to reduce the risks associated with commercial mortgage lending by focusing our lending in our primary markets. Although non-owner occupied CRE is not a primary focus of our lending strategy, we have developed teams of dedicated CRE bankers in each of our markets who possess the depth and breadth of both market knowledge and industry expertise, which serves to further mitigate risk of this product type.

Small Business Administration Loans—We offer a range of U.S. Small Business Administration, or SBA loans, to support manufacturers, distributors and service providers targeted to small businesses and entrepreneurs seeking growth capital, working capital, or other capital investments. As a Preferred Lender Provider of the SBA, we are able to expedite SBA loan approval, closing, and servicing functions through delegated authority to underwrite and approve loans on behalf of the SBA. We utilize the SBA 7(a) loan, SBA 504 loan, SBA Express loan, and CAP Line loan programs.

Commercial Deposit Products (including business online and mobile banking)—Our commercial bankers are focused on providing value-added deposit products to our clients that optimize their cash management program. We are focused on full-relationship banking, including banking core operating accounts and ancillary accounts. We also provide our commercial clients with money market accounts and short-term repurchase reserve accounts depending on their individual needs. In addition, we provide a wide array of treasury management solutions to our clients, including: business online and mobile banking, commercial credit card services, wire transfers, automated clearing house services, electronic bill payment, lock box services, remote deposit capture services, merchant processing services, cash vault, controlled disbursements, fraud prevention services through positive pay and other auxiliary services (including account reconciliation, collections, repurchase accounts, zero balance accounts and sweep accounts).

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Business, Residential and Consumer Banking

Our business and consumer bankers focus on knowing their clients in order to best meet their financial needs, offering a full complement of loan, deposit and online and mobile banking solutions. We strive to do business in the areas served by our banking centers, which is also where our marketing is focused, and the vast majority of our new loan and deposit clients are located in existing market areas.

All of our newly originated consumer loans are on a direct to consumer basis. We offer a variety of business and consumer loans, including:

Business Loans—Business loans consist of term loans, line of credit, and real estate secured loans. The terms of these loans vary by purpose and by type of underlying collateral, if any. Business loans generally require LTV ratios of not more than 75 percent. Business loans also assist in the growth of our deposits because many business loan borrowers establish noninterest-bearing and interest-bearing demand deposit accounts and treasury management relationships with us. Those deposit accounts help us to reduce our overall cost of funds, and those treasury management relationships provide us with a source of non-interest income.

Residential Real Estate Loans—Residential real estate loans consist of loans secured by the primary or secondary residence of the borrower. These loans consist of closed loans, which are typically amortizing over a 10 to 30-year term. Our loan-to-value (LTV) benchmark for these loans will generally be below 80% at inception unless related to certain internal or government programs where higher LTV's may be warranted, along with satisfactory debt-to-income ratios. We do not originate or purchase negatively amortizing or sub-prime residential loans. These residential real estate loans are generally originated under terms and conditions consistent with secondary market guidelines. Some of these loans will be placed in the Bank's loan portfolio; however, a majority are sold in the secondary market and provide a significant source of fee income. The mortgage operation acquired from Peoples added significant residential banking products, servicing capabilities and residential loan origination channels. In addition to the referral business through our existing consumer client base, we have a dedicated team of mortgage bankers who focus origination efforts primarily on new purchase activity and secondarily on refinance activity. We also offer open- and closed-ended home equity loans, which are loans generally secured by second lien positions on residential real estate, and residential construction loans to consumers and builders for the construction of residential real estate.

Consumer Loans—Consumer loans are structured as small personal lines of credit and term loans, with the latter generally bearing interest at a higher rate and having a shorter term than residential mortgage loans. Consumer loans are both secured (for example by deposit accounts, brokerage accounts or automobiles) and unsecured and carry either a fixed rate or variable rate. Examples of our consumer loans include home improvement loans not secured by real estate, new and used automobile loans and personal lines of credit.

Deposit Products (including online and mobile banking)—We offer a variety of deposit products to our clients, including checking accounts, savings accounts, money market accounts, health savings accounts and other deposit accounts, including fixed-rate, fixed maturity time deposits ranging in terms from 30 days to five years, and individual retirement accounts. We view deposits as an important part of the overall client relationship and believe they provide opportunities to cross-sell other products and services. We intend to continue our efforts to attract low-cost transaction deposits from our client relationships. Consumer deposit flows are significantly influenced by general and local economic conditions, changes in prevailing interest rates, internal pricing decisions and competition. Our deposits are primarily obtained from areas surrounding our banking centers. In order to attract and retain deposits, we rely on providing competitively priced high-quality service and introducing new products and services that meet our clients' needs.

We also offer comprehensive, user-friendly mobile and online banking platforms allowing our clients to pay bills, check statements, deposit checks and transfer funds, amongst other features, online or on-the-go.

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Lending Activities

Our loan portfolio includes commercial and industrial loans, commercial real estate loans, residential real estate loans, business loans and consumer loans. The principal risk associated with each category of loans we make is the creditworthiness of the borrower. Borrower creditworthiness is affected by general economic conditions and the attributes of the borrower's market or industry segment. Attributes of the relevant business market or industry segment include the economic and competitive environment, changes to supply or demand, threat of substitutes and barriers to entry and exit. In our credit underwriting process, we carefully evaluate the borrower's industry, operating performance, liquidity and financial condition. We underwrite credits based on multiple repayment sources, including operating cash flow, liquidation of collateral and guarantor support, where appropriate. We closely monitor the operating performance, liquidity and financial condition of borrowers through analysis of periodic financial statements and meetings with the borrower's management. As part of our credit underwriting process, we also review the borrower's total debt obligations on a global basis. Our credit policy requires that key risks be identified and measured, documented and mitigated, to the extent possible, to seek to ensure the soundness of our loan portfolio.

Our credit policy also provides detailed procedures for making loans to individual and business clients along with the regulatory requirements to ensure that all loan applications are evaluated subject to our fair lending policy. Our credit policy addresses the common credit standards for making loans to clients, the credit analysis and financial statement requirements, the collateral requirements, including insurance coverage where appropriate, as well as the documentation required. Our ability to analyze a borrower's current financial health and credit history, as well as the value of collateral as a secondary source of repayment, when applicable, are significant factors in determining the creditworthiness of loans to clients. We require various levels of internal approvals based on the characteristics of such loans, including the size, nature of the exposure and type of collateral, if any. We believe that the procedures required by our credit policies enhance internal responsibility and accountability for underwriting decisions and permit us to monitor the performance of credit decision-making. An integral element of our credit risk management strategy is the establishment and adherence to concentration limits for our portfolio. We have established concentration limits that apply to our portfolio based on product types such as commercial real estate, consumer lending, and various categories of commercial and industrial lending. For more detail on our credit policies, see "Management's Discussion and Analysis of Financial Condition and Results of Operations-Financial Condition-Asset Quality."

Competition

The banking landscape in our primary markets of Colorado, Kansas, Missouri, New Mexico, Texas and Utah is highly competitive and quite fragmented, with many small banks having limited market share while the large out-of-state national and super-regional banks control the majority of deposits and profitable banking relationships. We compete actively with national, regional and local financial services providers, including: banks, thrifts, credit unions, mortgage companies, finance companies and financial technology ("FinTech") companies.

Competition among providers of financial products and services continues to increase, with consumers having the opportunity to select from a variety of traditional brick and mortar banks and nontraditional alternatives, such as online banks and FinTech companies. Competition among providers is based on many factors. The primary factors driving commercial and consumer competition for loans and deposits are interest rates, the fees charged, client service levels and the range of products and services offered. In addition, other competitive factors include the location and hours of our banking centers, the client service orientation of our associates and the availability of digital banking products and services. We believe the most important of these competitive factors that determine our success are our consumer bankers' focus on knowing their individual clients in order to best meet their financial needs and our business and commercial bankers' focus on small- and medium-sized businesses with an advisory approach that emphasizes understanding the client's business and offering a complete array of loan, deposit and treasury management products and services through our banking centers and our digital banking platform.

We recognize that there are banks and other financial services companies with which we compete that have greater financial resources, access to more capital and higher lending capacity and offer a wider range of deposit and lending instruments. However, given our existing capital base, we expect to be able to meet the majority of small- to medium-sized business and consumer credit and depository service needs.

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Associates

At December 31, 2018, we had 1,252 full-time associates and 80 part-time associates.

SUPERVISION AND REGULATION

The U.S. banking industry is highly regulated under federal and state law. Banking laws, regulations, and policies affect the operations of the Company and its subsidiary. Investors should understand that the primary objective of the U.S. bank regulatory regime is the protection of depositors, the Depositors Insurance Fund (“DIF”), and the banking system as a whole, not the protection of the Company’s shareholders.

As a bank holding company, we are subject to inspection, examination, supervision and regulation by the Board of Governors of the Federal Reserve System (the “Federal Reserve”). Our bank subsidiary, NBH Bank, is a Colorado state-chartered bank and a member of the Federal Reserve Bank of Kansas City. As such, NBH Bank is subject to examination, supervision and regulation by both the Colorado Division of Banking and the Federal Reserve. In addition, we expect that any additional businesses that we may invest in or acquire will be regulated by various state and/or federal banking regulators.

Banking statutes and regulations are subject to continual review and revision by Congress, state legislatures and federal and state regulatory agencies. A change in such statutes or regulations, including changes in how they are interpreted or implemented, could have a material effect on our business. In addition to laws and regulations, state and federal bank regulatory agencies may issue policy statements, interpretive letters and similar written guidance pursuant to such laws and regulations, which are binding on us and our subsidiaries.

Banking statutes, regulations and policies could restrict our ability to diversify into other areas of financial services, acquire depository institutions and make distributions or pay dividends on our equity securities. They may also require us to provide financial support to any bank that we control, maintain capital balances in excess of those desired by management and pay higher deposit insurance premiums as a result of a general deterioration in the financial condition of NBH Bank or other depository institutions we control.

The description below summarizes certain elements of the applicable bank regulatory framework. This description is not intended to describe all laws and regulations applicable to us and our subsidiaries. The description is qualified in its entirety by reference to the full text of the statutes, regulations, policies, interpretive letters and other written guidance that are described.

National Bank Holdings Corporation as a Bank Holding Company

As a bank holding company, we are subject to regulation under the Bank Holding Company Act (“BHCA”) and to supervision, examination, and enforcement by the Federal Reserve. Federal Reserve jurisdiction also extends to any company that we may directly or indirectly control, such as non-bank subsidiaries and other companies in which we have a controlling interest. While subjecting us to supervision and regulation, we believe that our status as a bank holding company (as opposed to being a non-controlling investor) broadens the investment opportunities available to us among public and private financial institutions.

The BHCA generally prohibits a bank holding company from engaging, directly or indirectly, in activities other than banking or managing or controlling banks, except for activities determined by the Federal Reserve to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Provisions of the Gramm-Leach-Bliley Financial Modernization Act of 1999 (the “GLB Act”) expanded the permissible activities of a bank holding company that qualifies as a financial holding company. Under the regulations implementing the GLB Act, a financial holding company may engage in additional activities that are financial in nature or incidental or complementary to financial activity. Those activities include, among other activities, certain insurance and securities activities. We have not yet determined whether it would be appropriate or advisable in the future to become a financial holding company.

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NBH Bank as a Colorado State-Chartered Bank

On December 31, 2015, our bank subsidiary, NBH Bank, N.A., converted to a Colorado state-chartered bank operating under the name of NBH Bank. NBH Bank is also a member of the Federal Reserve Bank of Kansas City. As such, NBH Bank is subject to examination, supervision and regulation by both the Colorado Division of Banking and the Federal Reserve. NBH Bank's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") through the DIF, in the manner and to the extent provided by law. As an insured bank, NBH Bank is subject to the provisions of the Federal Deposit Insurance Act, as amended (the "FDI Act"), and the FDIC's implementing regulations thereunder, and may also be subject to supervision and examination by the FDIC under certain circumstances.

Under the FDIC Improvement Act of 1991 ("FDICIA"), NBH Bank must submit financial statements prepared in accordance with GAAP and management reports signed by the Company's and NBH Bank's chief executive officer and chief accounting or financial officer concerning management's responsibility for the financial statements, an assessment of internal controls, and an assessment of NBH Bank's compliance with various banking laws and FDIC and other banking regulations. In addition, we must submit annual audit reports to federal regulators prepared by independent auditors. As allowed by regulations, we may use our audit report prepared for the Company to satisfy this requirement. We must provide our auditors with examination reports, supervisory agreements and reports of enforcement actions. The auditors must also attest to and report on the statements of management relating to the internal controls. FDICIA also requires that NBH Bank form an independent audit committee consisting of outside directors only, or that the Company's audit committee be entirely independent.

Broad Supervision, Examination and Enforcement Powers

The Federal Reserve, the FDIC and state bank regulators have broad regulatory, examination and enforcement authority over bank holding companies and banks, as applicable. Bank regulators regularly examine the operations of banks and bank holding companies. In addition, banks and bank holding companies are subject to periodic reporting and filing requirements.

Bank regulators have various remedies available if they determine that a banking organization has violated any law or regulation, that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of a banking organization's operations are unsatisfactory, or that the banking organization is operating in an unsafe or unsound manner. The bank regulators have the power to, among other things: enjoin "unsafe or unsound" practices, require affirmative actions to correct any violation or practice, issue administrative orders that can be judicially enforced, direct increases in capital, direct the sale of subsidiaries or other assets, limit dividends and distributions, restrict growth, assess civil monetary penalties, remove officers and directors, terminate deposit insurance, and appoint a conservator or receiver.

Engaging in unsafe or unsound practices or failing to comply with applicable laws, regulations and supervisory agreements could subject the Company, its subsidiaries and their respective officers, directors and institution-affiliated parties to the remedies described above and other sanctions. In addition, the FDIC could terminate NBH Bank's deposit insurance if it determined that the Bank's financial condition was unsafe or unsound or that the bank engaged in unsafe or unsound practices or violated an applicable rule, regulation, order or condition enacted or imposed by the bank's regulators.

Regulatory Capital Requirements

In General

As a bank holding company, we are subject to regulatory capital adequacy requirements implemented by the Federal Reserve. The federal banking agencies have risk-based capital adequacy guidelines intended to provide a measure of capital adequacy that reflects the degree of risk associated with a banking organization's operations. NBH Bank also is, and other depository institution subsidiaries that we may acquire or control in the future will be, subject to capital adequacy guidelines as implemented by the relevant federal banking agency. In the case of the Company and NBH Bank, applicable capital guidelines can be found in the Federal Reserve's Regulations H and Q.

The capital rules require banks and bank holding companies to maintain a minimum common equity tier 1 capital ratio of 4.5%, a total tier 1 capital ratio of 6%, a total capital ratio of 8%, and a leverage ratio of 4%. Effective as of January 1, 2019,

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bank holding companies are required to hold a capital conservation buffer of common equity tier 1 capital of 2.5% to avoid limitations on capital distributions and executive compensation payments.

Further, the federal bank regulatory agencies may, however, set higher capital requirements for an individual bank or when a bank's particular circumstances warrant. At this time, the bank regulatory agencies are more inclined to impose higher capital requirements in order to be considered well-capitalized, and future regulatory change could impose higher capital standards as a routine matter.

The Federal Reserve may also set higher capital requirements for holding companies whose circumstances warrant it. For example, holding companies experiencing internal growth or making acquisitions are expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets.

Prompt Corrective Action

The FDI Act requires federal bank regulatory agencies to take "prompt corrective action" with respect to FDIC-insured depository institutions that do not meet minimum capital requirements. A depository institution's treatment for purposes of the prompt corrective action provisions will depend upon how its capital levels compare to various capital measures and certain other factors, as established by regulation. Federal banking regulators are required to take various mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories. The severity of the action depends upon the capital category in which the institution is placed. Generally, subject to a narrow exception, the banking regulator must appoint a receiver or conservator for an institution that is critically undercapitalized. Our regulatory capital ratios and those of NBH Bank are in excess of the levels established for "well-capitalized" institutions.

Bank Holding Companies as a Source of Strength

The Federal Reserve requires that a bank holding company serve as a source of financial and managerial strength to each bank that it controls and, under appropriate circumstances, commit resources to support each such controlled bank. This support may be required at times when the bank holding company may not have the resources to provide the support. Because we are a bank holding company, the Federal Reserve views the Company (and its consolidated assets) as a source of financial and managerial strength for any controlled depository institutions.

Under the prompt corrective action provisions, if a controlled bank is undercapitalized, then the regulators could require its bank holding company to guarantee a capital restoration plan. In addition, if the Federal Reserve believes that a bank holding company's activities, assets or affiliates represent a significant risk to the financial safety, soundness or stability of a controlled bank, then the Federal Reserve could require the bank holding company to terminate the activities, liquidate the assets or divest the affiliates. The regulators may require these and other actions in support of controlled banks even if such action is not in the best interests of the bank holding company or its shareholders.

The Dodd-Frank Act codified the requirement that holding companies, like the Company, serve as a source of financial strength for their subsidiary depository institutions, by providing financial assistance to its insured depository institution subsidiaries in the event of financial distress. Under the source of strength doctrine, the Company could be required to provide financial assistance to NBH Bank should it experience financial distress.

In addition, capital loans by us to NBH Bank will be subordinate in right of payment to deposits and certain other indebtedness of NBH Bank. In the event of our bankruptcy, any commitment by us to a federal bank regulatory agency to maintain the capital of NBH Bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

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Dividend Restrictions

The Company is a legal entity separate and distinct from its subsidiaries. Because the Company’s consolidated net income consists largely of the net income of NBH Bank, the Company’s ability to pay dividends depends upon its receipt of dividends from its subsidiary. The ability of a bank to pay dividends and make other distributions is limited by federal and state law. The specific limits depend on a number of factors, including the bank’s type of charter, recent earnings, recent dividends, level of capital and regulatory status. As a member of the Federal Reserve System and a Colorado state-chartered bank, NBH Bank is subject to Regulation H and limitations under Colorado law with respect to the payment of dividends. Non-bank subsidiaries are also limited by certain federal and state statutory provisions and regulations covering the amount of dividends that may be paid in any given year.

The ability of a bank holding company to pay dividends and make other distributions can also be limited. The Federal Reserve has authority to prohibit a bank holding company from paying dividends or making other distributions. A bank holding company should not pay cash dividends that exceed its net income or that can only be funded in ways that weaken the bank holding company’s financial health, such as by borrowing. In addition, as a Delaware corporation, the Company is subject to certain limitations and restrictions under Delaware corporate law with respect to the payment of dividends and other distributions.

Depositor Preference

The FDI Act provides that, in the event of the “liquidation or other resolution” of an insured depository institution, the claims of depositors of the institution (including the claims of the FDIC as subrogee of insured depositors) and certain claims for administrative expenses of the FDIC as a receiver will have priority over other general unsecured claims against the institution. If our insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, nondeposit creditors, including us, with respect to any extensions of credit they have made to such insured depository institution.

Limits on Transactions with Affiliates

Federal law restricts the amount and the terms of both credit and non-credit transactions (generally referred to as “Covered Transactions”) between a bank and its non-bank affiliates. Covered Transactions with any single affiliate may not exceed 10% of the capital stock and surplus of the bank, and Covered Transactions with all affiliates may not exceed, in the aggregate, 20% of the bank’s capital and surplus. For a bank, capital stock and surplus refers to the bank’s tier 1 and tier 2 capital, as calculated under the risk-based capital guidelines, plus the balance of the allowance for credit losses excluded from tier 2 capital. The bank’s transactions with all of its affiliates in the aggregate are limited to 20% of the foregoing capital. In addition, in connection with Covered Transactions that are extensions of credit, the bank may be required to hold collateral to provide added security to the bank, and the types of permissible collateral may be limited. The Dodd-Frank Act generally enhances the restrictions on transactions with affiliates, including an expansion of what types of transactions are Covered Transactions to include credit exposures related to derivatives, repurchase agreements and securities lending arrangements and an increase in the amount of time for which collateral requirements regarding Covered Transactions must be satisfied. As of December 31, 2018, the Company did not have any outstanding Covered Transactions.

Regulatory Notice and Approval Requirements for Acquisitions of Control

We must generally receive federal bank regulatory approval before we can acquire an institution or business. Specifically, as a bank holding company, we must obtain prior approval of the Federal Reserve in connection with any acquisition that would result in the Company owning or controlling 5% or more of any class of voting securities of a bank or another bank holding company. Our ability to make investments in depository institutions will depend on our ability to obtain approval for such investments from the Federal Reserve. The Federal Reserve could deny our application based on the above criteria or other considerations. For example, we could be required to sell banking centers as a condition to receiving regulatory approval, which condition may not be acceptable to us or, if acceptable to us, may reduce the benefit of any acquisition.

Federal and state laws, including the BHCA and the Change in Bank Control Act, impose additional prior notice or approval requirements and ongoing regulatory requirements on any investor that seeks to acquire direct or indirect “control” of an

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FDIC-insured depository institution or bank holding company. Whether an investor "controls" a depository institution is based on all of the facts and circumstances surrounding the investment. As a general matter, an investor is deemed to control a depository institution or other company if the investor owns or controls 25% or more of any class of voting securities. Subject to rebuttal, an investor is presumed to control a depository institution or other company if the investor owns or controls 10% or more of any class of voting securities and either the depository institution or company is a public company or no other person will hold a greater percentage of that class of voting securities after the acquisition. If an investor's ownership of our voting securities were to exceed certain thresholds, the investor could be deemed to "control" us for regulatory purposes. This could subject the investor to regulatory filings or other regulatory consequences.

Anti-Money Laundering Requirements

Under federal law, including the Bank Secrecy Act and the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act"), certain types of financial institutions, including insured depository institutions, must maintain anti-money laundering programs that include established internal policies, procedures and controls; a designated compliance officer; an ongoing associate training program; and testing of the program by an independent audit function. Financial institutions are prohibited from entering into specified financial transactions and account relationships and must meet enhanced standards for due diligence, client identification, and recordkeeping, including in their dealings with non-U.S. financial institutions and non-U.S. clients. Financial institutions must take reasonable steps to conduct enhanced scrutiny of account relationships to guard against money laundering and to report any suspicious information maintained by financial institutions. Bank regulators routinely examine institutions for compliance with these obligations, and they must consider an institution's anti-money laundering compliance when considering regulatory applications filed by the institution, including applications for banking mergers and acquisitions. The regulatory authorities have imposed "cease and desist" orders and civil money penalty sanctions against institutions found to be violating these obligations.

Consumer Laws and Regulations

Banks and other financial institutions are subject to numerous laws and regulations intended to protect consumers in their transactions with banks. These laws include, among others, laws regarding unfair and deceptive acts and practices and usury laws, as well as the following consumer protection statutes: Truth in Lending Act, Truth in Savings Act, Electronic Funds Transfer Act, Flood Disaster Protection Act, Expedited Funds Availability Act, Equal Credit Opportunity Act, Fair and Accurate Credit Transactions Act, Fair Housing Act, Fair Credit Reporting Act, Fair Debt Collection Act, GLB Act, Home Mortgage Disclosure Act, Right to Financial Privacy Act and Real Estate Settlement Procedures Act.

Many states and local jurisdictions have consumer protection laws analogous, and in addition, to those listed above. These state and local laws regulate the manner in which financial institutions deal with clients when taking deposits, making loans or conducting other types of transactions.

The Consumer Financial Protection Bureau (the "CFPB") has broad rulemaking authority for a wide range of consumer financial laws that apply to all banks. The CFPB is authorized to issue rules for both bank and nonbank companies that offer consumer financial products and services, subject to consultation with the prudential banking regulators. In general, however, banks with assets of $10 billion or less, such as NBH Bank, will continue to be examined for consumer compliance by their primary bank regulator.

Much of the CFPB's rulemaking has focused on mortgage lending and servicing, including an important rule requiring lenders to ensure that prospective buyers have the ability to repay their mortgages. Other areas of current CFPB focus include consumer protections for prepaid cards, payday lending, debt collection, overdraft services and privacy notices. The CFPB has been particularly active in issuing rules and guidelines concerning residential mortgage lending and servicing, issuing numerous rules and guidance related to residential mortgages. Perhaps the most significant of these guidelines are the "Ability-to-Repay and Qualified Mortgage Standards under the Truth in Lending Act" portions of Regulation Z and the Know Before You Owe guidelines. Under the Dodd-Frank Act, creditors must make a reasonable and good faith determination, based on verified and documented information, that the consumer has a reasonable "ability to repay" a residential mortgage according to its terms as well as clearly and concisely disclose the terms and costs associated with these loans.

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The CFPB has actively issued enforcement actions against both large and small entities and to entities across the entire financial services industry. The CFPB has relied upon “unfair, deceptive, or abusive acts” prohibitions as its primary enforcement tool. However, the CFPB and DOJ continue to be focused on fair lending in taking enforcement actions against banks with renewed emphasis on alleged redlining practices. Failure to comply with these laws and regulations could give rise to regulatory sanctions, client rescission rights, actions by state and local attorneys general and civil or criminal liability.

The Community Reinvestment Act

The Community Reinvestment Act (“CRA”) is intended to encourage banks to help meet the credit needs of their entire communities, including low- and moderate-income neighborhoods, consistent with safe and sound operations. The regulators examine banks and assign each bank a public CRA rating. The CRA then requires bank regulators to take into account the bank’s record in meeting the needs of its community when considering certain applications by a bank, including applications to establish a banking center or to conduct certain mergers or acquisitions. The Federal Reserve is required to consider the CRA records of a bank holding company’s controlled banks when considering an application by the bank holding company to acquire a bank or to merge with another bank holding company.

When we apply for regulatory approval to make certain investments, the regulators will consider the CRA record of the target institution and our depository institution subsidiary. An unsatisfactory CRA record could substantially delay approval or result in denial of an application.

Reserve Requirements

Pursuant to regulations of the Federal Reserve, all banks are required to maintain average daily reserves at mandated ratios against their transaction accounts. In addition, reserves must be maintained on certain non-personal time deposits. These reserves must be maintained in the form of vault cash or in an account at a Federal Reserve Bank.

Deposit Insurance Assessments

All of a depositor’s accounts at an insured bank, including all non-interest bearing transaction accounts, are insured by the FDIC up to $250,000. FDIC-insured banks are required to pay deposit insurance premiums to the FDIC. The FDIC has adopted a risk-based assessment system whereby FDIC-insured depository institutions pay insurance premiums at rates based on their risk classification. An institution’s risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to the regulators.

Assessments are based on an institution's average total consolidated assets less average tangible equity (subject to risk-based adjustments that would further reduce the assessment base for custodial banks). NBH Bank may be able to pass part or all of this cost on to its clients, including in the form of lower interest rates on deposits, or fees to some depositors, depending on market conditions.

The FDIC may terminate a depository institution's deposit insurance upon a finding that the institution's financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices or has violated any applicable rule, regulation, order or condition enacted or imposed by the institution's regulatory agency. If deposit insurance for a banking business we invest in or acquire were to be terminated, that would have a material adverse effect on that banking business and potentially on the Company as a whole.

Interstate Banking

Under the Riegle-Neal Interstate Banking and Branching Efficiency Act (the "Riegle-Neal Act"), a bank holding company may acquire banks in states other than its home state, subject to any state requirement that the bank has been organized and operating for a minimum period of time, not to exceed five years, and the requirement that the bank holding company not control, prior to or following the proposed acquisition, more than 10% of the total amount of deposits of insured depository institutions nationwide or, unless the acquisition is the bank holding company's initial entry into the state, more than 30% of such deposits in the state (or such lesser or greater amount set by the state). Bank holding companies must be well capitalized

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and well managed, not merely adequately capitalized and adequately managed, in order to acquire a bank located outside of the bank holding company's home state.

The Riegle-Neal Act also authorizes banks to merge across state lines, thereby creating interstate banking centers. A national or state bank, with the approval of its regulator, may open a de novo banking center in any state if the law of the state in which the banking center is proposed would permit the establishment of the banking center if the bank were a bank chartered in that state.

The Federal Reserve, the Office of the Comptroller of the Currency ("OCC"), and FDIC jointly issued a final rule, effective October 10, 1977, that adopted uniform regulations implementing Section 109 of the Riegle-Neal Act. Section 109 prohibits any bank from establishing or acquiring a branch or branches outside of its home state primarily for the purpose of deposit production. Congress enacted Section 109 to ensure that interstate branches would not take deposits from a community without the bank reasonably helping to meet the credit needs of that community.

Changes in Laws, Regulations or Policies

Congress and state legislatures may introduce from time to time measures or take actions that would modify the regulation of banks or bank holding companies. In addition, federal and state regulatory agencies also periodically propose and adopt changes to their regulations or change the manner in which existing regulations are applied. Such changes could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks and other financial institutions, all of which could affect our investment opportunities and our assessment of how attractive such opportunities may be. We cannot predict whether potential legislation will be enacted and, if enacted, the effect that it or any implementing regulations would have on our business, results of operations, liquidity or financial condition.

2018 Regulatory Reform

In May 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act ("EGRRCPA"), was enacted to modify or remove certain financial reform rules and regulations, including some of those implemented under the Dodd-Frank Act. While EGRRCPA maintains most of the regulatory structure established by the Dodd-Frank Act, it amends certain aspects of the regulatory framework for small depository institutions with assets of less than $10 billion and for large banks with assets of more than $50 billion. Many of these changes could result in meaningful regulatory changes for community banks such as NBH Bank, and their holding companies.

EGRRCPA, among other matters, expands the definition of qualified mortgages which may be held by a financial institution and simplifies the regulatory capital rules for financial institutions and their holding companies with total consolidated assets of less than $10 billion by instructing the federal banking regulators to establish a single “Community Bank Leverage Ratio” of between 8 and 10 percent (currently proposed at 9 percent). Any qualifying depository institution or its holding company that exceeds the “community bank leverage ratio” will be considered to have met generally applicable leverage and risk-based regulatory capital requirements and any qualifying depository institution that exceeds the new ratio will be considered to be “well capitalized” under the prompt corrective action rules. A major effect of this change is to exclude such holding companies from the minimum capital requirements of the Dodd-Frank Act. In addition, EGRRCPA includes regulatory relief for community banks regarding the Volcker Rule (proprietary trading prohibitions), mortgage disclosures and risk weights for certain high-risk commercial real estate loans.

The OCC, the Federal Reserve Board and the FDIC also adopted a rule providing banking organizations with the option to phase in over a three-year period the day-one regulatory capital impact that may result from the adoption of ASU 2016-13,

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Measurement of Credit Losses on Financial Instruments, the new current expected credit loss methodology accounting under U. S. GAAP. See further discussion of ASU 2016-13 in note 3.

It is difficult at this time to predict when or how any new standards under EGRRCPA or other recent rules will ultimately be applied to us or what specific impact it and the yet-to-be-finalized implementing rules and regulations will have on community banks.

More Information

Our website is www.nationalbankholdings.com. We make available free of charge, through our website, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the U.S. Securities and Exchange Commission ("SEC"). The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov.

Item 1A. RISK FACTORS

Risks Relating to Our Banking Operations

We are still a relatively young Company with a limited and complex operating history from which investors can evaluate our past financial and operating performance.

Because our banking operations began in late 2010, and because our acquisitions in 2010 and 2011 were of failed or troubled banks, we have a limited operating history upon which investors can evaluate our recent performance to historical performance. The business models and experiences of the depository institutions we have acquired to date, specifically our 2010 and 2011 acquisitions, may not be reflective of our plans. More importantly, because a portion of the loans and OREO we acquired were marked to fair value at the time of our acquisitions, we believe that the historical financial results of the acquisitions are less useful to an evaluation of our future prospects and financial and operating performance.

Certain other factors may also make it difficult for investors to evaluate our future prospects and financial and operating performance, including, among others:

our current asset mix is not fully representative of our anticipated future asset mix, which may change as we continue to undertake organic loan origination and banking activities and pursue future acquisitions;
the income we report from certain acquired assets due to loan discounts and accretable yield may be higher than the returns available in the current market and, if we are unable to make new performing loans and acquire other performing assets in sufficient volume, we may be unable to generate the earnings necessary to implement our growth strategy;
our excess cash reserves

and liquid investment securities portfolio may not be representative of our future cash position; and

our historical cost structure and capital expenditure requirements are not necessarily reflective of our anticipated cost structure and capital spending as we continue to identify efficiencies and operate our organic banking platform.

Changes in general business and economic conditions could materially and adversely affect us.

Our business and operations are sensitive to general business and economic conditions in the United States and in our core markets of Colorado, the greater Kansas City region, New Mexico, Texas and Utah. If the economies in our core markets, or the U.S. economy more generally, experience worsening economic conditions, including industry-specific conditions, we could be materially and adversely affected. Weak economic conditions may be characterized by deflation, fluctuations in debt and equity capital markets, including a lack of liquidity and/or depressed prices in the secondary market for mortgage loans, increased delinquencies on loans, residential and commercial real estate price declines and lower home sales and commercial activity, and further or prolonged pressure on energy prices. All of these factors would be detrimental to our business. Our business is significantly affected by monetary and related policies of the U.S. federal government, its agencies and

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government-sponsored entities. Changes in any of these policies are influenced by macroeconomic conditions and other factors that are beyond our control and could have a material adverse effect on us.

Changes in the assumptions underlying our acquisition method of accounting, or other significant accounting estimates could affect our financial information and have a material adverse effect on us.

A material portion of our financial results is based on, and subject to, significant assumptions and subjective judgments. As a result of our acquisitions, our financial information is heavily influenced by the application of the acquisition method of accounting and was heavily influenced in prior periods by loss share accounting. Both methodologies require us to make complex assumptions, and these assumptions materially affect our financial results. As such, any financial information generated through the use of the acquisition method of accounting or loss share accounting is subject to modification or change. If our assumptions are incorrect and we change or modify our assumptions, it could have a material adverse effect on us or our previously reported results. Additionally, a change in our accounting estimates, such as our ability to realize deferred tax assets, the need for a valuation allowance or the recoverability of the goodwill recorded at the time of our acquisitions, could have a material adverse effect on our financial results.

Our business is highly susceptible to credit risk and fluctuations in the value of real estate and other collateral securing such credit.

As a lender, we are exposed to the risk that our clients will be unable to repay their loans according to their terms and that the collateral securing the payment of their loans (if any) may not be sufficient to assure repayment. The risks inherent in making any loan include risks with respect to the ability of borrowers to repay their loans and, if applicable, the period of time over which the loan is repaid, risks relating to proper loan underwriting and guidelines, risks resulting from changes in economic and industry conditions, risks inherent in dealing with individual borrowers and risks resulting from uncertainties as to the future value of collateral. Similarly, we have credit risk embedded in our securities portfolio. Our credit standards, procedures and policies may not prevent us from incurring substantial credit losses. A decline in residential real estate market prices and reduced levels of home sales, could adversely affect the value of collateral securing mortgage loans resulting in greater charge-offs in future periods, as well as adversely impact mortgage loan originations and gains on sale of mortgage loans. A decline in commercial real estate values would likewise adversely affect the value of collateral securing certain commercial loans and result in greater charge-offs in future periods. Declines in real estate values and home sales volumes, and financial stress on borrowers as a result of job losses or other factors, could have further adverse effects on borrowers that result in higher delinquencies and greater charge-offs in future periods, which could materially and adversely affect us.

We depend on our executive officers and key personnel to implement our strategy and could be harmed by the loss of their services.

The execution of our strategy depends in large part on the skills of our executive management team and our ability to motivate and retain these and other key personnel, including key personnel added through mergers and acquisitions. Accordingly, the loss of service of one or more of our executive officers or key personnel could reduce our ability to successfully implement our growth strategy and materially and adversely affect us. Our success also depends on the experience of our banking center managers and relationship managers and on their relationships with the clients and communities they serve. The loss of these key personnel could negatively impact our banking operations. The loss of key senior personnel, or the inability to recruit and retain qualified personnel in the future, could have a material adverse effect on us.

Our allowance for loan losses and fair value adjustments may prove to be insufficient to absorb losses inherent in our loan or OREO portfolio.

We maintain an allowance for loan losses (“ALL”), which is a reserve established through a provision for loan losses charged to expense, which we believe is appropriate to provide for probable losses inherent in our loan portfolio. The amount of this allowance is determined by our management through periodic reviews.

The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks and future trends, all of which may undergo material

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changes. Changes in economic conditions affecting borrowers, new information regarding our loans, identification of additional problem loans by us and other factors, both within and outside of our control, may require an increase in the allowance for loan losses. If the real estate markets deteriorate, we expect that we will experience increased delinquencies and credit losses, particularly with respect to construction, land development and land loans. In addition, our regulators periodically review our allowance for loan losses and may require an increase in the allowance for loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. In addition, if charge-offs in future periods exceed the allowance for loan losses, we will need additional provisions to increase the allowance for loan losses. Any increases in the allowance for loan losses will result in a decrease in net income and capital and may have a material adverse effect on us.

We hold and acquire an amount of OREO from time to time, which may lead to volatility in operating expenses and vulnerability to declines in real property values.

When necessary, we foreclose on and take title to the real estate serving as collateral for our loans as part of our business. Real estate that we own but do not use in the ordinary course of our operations is referred to as OREO property. Higher OREO balances as a result of our acquisitions have led to greater expenses as we incur costs to manage and dispose of the properties. We expect that our earnings will continue to be negatively affected by various expenses associated with OREO, including personnel costs, insurance and taxes, completion and repair costs, valuation adjustments and other expenses associated with property ownership, as well as by the funding costs associated with OREO assets. We evaluate OREO properties periodically and write down the carrying value of the properties if the results of our evaluation require it. The expenses associated with OREO and any further OREO write-downs could have a material adverse effect on us.

We are subject to environmental liability risk associated with lending activities.

A significant portion of our loan portfolio is secured by real property, and we could become subject to environmental liabilities with respect to one or more of these properties. During the ordinary course of business, we may foreclose on and take title to properties securing defaulted loans. There is a risk that hazardous or toxic substances could be found on these properties, and we may be liable for remediation costs, as well as for personal injury and property damage, civil fines and criminal penalties regardless of when the hazardous conditions or toxic substances first affected any particular property. Environmental laws may require us to incur substantial expenses to address unknown liabilities and may materially reduce the affected property’s value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Although we have policies and procedures to perform an environmental review before initiating any foreclosure action on nonresidential real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on us.

The expanding body of federal, state and local regulation of loan servicing, collections or other aspects of our business may increase the cost of compliance and the risks of noncompliance.

We service the loans held on our balance sheet, and loan servicing is subject to extensive regulation by federal, state and local governmental authorities as well as to various laws and judicial and administrative decisions imposing requirements and restrictions on those activities. The volume of new or modified laws and regulations has increased in recent years and, in addition, some individual municipalities have begun to enact laws that restrict loan servicing activities including delaying or temporarily preventing foreclosures or forcing the modification of certain mortgages. If regulators impose new or more restrictive requirements, we may incur additional significant costs to comply with such requirements which may further adversely affect us. In addition, our failure to comply with these laws and regulations could possibly lead to: civil and criminal liability; damage to our reputation in the industry; fines and penalties and litigation, including class action lawsuits; and administrative enforcement actions. Any of these outcomes could materially and adversely affect us.

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Small Business Administration lending is an important and growing part of our business. Our SBA lending program is dependent upon the U.S. federal government, and we face specific risks associated with originating SBA loans.

As an approved participant in the SBA Preferred Lender's Program (an "SBA Preferred Lender"), we enable our clients to obtain SBA loans without being subject to the potentially lengthy SBA approval process necessary for lenders that are not SBA Preferred Lenders. The SBA periodically reviews the lending operations of participating lenders to assess, among other things, whether the lender exhibits prudent risk management. When weaknesses are identified, the SBA may request corrective actions or impose enforcement actions, including revocation of the lender's SBA Preferred Lender status.

If we were to lose our status as an SBA Preferred Lender, we may lose new opportunities, and a limited number of existing SBA loans, to lenders who are SBA Preferred Lenders. In addition, any changes to the SBA program, including changes to the level of guarantee provided by the federal government on SBA loans, changes to program-specific rules impacting volume eligibility under the guaranty program, as well as changes to the program amounts authorized by Congress, may have a material adverse effect on our SBA lending program. In addition, any default by the U.S. government on its obligations or any prolonged government shutdown could, among other things, impede our ability to originate SBA loans or collect on guarantees in the event a borrower defaults on its obligations, and could materially adversely affect our SBA lending business.

If we violate U.S. Department of Housing and Urban Development ("HUD") lending requirements or if the federal government shuts down or otherwise fails to fully fund the federal budget, our commercial FHA origination business could be adversely affected.

We originate, sell and service loans under FHA insurance programs, and make certifications regarding compliance with applicable requirements and guidelines. If we were to violate these requirements and guidelines, or other applicable laws, or if the FHA loans we originate show a high frequency of loan defaults, we could be subject to monetary penalties and indemnification claims, and could be declared ineligible for FHA programs. Any inability to engage in our commercial FHA origination and servicing business would lead to a decrease in our net income.

In addition, disagreement over the federal budget has caused the U.S. federal government to shut down for periods of time in recent years. Federal governmental entities, such as HUD, that rely on funding from the federal budget, could be adversely affected in the event of a government shutdown, which could have a material adverse effect on our commercial FHA origination business and our results of operations.

The fair value of our investment securities can fluctuate due to market conditions outside of our control.

We have historically taken a conservative investment strategy with our securities portfolio, with concentrations of securities that are primarily backed by government sponsored enterprises. In the future, we may seek to increase yields through different strategies, which may include a greater percentage of corporate securities and structured credit products. Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. These factors include, but are not limited to, rating agency actions in respect of the securities, defaults by the issuer or with respect to the underlying securities, and changes in market interest rates and instability in the capital markets. These factors, among others, could cause other-than-temporary impairments and realized and/or unrealized losses in future periods and declines in other comprehensive income, which could have a material adverse effect on us. The process for determining whether impairment of a security is other-than-temporary usually requires complex, subjective judgments about the future financial performance and liquidity of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security.

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We face significant competition from other financial institutions and financial services providers, which may materially and adversely affect us.

Consumer and commercial banking is highly competitive. Our markets contain a large number of community and regional banks as well as a significant presence of the country's largest commercial banks. We compete with other state and national financial institutions, including savings and loan associations, savings banks and credit unions, for deposits and loans. In addition, we compete with financial intermediaries, such as consumer finance companies, mortgage banking companies, insurance companies, securities firms, mutual funds and several government agencies, as well as major retailers, in providing various types of loans and other financial services. Some of these competitors have a long history of successful operations in our markets, greater ties to local businesses and more expansive banking relationships, as well as better established depositor bases. Some of our competitors also have greater resources and access to capital and possess an advantage by being capable of maintaining numerous banking locations in more convenient sites, operating more ATMs and conducting extensive promotional and advertising campaigns or operating a more developed internet platform. Competitors may also exhibit a greater tolerance for risk and behave more aggressively with respect to pricing in order to increase their market share. In addition, the effects of disintermediation can also impact the banking business because of the fast growing body of FinTech companies that use software to deliver mortgage lending, payment services and other financial services.

Our ability to compete successfully depends on a number of factors, including, among others:

- the ability to develop, maintain and build upon long-term client relationships based on quality service, effective and efficient products and services, high ethical standards and safe and sound assets;
- the scope, relevance and pricing of products and services offered to meet client needs and demands;
- the rate at which we introduce new products and services relative to our competitors;
- the ability to attract and retain highly qualified associates to operate our business;
- the ability to expand our market position;
- client satisfaction with our level of service;
- the ability to invest in new technologies;
- the ability to operate our business effectively and efficiently; and
- industry and general economic trends.

Failure to perform in any of these areas could significantly weaken our competitive position, which could materially and adversely affect us.

We may not be able to meet the cash flow requirements of deposit withdrawals and other business needs unless we maintain sufficient liquidity.

We require liquidity to make loans and to repay deposit and other liabilities as they become due or are demanded by clients. We principally depend on checking, savings and money market deposit account balances and other forms of client deposits as our primary source of funding for our lending activities. As a result of a decline in overall depositor confidence, an increase in interest rates paid by competitors, general interest rate levels, higher returns being available to clients on alternative investments and general economic conditions, a substantial number of our clients could withdraw their bank deposits with us from time to time, resulting in our deposit levels decreasing substantially, and our cash on hand may not be able to cover such withdrawals and our other business needs, including amounts necessary to operate and grow our business. This would require us to seek third party funding or other sources of liquidity, such as asset sales. Our access to third party funding sources, including our ability to raise funds through the issuance of additional shares of our common stock or other equity or equity-related securities, incurrence of debt, and federal funds purchased, may be impacted by our financial strength, performance and prospects and may also be impaired by factors that are not specific to us, such as a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry, all of which may make potential funding sources more difficult to access, less reliable and more expensive. We may not have access to third party funding in sufficient amounts on favorable terms, or the ability to undertake asset sales or access other sources of liquidity, when needed, or at all, which could materially and adversely affect us.

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Like other financial services institutions, our asset and liability structures are monetary in nature. Such structures are affected by a variety of factors, including changes in interest rates, which can impact the value of financial instruments held by us.

Like other financial services institutions, we have asset and liability structures that are essentially monetary in nature and are directly affected by many factors, including domestic and international economic and political conditions, broad trends in business and finance, legislation and regulation affecting the national and international business and financial communities, monetary and fiscal policies, inflation, currency values, market conditions, the availability and terms (including cost) of short-term or long-term funding and capital, the credit capacity or perceived creditworthiness of clients and counterparties and the level and volatility of trading markets. Such factors can impact clients and counterparties of a financial services institution and may impact the value of financial instruments held by a financial services institution.

Our earnings and cash flows largely depend upon the level of our net interest income, which is the difference between the interest income we earn on loans, investments and other interest earning assets, and the interest we pay on interest bearing liabilities, such as deposits and borrowings. Because different types of assets and liabilities may react differently and at different times to market interest rate changes, changes in interest rates can increase or decrease our net interest income. When interest-bearing liabilities mature or reprice more quickly than interest earning assets in a period, an increase in interest rates would reduce net interest income. Similarly, when interest earning assets mature or reprice more quickly, and because the magnitude of repricing of interest earning assets is often greater than interest bearing liabilities, falling interest rates would reduce net interest income.

Accordingly, changes in the level of market interest rates affect our net yield on interest earning assets and liabilities, loan and investment securities portfolios and our overall results. Changes in interest rates may also have a significant impact on any future loan origination revenues. Historically, there has been an inverse correlation between the demand for loans and interest rates. Loan origination volume and revenues usually decline during periods of rising or high interest rates and increase during periods of declining or low interest rates. Changes in interest rates also have a significant impact on the carrying value of a significant percentage of the assets, both loans and investment securities, on our balance sheet. We may incur debt in the future and that debt may also be sensitive to interest rates and any increase in interest rates could materially and adversely affect us. Interest rates are highly sensitive to many factors beyond our control, including general economic conditions and policies of various governmental and regulatory agencies, particularly the Federal Reserve. Changes in the Federal Reserve's interest rate policies or other changes in monetary policies and economic conditions could materially and adversely affect us.

Reforms to and uncertainty regarding LIBOR and certain other indices may adversely affect our business.

The U.K. Financial Conduct Authority announced in July 2017 that it will no longer persuade or require banks to submit rates for LIBOR after 2021. This announcement, in conjunction with financial benchmark reforms more generally and changes in the interbank lending markets, have resulted in uncertainty about the future of LIBOR and certain other rates or indices that are used as interest rate “benchmarks.” These actions and uncertainties may have the effect of triggering future changes in the rules or methodologies used to calculate benchmarks or lead to the discontinuance or unavailability of benchmarks. Uncertainty as to the nature and effect of such reforms and actions, and the potential or actual discontinuance of benchmark quotes, may adversely affect our financial condition or results of operations, including the value of, return on and trading market for our financial assets and liabilities that are based on or are linked to benchmarks, including any LIBOR-based securities, loans and derivatives. Furthermore, there can be no assurances that we and other market participants will be adequately prepared for an actual discontinuation of benchmarks, including LIBOR, that may have an unpredictable impact on contractual mechanics (including, but not limited to, interest rates to be paid to or by us), which may also result in adversely affecting our financial condition or results of operations.

We are dependent on our information technology and telecommunications systems and third-party providers, and systems failures or interruptions could have a material adverse effect on us.

Our business is highly dependent on the successful and uninterrupted functioning of our information technology and telecommunications systems and third-party providers. We outsource many of our major systems, such as data processing, loan servicing and deposit processing systems. The failure of these systems, or the termination of a third-party software

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license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such services exceeds capacity or such third-party systems fail or experience interruptions. If significant, sustained or repeated, a system failure or service denial could compromise our ability to operate effectively, damage our reputation, result in a loss of client business, and/or subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on us.

A failure in or breach of our security systems or infrastructure, or those of our third-party providers, could result in financial losses to us or in the disclosure or misuse of confidential or proprietary information, including client information, and could have a material adverse effect on us, or noncompliance with evolving privacy and data protection laws could have a material adverse effect on us.

As a financial institution, we may be the target of fraudulent activity that may result in financial losses to us or our clients, privacy breaches against our clients or damage to our reputation. Such fraudulent activity may take many forms, including check fraud, electronic fraud, wire fraud, phishing, unauthorized intrusion into or use of our systems, ATM skimming or jackpotting, and other dishonest acts. We provide our clients with the ability to bank remotely, including via online, mobile and phone. The secure transmission of confidential information over the internet and other remote channels is a critical element of remote banking.

Our network could be vulnerable to unauthorized access, computer viruses, phishing schemes, ransomware and other security breaches. We may be required to spend significant capital and other resources to protect against the threat of security breaches and computer viruses, or to alleviate problems caused by security breaches or viruses. Given the increasingly high volume of our transactions, certain errors may be repeated or compounded before they can be discovered and rectified. To the extent that our activities or the activities of our clients involve the storage and transmission of confidential information, security breaches and viruses could expose us to reputational damage, claims, regulatory scrutiny, litigation and other possible liabilities. Any inability to prevent security breaches or computer viruses could also cause existing clients to lose confidence in our systems and could materially and adversely affect us. Our risk and exposure to these matters remains heightened because of the evolving nature and complexity of the threats from organized cybercriminals and hackers, and our plans to continue to provide digital banking products and services to our clients.

Information security risks for financial institutions like us have increased recently in part because of new technologies, the use of the internet and telecommunications technologies (including mobile devices) to conduct financial and other business transactions and the increased sophistication and activities of organized crime, perpetrators of fraud, hackers, terrorists and others. In addition to cyber-attacks or other security breaches involving the theft of sensitive and confidential information, hackers have engaged in attacks against large financial institutions, particularly denial of service attacks, that are designed to disrupt key business services, such as client-facing web sites. We are not able to anticipate or implement effective preventive measures against all security breaches of these types, especially because the techniques used change frequently and because attacks can originate from a wide variety of sources. We employ detection and response mechanisms designed to contain and mitigate security incidents, but early detection may be thwarted by sophisticated attacks and malware designed to avoid detection.

We also face risks related to cyber-attacks and other security breaches in connection with credit or debit card, including ATM-related, transactions that typically involve the transmission of sensitive information regarding our clients through various third parties, including merchant acquiring banks, payment processors, payment card networks (e.g., Visa, MasterCard) and our processors. Some of these parties have in the past been the target of security breaches and cyber-attacks, and because the transactions involve third parties and environments such as the point of sale that we do not control or secure, future security breaches or cyber-attacks affecting any of these third parties could impact us through no fault of our own, and in some cases we may have exposure and suffer losses for breaches or attacks relating to them. We also rely on numerous other third party service providers to conduct other aspects of our business operations and face similar risks relating to them. While we regularly conduct security assessments on these third parties, we cannot be sure that their information security protocols are sufficient to withstand a cyber-attack or other security breach.

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Our growth and expansion may also subject us to evolving laws and regulations regarding privacy and data protections, including the EU General Data Protection Regulation (“GDPR”) and the California Consumer Privacy Act of 2018. It is possible that these laws may be interpreted and applied by various jurisdictions in a manner inconsistent with our current or future practices, or that is inconsistent with one another. If personal, confidential or proprietary information of customers or clients in our possession is mishandled or misused, we may face regulatory, reputational and operational risks which could have an adverse effect on our financial condition and results of operations.

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 (“MSR”) 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 a 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, 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

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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.

Risks Relating to our Growth Strategy

We may not be able to effectively manage our growth or other expansionary activity.

Our expansionary activity, whether through de novo branching, acquisitions or organic growth has placed, and it may continue to place, significant demands on our operations and management. The success of our expansionary activity is dependent upon our ability to:

- continue to implement and improve our operational, credit, financial, legal, management and other internal risk controls and processes and our reporting systems and procedures in order to manage a growing number of client relationships;

scale our technology platform;

integrate our acquisitions and develop consistent policies throughout the various lines of businesses;

attract and retain the client base; and

attract and retain management talent.

We may not successfully implement improvements to, or integrate, our management information and control systems, procedures and processes in an efficient or timely manner and may discover deficiencies in existing systems and controls. In particular, our controls and procedures must be able to accommodate an increase in loan volume in various markets and the infrastructure that comes with new banking centers and banks. Thus, our growth strategy may divert management from our existing franchises and may require us to incur additional expenditures to expand our administrative and operational infrastructure and, if we are unable to effectively manage and grow our financial services franchise, we could be materially and adversely affected. In addition, if we are unable to manage future expansion in our operations, we may experience compliance and operational problems, have to slow the pace of growth, or have to incur additional expenditures beyond current projections to support such growth, any one of which could materially and adversely affect us.

Our acquisitions generally will require regulatory approvals, and failure to obtain them would restrict our growth.

We intend to complement and expand our business by pursuing strategic acquisitions of financial services franchises. Generally, any acquisition of target financial institutions, banking centers or other banking assets by us will require approval by, and cooperation from, a number of governmental regulatory agencies, including the Federal Reserve and Colorado Division of Banking. In acting on applications, our banking regulators consider, among other factors:

- the effect of the acquisition on competition;
- the financial condition, liquidity, results of operations, capital levels and future prospects of the applicant and the bank(s) involved;
- the quantity and complexity of previously consummated acquisitions;
- the managerial resources of the applicant and the bank(s) involved;
- the convenience and needs of the community, including the record of performance under the Community Reinvestment Act (which we refer to as the "CRA"); and
- the effectiveness of the applicant in combating money laundering activities.

Such regulators could deny our application based on the above criteria or other considerations, which would restrict our growth, or the regulatory approvals may not be granted on terms that are acceptable to us. For example, we could be required

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to sell banking centers as a condition to receiving regulatory approvals, and such a condition may not be acceptable to us or may reduce the benefit of any acquisition. In addition, prior to the submission of an application our regulators could discourage us from pursuing strategic acquisitions or indicate that regulatory approvals may not be granted on terms that would be acceptable to us, which could have the same effect of restricting our growth or reducing the benefit of any acquisitions.

The success of future transactions will depend on our ability to successfully identify and consummate acquisitions of financial services franchises that meet our investment objectives. Because of the intense competition for acquisition opportunities and the limited number of potential targets, we may not be able to successfully consummate acquisitions on attractive terms.

There are significant risks associated with our strategy to identify and successfully consummate acquisitions. There are a limited number of acquisition opportunities, and we expect to encounter intense competition from other banking organizations competing for acquisitions and also from other investment funds and entities looking to acquire financial institutions and financial services franchises. Many of these entities are well established and have extensive experience in identifying and consummating acquisitions directly or through affiliates. Many of these competitors possess ongoing banking operations with greater financial, technical, human and other resources and access to capital than we do, which could limit the acquisition opportunities we pursue. Our competitors may be able to achieve greater cost savings, through consolidating operations or otherwise, than we could. These competitive limitations give others an advantage in pursuing certain acquisitions. In addition, increased competition may drive up the prices for the acquisitions we pursue and make the other acquisition terms more onerous, which would make the identification and successful consummation of those acquisitions less attractive to us. Competitors may be willing to pay more for acquisitions than we believe are justified, which could result in us having to pay more for them than we prefer or to forego the opportunity. The trading price of our common stock and of the stock of other potential acquirers may affect our ability to offer a competitive price for acquisitions where stock is proposed as acquisition consideration. As a result of the foregoing, we may be unable to successfully identify and consummate acquisitions on attractive terms, or at all, that are necessary to grow our business.

To the extent that we are unable to identify and consummate attractive acquisitions, or continue to increase loans through organic loan growth, we may be unable to successfully implement our growth strategy, which could materially and adversely affect us.

We intend to continue to grow our business through strategic acquisitions of financial services franchises coupled with organic loan growth. Previous availability of attractive acquisition targets may not be indicative of future acquisition opportunities, and we may be unable to identify any acquisition targets that meet our investment objectives. As our acquired loan portfolio, which generally produces higher yields than our originated loans due to loan discounts and accretable yield, is paid down, we expect downward pressure on our income to the extent that the runoff is not replaced with other high-yielding loans. As a result of the foregoing, if we are unable to replace loans in our existing portfolio with comparable high-yielding loans, we could be materially and adversely affected. We could also be materially and adversely affected if we choose to pursue riskier higher-yielding loans that fail to perform.

Projected operating results for businesses acquired by us may be inaccurate and may vary significantly from actual results. To the extent that we make acquisitions that involve distressed assets, we may not be able to realize the value we predict from these assets or make sufficient provision for future losses in the value of, or accurately estimate the future writedowns to be taken in respect of, these assets.

We will generally establish the pricing of transactions and the capital structure of financial services franchises to be acquired by us on the basis of financial projections for such financial services franchises. In general, projected operating results will be based on the judgment of our management team. In all cases, projections are only estimates of future results that are based upon assumptions made at the time that the projections are developed and the projected results may vary significantly from actual results. General economic, political and market conditions can have a material adverse impact on the reliability of such projections. In the event that the projections made in connection with our acquisitions, or future projections with respect to new acquisitions, are not accurate, such inaccuracies could materially and adversely affect us.

Delinquencies and losses in the loan portfolios and other assets we acquire may exceed our initial forecasts developed during our due diligence investigation prior to their acquisition and, thus, produce lower returns than we believed our purchase price

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supported. Furthermore, our due diligence investigation may not reveal all material issues. If, during the diligence process, we fail to identify all relevant issues related to an acquisition, we may be forced to later write down or write off assets, restructure our operations, or incur impairment or other charges that could result in significant losses. Any of these events could materially and adversely affect us. Economic conditions may create an uncertain environment with respect to asset valuations and there is no certainty that we will be able to sell assets or institutions after we acquire them if we determine it would be in our best interests to do so. In addition, there may be limited liquidity for certain asset classes we hold, including commercial real estate and construction and development loans. Any of the foregoing matters could materially and adversely affect us.

We face additional risks due to our increased mortgage banking activities that could negatively impact net income and profitability.

We sell substantially all of the mortgage loans that we originate. The sale of these loans generates non-interest income and can be a source of liquidity for the Bank. Disruption in the secondary market for residential mortgage loans as well as declines in real estate values could result in one or more of the following:

- our inability to sell mortgage loans on the secondary market, which could negatively impact our liquidity position;
- declines in real estate values could decrease the potential of mortgage originations, which could negatively impact our earnings;
- if it is determined that loans were made in breach of our representations and warranties to the secondary market, we could incur losses associated with the loans;
- increased compliance requirements could result in higher compliance costs, higher foreclosure proceedings or lower loan origination volume, all which could negatively impact future earnings; and
- a rise in interest rates could cause a decline in mortgage originations, which could negatively impact our earnings.

Our use of appraisals in deciding whether to make loans secured by real property does not ensure that the value of the real property collateral will be sufficient to repay our loans.

In considering whether to make a loan secured by real property, we require an appraisal of the property. However, an appraisal is only an estimate of the value of the property at the time the appraisal is made and requires the exercise of a considerable degree of judgment. If the appraisal does not accurately reflect the amount that may be obtained upon sale or foreclosure of the property, whether due to a decline in property value after the date of the original appraisal or defective preparation of the appraisal, we may not realize an amount equal to the indebtedness secured by the property and as a result, we may suffer losses.

Risks Relating to the Regulation of Our Industry

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 continues to materially affect our business.

The key effects of the Dodd-Frank Act on our business are:

- changes to regulatory capital requirements;
- creation of new government regulatory agencies (such as the Financial Stability Oversight Council, which oversees systemic risk, and the Consumer Financial Protection Bureau, which develops and enforces rules for bank and non-bank providers of consumer financial products);
- potential limitations on federal preemption;
- changes to deposit insurance

assessments; regulation of debit interchange fees we earn; changes in retail banking regulations, including potential limitations on certain fees we may charge; and changes in regulation of consumer mortgage loan origination and risk retention.

Several provisions still require regulations to be promulgated by various federal agencies in order to be implemented, some of which have been proposed by the applicable federal agencies. The changes resulting from the Dodd-Frank Act have limited our business activities, required changes to certain of our business practices, imposed upon us more stringent capital, liquidity and leverage requirements or otherwise materially and may continue to adversely affect us. Failure to comply with the requirements could also materially and adversely affect us. Furthermore, additional uncertainties surrounding the Dodd-Frank Act, its implementation, and enforcement persist as a result of the current presidential administration. Any changes in the laws or regulations or their interpretations could be materially adverse to investors in our common stock.

We operate in a highly regulated environment and the laws and regulations that govern our operations, corporate governance, executive compensation and accounting principles, or changes in them, or our failure to comply with them, could materially and adversely affect us.

We are subject to extensive regulation, supervision, and legislation by federal and state regulators and bodies that govern almost all aspects of our operations. Intended to protect clients, depositors and the DIF, these laws and regulations, among other matters, prescribe minimum capital requirements, impose limitations on the business activities in which we can engage (including foreclosure and collection practices), limit the dividends or distributions that we can pay, restrict the ability of institutions to guarantee our debt, and impose certain specific accounting requirements on us that may be more restrictive and may result in greater or earlier charges to earnings or reductions in our capital than GAAP. Compliance with laws and regulations can be difficult and costly, and changes to laws and regulations often impose additional compliance costs. Our failure to comply with these laws and regulations, even if the failure follows good faith effort or reflects a difference in interpretation, could subject us to restrictions on our business activities, fines and other penalties, any of which could materially and adversely affect us. Further, any new laws, rules and regulations could make compliance more difficult or expensive and also materially and adversely affect us.

The FDIC’s restoration plan for the DIF and any related increased assessment rates could materially and adversely affect us.

The FDIC insures deposits at FDIC-insured depository institutions, such as our subsidiary bank, up to applicable limits. The amount of a particular institution’s deposit insurance assessment is based on that institution’s risk classification under an FDIC risk-based assessment system. An institution’s risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to its regulators. If current assessments imposed by the FDIC are insufficient for the DIF to meet its funding requirements, there may need to be further special assessments or increases in deposit insurance premiums. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. Any future additional assessments, increases or required prepayments in FDIC insurance premiums may materially and adversely affect us, including by reducing our profitability or limiting our ability to pursue certain business opportunities.

Federal and state banking agencies periodically conduct examinations of our business, including compliance with laws and regulations, and our failure to comply with any supervisory actions to which we become subject as a result of such examinations could materially and adversely affect us.

Federal and state banking agencies periodically conduct examinations of our business, including compliance with laws and regulations. If, as a result of an examination, a federal or state banking agency were to determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that we or our management was in violation of any law or regulation, it may take a number of different remedial actions as it deems appropriate. These actions include the power to enjoin “unsafe or unsound” practices, to require affirmative actions to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth, to assess civil monetary penalties against our officers or directors, to remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate our deposit insurance. If we become subject to such regulatory actions, we could be materially and adversely affected.

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We are subject to the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions.

The CRA, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The Department of Justice and other federal agencies are responsible for enforcing these laws and regulations. A successful challenge to an institution's performance under the CRA or fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, and restrictions on expansion activity. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation.

The Federal Reserve may require us to commit capital resources to support our subsidiary bank.

As a matter of policy, the Federal Reserve, which examines us and our subsidiaries, expects a bank holding company to act as a source of financial and managerial strength to a subsidiary bank and to commit resources to support such subsidiary bank. Under the "source of strength" doctrine, the Federal Reserve may require a bank holding company to make capital injections into a troubled subsidiary bank and may charge the bank holding company with engaging in unsafe and unsound practices for failure to commit resources to such a subsidiary bank. In addition, the Dodd-Frank Act directs the federal bank regulators to require that all companies that directly or indirectly control an insured depository institution serve as a source of strength for the institution. Under this requirement, we could be required to provide financial assistance to our subsidiary bank should our subsidiary bank experience financial distress.

A capital injection may be required at times when we do not have the resources to provide it and therefore we may be required to borrow the funds or raise additional equity capital from third parties. Any loans by a holding company to its subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of the subsidiary bank. In the event of a bank holding company's bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the holding company's general unsecured creditors, including the holders of its indebtedness. Any financing that must be done by the holding company in order to make the required capital injection may be difficult and expensive and may not be available on attractive terms, or at all, which likely would have a material adverse effect on us.

We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The federal Bank Secrecy Act, the USA PATRIOT Act and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network, established by the U.S. Treasury Department to administer the Bank Secrecy Act, is authorized to impose significant civil money penalties for violations of those requirements, and engages in coordinated enforcement efforts with the individual federal banking regulators, as well as the Department of Justice, Drug Enforcement Administration, and Internal Revenue Service. There is also increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control. If our policies, procedures and systems are deemed deficient or the policies, procedures and systems of the financial institutions that we may acquire in the future are deficient, we would be subject to liability, including fines and regulatory actions (such as restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including our acquisition plans), which could materially and adversely affect us. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us.

Federal, state and local consumer lending laws may restrict our ability to originate certain mortgage loans or increase our risk of liability with respect to such loans and could increase our cost of doing business.

Federal, state and local laws have been adopted that are intended to eliminate certain lending practices considered “predatory.” These laws prohibit practices such as steering borrowers away from more affordable products, selling unnecessary insurance to borrowers, repeatedly refinancing loans and making loans without a reasonable expectation that the borrowers will be able to repay the loans irrespective of the value of the underlying property. It is our policy not to make predatory loans, but these laws create the potential for liability with respect to our lending and loan investment activities. They increase our cost of doing business and, ultimately, may prevent us from making certain loans and cause us to reduce the average percentage rate or the points and fees on loans that we do make.

Our ability to pay dividends is subject to regulatory limitations and our bank subsidiary's ability to pay dividends to us is also subject to regulatory limitations.

Our ability to declare and pay dividends depends both on the ability of our bank subsidiary to pay dividends to us and on certain federal regulatory considerations, including the guidelines of the Federal Reserve regarding capital adequacy and dividends. Because we are a separate legal entity from our bank subsidiary and we do not have significant operations of our own, any dividends paid by us to our shareholders would have to be paid from funds at the holding company level that are legally available therefor. However, as a bank holding company, we are subject to general regulatory restrictions on the payment of cash dividends. Federal bank regulatory agencies have the authority to prohibit bank holding companies from engaging in unsafe or unsound practices in conducting their business, which depending on the financial condition and liquidity of the holding company at the time, could include the payment of dividends. Additionally, various federal and state statutory provisions limit the amount of dividends that our bank subsidiary can pay to us as its holding company without regulatory approval. Finally, holders of our common stock are only entitled to receive such dividends as our board of directors may, in its unilateral discretion, declare out of funds legally available for such purpose based on a variety of considerations, including, without limitation, our historical and projected financial condition, liquidity and results of operations, capital levels, tax considerations, statutory and regulatory prohibitions and other limitations, general economic conditions and other factors deemed relevant by our board of directors. Accordingly, we may not pay the amount of dividends referenced in our current intention above, or any dividends at all, to our shareholders in the future.

Tax legislation initiatives or challenges to our tax positions could adversely affect our results of operations and financial condition.

We operate in multiple jurisdictions and we are subject to tax laws and regulations of the U.S. federal, state and local governments. From time to time, legislative initiatives may be adopted, such as the recent tax reform in the United States, which may impact our effective tax rate and could adversely affect our deferred tax assets, tax positions and/or our tax liabilities. In addition, U.S. federal, state and local tax laws and regulations are extremely complex and subject to varying interpretations. There can be no assurance that our historical tax positions will not be challenged by relevant tax authorities or that we would be successful in defending our positions in connection with any such challenge.

Item 1B. UNRESOLVED STAFF COMMENTS.

None

Item 2. PROPERTIES.

Our principal executive offices are located in the Denver Tech Center area immediately south of Denver, Colorado. We also have approximately 70,000 square feet of office and operations space in Kansas City, Missouri. At December 31, 2018, we operated 50 banking centers in Colorado, 46 in Kansas and Missouri, six in New Mexico and two in Texas. Of these banking centers, 31 locations were leased and 73 were owned.

Item 3. 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, results of operations or liquidity.

Item 4. MINE SAFETY DISCLOSURES.

None.

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PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market for Registrant's Common Equity

Shares of the Company's common stock began trading on the New York Stock Exchange ("NYSE") under the symbol "NBHC". The following table presents the cash dividends paid for the periods indicated:

Quarter	2018	2017
Fourth	$ 0.17	$ 0.09
Third	0.14	0.09
Second	0.14	0.09
First	0.09	0.07
Total	$ 0.54	$ 0.34

In October 2012, the Company commenced the payment of a $0.05 per share quarterly cash dividend to holders of its common stock. As of December 31, 2018, the quarterly cash dividend was $0.17 per share, representing a cumulative increase of 240% within six years.

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Performance Graph

The following graph presents a comparison of the Company’s performance to the indices named below. It assumes $100 invested on December 31, 2013, with dividends invested on a total return basis.

	Period Ending					
Index	12/31/13	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18
NBHC	100.00	104.31	116.00	174.77	179.62	173.45
KBW Regional Banking Index	100.00	150.39	159.41	221.77	225.78	186.30
Russell 2000 Index	100.00	145.62	139.19	168.81	193.50	172.16

The following table sets forth information about our repurchases of our common stock during the fourth quarter of 2018:

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)
October 1 - October 31, 2018(1)	3,514	$ 34.58	—	$ 12,562,825
Total	3,514	$ 34.58	—	$ 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 December 31, 2018.

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Securities Authorized for Issuance under Equity Compensation Plans

During the second quarter of 2014, shareholders approved the 2014 Omnibus Incentive Plan (the "2014 Plan"). Under the 2014 Plan, the Compensation Committee of the Board of Directors has the authority to grant, from time to time, awards of options, stock appreciation rights, restricted stock, restricted stock units, performance units, other stock-based awards, or any combination thereof to eligible persons. As of December 31, 2018, the aggregate number of Company common stock available for issuance under the 2014 Plan was 5,254,682 shares.

During the second quarter of 2015, shareholders approved the Company's 2014 Employee Stock Purchase Plan ("ESPP"). The ESPP allows employees to purchase shares of common stock through payroll deductions up to a limit of $25,000 per calendar year or 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. As of December 31, 2018, the aggregate number of Company common stock available for issuance under the ESPP was 342,644 shares.

See note 16 to the consolidated financial statements for further detail related to these equity compensation plans.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity plans approved by security holders	1,264,876	$ 22.33	5,597,326
Equity plans not approved by security holders	—	—	—
Total	1,264,876	$ 22.33	5,597,326

Item 6. SELECTED FINANCIAL DATA.

The following table sets forth summary selected historical financial information as of and for the five years ended December 31, 2018. The summary selected historical consolidated financial information set forth below is derived from our audited consolidated financial statements.

The summary of selected historical consolidated financial data set forth below is derived from our audited consolidated financial statements and should be read together with the related notes thereto as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this annual report. Such information is not necessarily indicative of anticipated future results. All amounts are presented in thousands, except share data, or as otherwise noted.

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Summary of Selected Historical Consolidated Financial Data

	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014
Consolidated Statements of Financial Condition Data:					
Cash and cash equivalents	$ 109,556	$ 257,364	$ 152,736	$ 166,092	$ 256,979
Investment securities available-for-sale (at fair value)	791,102	855,345	884,232	1,157,246	1,479,214
Investment securities held-to-maturity	235,398	258,730	332,505	427,503	530,590
Non-marketable securities	27,555	15,030	14,949	22,529	27,045
Loans (1)	4,092,308	3,178,947	2,860,921	2,587,673	2,162,409
Allowance for loan losses	(35,692)	(31,264)	(29,174)	(27,119)	(17,613)
Loans, net	4,056,616	3,147,683	2,831,747	2,560,554	2,144,796
Loans held for sale	48,120	4,629	24,187	13,292	5,146
FDIC indemnification asset, net	—	—	—	—	39,082
Other real estate owned	10,596	10,491	15,662	20,814	29,120
Premises and equipment, net	109,986	93,708	95,671	103,103	106,341
Goodwill and other intangible assets, net	128,497	61,237	66,579	72,059	76,513
Other assets	159,240	139,248	154,778	140,716	124,820
Total assets	$ 5,676,666	$ 4,843,465	$ 4,573,046	$ 4,683,908	$ 4,819,646
Deposits	$ 4,535,621	$ 3,979,559	$ 3,868,649	$ 3,840,677	$ 3,766,188
Other liabilities	446,039	331,499	168,208	225,687	258,883
Total liabilities	4,981,660	4,311,058	4,036,857	4,066,364	4,025,071
Total shareholders’ equity	695,006	532,407	536,189	617,544	794,575
Total liabilities and shareholders’ equity	$ 5,676,666	$ 4,843,465	$ 4,573,046	$ 4,683,908	$ 4,819,646

(1) Total loans are net of unearned discounts and deferred fees and costs.

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	As of and for the years ended December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014
Consolidated Statements of Operations Data:					
Interest income	$ 221,391	$ 164,421	$ 160,448	$ 171,407	$ 184,662
Interest expense	23,954	18,115	14,808	14,462	14,413
Net interest income	197,437	146,306	145,640	156,945	170,249
Provision for loan losses	5,197	12,972	23,651	12,444	6,209
Net interest income after provision for loan losses	192,240	133,334	121,989	144,501	164,040
Non-interest income	70,775	39,205	40,027	21,448	(1,696)
Non-interest expense	189,334	136,677	136,009	158,024	150,003
Income before income taxes	73,681	35,862	26,007	7,925	12,341
Income tax expense	12,230	21,283	2,947	3,044	3,165
Net income	$ 61,451	$ 14,579	$ 23,060	$ 4,881	$ 9,176
Share Information(1):					
Income per share, basic	$ 2.00	$ 0.54	$ 0.81	$ 0.14	$ 0.22
Income per share, diluted	$ 1.95	$ 0.53	$ 0.79	$ 0.14	$ 0.22
Dividends paid	$ 0.54	$ 0.34	$ 0.22	$ 0.20	$ 0.20
Book value per share	$ 22.59	$ 19.81	$ 20.32	$ 20.34	$ 20.43
Tangible common book value per share(2)	$ 18.77	$ 17.94	$ 18.15	$ 18.22	$ 18.63
Total shareholders' equity to total assets	12.24%	10.99%	11.72%	13.18%	16.49%
Tangible common equity to tangible assets(2)	10.39%	10.06%	10.61%	11.98%	15.25%
Weighted average common shares outstanding, basic	30,748,234	26,928,763	28,313,061	34,349,996	42,404,609
Weighted average common shares outstanding, diluted	31,430,074	27,709,659	29,091,343	34,363,487	42,421,014
Common shares outstanding	30,769,063	26,875,585	26,386,583	30,358,509	38,884,953

(1) Per share information is calculated based on the aggregate number of our shares of Class A common stock and Class B

non-voting common stock outstanding. During 2015, all Class B shares were either repurchased by the Company or converted to Class A common shares.

(2) Tangible book value per share and tangible common equity to tangible assets are non-GAAP financial measures. Tangible book value per share is computed as total shareholders' equity less goodwill (adjusted for deferred taxes) and other intangible assets, net, divided by common shares outstanding at the balance sheet date. For purposes of computing tangible common equity to

tangible assets, tangible common equity is calculated as common shareholders' equity less goodwill (adjusted for deferred taxes) and other intangible assets, net, and tangible assets is calculated as total assets less goodwill (adjusted for deferred taxes) and other intangible assets, net. We believe that the most directly comparable GAAP financial measures are book value per share and total shareholders' equity to total assets. See the reconciliation under "About Non-GAAP Financial Measures."

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	As of and for the years ended December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014
Key Ratios					
Return on average assets	1.10%	0.31%	0.50%	0.10%	0.19%
Return on average tangible assets(1)	1.15%	0.38%	0.57%	0.17%	0.26%
Return on average tangible assets, adjusted(1)(8)	1.26%	0.82%	0.57%	0.17%	0.26%
Return on average equity	9.28%	2.67%	3.95%	0.70%	1.07%
Return on average tangible common equity(1)	11.60%	3.61%	5.04%	1.29%	1.58%
Return on average tangible common equity, adjusted(1)(8)	12.76%	7.75%	5.04%	1.29%	1.58%
Loans to deposits ratio (end of period)	90.23%	80.00%	74.58%	67.72%	57.55%
Non-interest bearing deposits to total deposits (end of period)	23.64%	22.68%	21.89%	21.22%	19.45%
Net interest margin(3)	3.85%	3.36%	3.39%	3.54%	3.83%
Net interest margin FTE(1)(3)(8)	3.93%	3.50%	3.49%	3.60%	3.85%
Interest rate spread FTE(4)(8)	3.77%	3.35%	3.38%	3.48%	3.72%
Yield on earning assets(2)	4.31%	3.78%	3.74%	3.86%	4.15%
Yield on earning assets FTE(1)(2)(8)	4.40%	3.91%	3.84%	3.92%	4.17%
Cost of interest bearing liabilities(2)	0.63%	0.56%	0.46%	0.44%	0.45%
Cost of deposits	0.45%	0.41%	0.36%	0.36%	0.37%
Non-interest income (loss) to total revenue FTE	25.95%	20.49%	21.09%	11.84%	(1.00)%
Non-interest expense to average assets	3.38%	2.90%	2.92%	3.27%	3.08%
Efficiency ratio	69.78%	70.80%	70.30%	85.55%	85.82%
Efficiency ratio FTE(1)(8)	68.64%	68.63%	68.79%	84.28%	85.35%

Total Loans Asset Quality Data(5)(6)(7)					
Non-performing loans to total loans	0.60%	0.66%	1.07%	0.99%	0.50%
Non-performing assets to total loans and OREO	0.85%	0.99%	1.61%	1.81%	1.86%
Allowance for loan losses to total loans	0.87%	0.98%	1.02%	1.05%	0.81%
Allowance for loan losses to non-performing loans	145.94%	148.88%	94.98%	105.74%	162.89%
Net charge-offs to average loans	0.02%	0.36%	0.80%	0.12%	0.05%

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

(2) 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.

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

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

(5) Non-performing loans were redefined during the third quarter of 2014 to only include non-accrual loans and restructured loans on non-accrual, and exclude any loans accounted for under ASC 310-30 in which the pool is still performing. All previous periods have been restated.

(6) Non-performing assets include non-performing loans, other real estate owned and other repossessed assets.

(7) Total loans are net of unearned discounts and fees.

(8) Presented on a fully taxable equivalent basis using the statutory rate of 21% for 2018 and 35% for prior years. The taxable equivalent adjustments included above are $4,482, $5,852, $4,081, $2,695, and $930 for the years ended 2018, 2017, 2016, 2015, and 2014, respectively.

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About Non-GAAP Financial Measures

Certain of the financial measures and ratios we present, including “tangible assets,” “return on average tangible assets,” “return on average tangible common equity,” “tangible common book value,” “tangible common book value per share,” “tangible common equity,” “tangible common equity to tangible assets,” “adjusted non-interest expense,” “adjusted non-interest expense to average assets,” “adjusted net income,” “adjusted earnings per share - diluted,” “adjusted return on average tangible assets,” “adjusted return on average tangible common equity,” and “fully taxable equivalent (FTE)” metrics, are supplemental measures that are not required by, or are not presented in accordance with, U.S. generally accepted accounting principles (GAAP). We refer to these financial measures and ratios as “non-GAAP financial measures.” We consider the use of select non-GAAP financial measures and ratios to be useful for financial and operational decision making and useful in evaluating period-to-period comparisons. We believe that these non-GAAP financial measures provide meaningful supplemental information regarding our performance by excluding certain expenses or assets that we believe are not indicative of our primary business operating results or by presenting certain metrics on an 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.

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

Tangible Common Book Value Ratios

	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014
Total shareholders’ equity	$ 695,006	$ 532,407	$ 536,189	$ 617,544	$ 794,575
Less: goodwill and core deposit intangible assets, net	(124,941)	(61,237)	(66,580)	(72,060)	(76,513)
Add: deferred tax liability related to goodwill	7,327	10,873	9,323	7,772	6,222
Tangible common equity (non-GAAP)	$ 577,392	$ 482,043	$ 478,932	$ 553,256	$ 724,284
Total assets	$ 5,676,666	$ 4,843,465	$ 4,573,046	$ 4,683,908	$ 4,819,646
Less: goodwill and core deposit intangible assets, net	(124,941)	(61,237)	(66,580)	(72,060)	(76,513)
Add: deferred tax liability related to goodwill	7,327	10,873	9,323	7,772	6,222
Tangible assets (non-GAAP)	$ 5,559,052	$ 4,793,101	$ 4,515,789	$ 4,619,620	$ 4,749,355
Tangible common equity to tangible assets calculations:					
Total shareholders' equity to total assets	12.24%	10.99%	11.72%	13.18%	16.49%
Less: impact of goodwill and core deposit intangible assets, net	(1.85)%	(0.93)%	(1.11)%	(1.20)%	(1.24)%
Tangible common equity to tangible assets (non-GAAP)	10.39%	10.06%	10.61%	11.98%	15.25%
Tangible common book value per share calculations:					
	$ 577,392	$ 482,043	$ 478,932	$ 553,256	$ 724,284

Tangible common equity (non-GAAP)					
Divided by: ending shares outstanding	30,769,063	26,875,585	26,386,583	30,358,509	38,884,953
Tangible common book value per share (non-GAAP)	$ 18.77	$ 17.94	$ 18.15	$ 18.22	$ 18.63
Tangible common book value per share, excluding accumulated other comprehensive loss (income) (AOCI) calculations:					
Tangible common equity (non-GAAP)	$ 577,392	$ 482,043	$ 478,932	$ 553,256	$ 724,284
Accumulated other comprehensive loss (income), net of tax	11,275	6,242	1,762	(95)	(5,839)
Tangible common book value, excluding AOCI, net of tax (non-GAAP)	588,667	488,285	480,694	553,161	718,445
Divided by: ending shares outstanding	30,769,063	26,875,585	26,386,583	30,358,509	38,884,953
Tangible common book value per share, excluding AOCI, net of tax (non-GAAP)	$ 19.13	$ 18.17	$ 18.22	$ 18.22	$ 18.48

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Return on Average Tangible Assets and Return on Average Tangible Equity

	As of and for the years ended December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014
Net income	$ 61,451	$ 14,579	$ 23,060	$ 4,881	$ 9,176
Add: impact of core deposit intangible amortization expense, after tax	1,649	3,259	3,343	3,295	3,260
Net income adjusted for impact of core deposit intangible amortization expense, after tax	$ 63,100	$ 17,838	$ 26,403	$ 8,176	$ 12,436
Average assets	$ 5,607,532	$ 4,705,241	$ 4,651,953	$ 4,831,070	$ 4,867,929
Less: average goodwill and core deposit intangible asset, net of deferred tax liability related to goodwill	(118,546)	(52,958)	(59,977)	(66,549)	(73,074)
Average tangible assets (non-GAAP)	$ 5,488,986	$ 4,652,283	$ 4,591,976	$ 4,764,521	$ 4,794,855
Average shareholders' equity	$ 662,420	$ 546,716	$ 583,686	$ 701,476	$ 860,691
Less: average goodwill and core deposit intangible asset, net of deferred tax liability related to goodwill	(118,546)	(52,958)	(59,977)	(66,549)	(73,074)
Average tangible common equity (non-GAAP)	$ 543,874	$ 493,758	$ 523,709	$ 634,927	$ 787,617
Return on average assets	1.10%	0.31%	0.50%	0.10%	0.19%
Return on average tangible assets (non-GAAP)	1.15%	0.38%	0.57%	0.17%	0.26%
Return on average equity	9.28%	2.67%	3.95%	0.70%	1.07%
Return on average tangible common equity (non-GAAP)	11.60%	3.61%	5.04%	1.29%	1.58%

Fully Taxable Equivalent Yield on Earning Assets and Net Interest Margin

	As of and for the years ended December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014

Interest income	$ 221,391	$ 164,421	$ 160,448	$ 171,407	$ 184,662
Add: impact of taxable equivalent adjustment	4,482	5,852	4,081	2,695	930
Interest income FTE (non-GAAP)	$ 225,873	$ 170,273	$ 164,529	$ 174,102	$ 185,592
Net interest income	$ 197,437	$ 146,306	$ 145,640	$ 156,945	$ 170,249
Add: impact of taxable equivalent adjustment	4,482	5,852	4,081	2,695	930
Net interest income FTE (non-GAAP)	$ 201,919	$ 152,158	$ 149,721	$ 159,640	$ 171,179
Average earning assets	$ 5,131,694	$ 4,353,320	$ 4,290,171	$ 4,439,139	$ 4,446,903
Yield on earning assets	4.31%	3.78%	3.75%	3.86%	4.15%
Yield on earning assets FTE (non-GAAP)	4.40%	3.91%	3.84%	3.92%	4.17%
Net interest margin	3.85%	3.36%	3.39%	3.54%	3.83%
Net interest margin FTE (non-GAAP)	3.93%	3.50%	3.49%	3.60%	3.85%

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Efficiency Ratio

	As of and for the year ended				
	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014
Net interest income	$ 197,437	$ 146,306	$ 145,640	$ 156,945	$ 170,249
Add: impact of taxable equivalent adjustment	4,482	5,852	4,081	2,695	930
Net interest income, FTE (non-GAAP)	$ 201,919	$ 152,158	$ 149,721	$ 159,640	$ 171,179
Non-interest income	$ 70,775	$ 39,205	$ 40,027	$ 21,448	$ (1,696)
Non-interest expense	$ 189,334	$ 136,677	$ 136,009	$ 158,024	$ 150,003
Less: core deposit intangible asset amortization	(2,170)	(5,342)	(5,480)	(5,401)	(5,344)
Non-interest expense, adjusted for core deposit intangible asset amortization	$ 187,164	$ 131,335	$ 130,529	$ 152,623	$ 144,659
Efficiency ratio	69.78%	70.80%	70.30%	85.55%	85.82%
Efficiency ratio FTE (non-GAAP)	68.64%	68.63%	68.79%	84.28%	85.35%

Adjusted Financial Results

	As of and for the years ended				
	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014
Adjustments to net income:					
Net income	$ 61,451	$ 14,579	$ 23,060	$ 4,881	$ 9,176
Adjustments(1)	6,321	20,430	—	—	—
Adjusted net income (non-GAAP)	$ 67,772	$ 35,009	$ 23,060	$ 4,881	$ 9,176

Adjustments to earnings (loss) per share:					
Earnings per share	$ 1.95	$ 0.53	$ 0.79	$ 0.14	$ 0.22
Adjustments(1)	0.21	0.73	—	—	—
Adjusted earnings per share - diluted (non-GAAP)	$ 2.16	$ 1.26	$ 0.79	$ 0.14	$ 0.22
Adjustments to return on average tangible assets:					
Adjusted net income (non-GAAP)	$ 67,772	$ 35,009	$ 23,060	$ 4,881	$ 9,176
Add: impact of core deposit intangible amortization expense, after tax	1,649	3,259	3,343	3,295	3,260
Net income adjusted for impact of core deposit intangible amortization expense, after tax	69,421	38,268	26,403	8,176	12,436
Average tangible assets (non-GAAP)	5,488,986	4,652,283	4,591,976	4,764,521	4,794,855
Adjusted return on average tangible assets (non-GAAP)	1.26%	0.82%	0.57%	0.17%	0.26%
Adjustments to return on average tangible common equity:					
Net income adjusted for impact of core deposit intangible amortization expense, after tax	$ 69,421	$ 38,268	$ 26,403	$ 8,176	$ 12,436
Average tangible common equity (non-GAAP)	543,874	493,758	523,709	634,927	787,617
Adjusted return on average tangible common equity (non-GAAP)	12.76%	7.75%	5.04%	1.29%	1.58%
(1) Adjustments:					
Non-interest expense adjustments:					
Acquisition-related(2)	$ 7,957	$ 2,691	$ —	$ —	$ —
Tax reform bonus(3)	—	491	—	—	—
Total non-interest expense adjustments (non-GAAP)	$ 7,957	$ 3,182	$ —	$ —	$ —
Total pre-tax adjustments (non-GAAP)	$ 7,957	$ 3,182	$ —	$ —	$ —
Collective tax expense impact	(1,636)	(1,209)	—	—	—
Deferred tax asset remeasurement	—	18,457	—	—	—
Adjustments (non-GAAP)	$ 6,321	$ 20,430	$ —	$ —	$ —

(2) Represents non-recurring acquisition expenses in 2018 and 2017 related to the Peoples acquisition.

(3) Represents a special $1,000 bonus payment to 491 associates made in connection with the Tax Cuts and Jobs Act enacted in 2017.

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Item 7. 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 years ended December 31, 2018, 2017, and 2016, and with the other financial and statistical data presented in this annual report. 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” and “Risk Factors” 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 December 31, 2018, we had $5.7 billion in assets, $4.1 billion in loans, $4.5 billion in deposits and $0.7 billion in equity.

Operating Highlights and Key Challenges

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. At the acquisition date, $842 million was added to total assets, net of Federal Home Loan Bank (“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 half of 2018.

Increased profitability and returns

- Net income was $61.5 million, or $1.95 per diluted share, for 2018, compared to net income of $14.6 million, or $0.53 per diluted share, for 2017. Net income during 2018 included $6.3 million, after tax, of expenses related to the acquisition of Peoples. Adjusting for these expenses, net income would have been $67.8 million, or $2.16 per diluted share.
- The return on average tangible assets was 1.15% for 2018, compared to 0.38% for 2017. Adjusting for the one-time expense items above, the return on average tangible assets was 1.26% for 2018, compared to 0.82% for 2017.
- The return on average tangible common equity was 11.60% for 2018, compared to 3.61% for 2017. Adjusting for the one-time expense items above, the return on average tangible common equity was 12.76% for 2018, compared to 7.75% for 2017.

Strategic execution

- Completed the acquisition of Peoples on January 1, 2018.
- Announced expansion into Utah in January 2019, with a focus on serving commercial and business banking clients in the Salt Lake City’s Wasatch Front.

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Originated loans and acquired loans exceeded $4.0 billion for the first time in the Company's history at December 31, 2018, increasing $963.1 million, or 31.5%, since prior year led by originated and acquired commercial loan growth of $779.0 million, or 42.2%.
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.
Continued to build and deepen relationships with our clients resulting in strong average deposit growth of $717.7 million since December 31, 2017, due in part to the Peoples acquisition as well as to demand, savings, and money market deposit ("transaction deposits") growth during the period.

Loan portfolio

Total loans ended the year at $4.1 billion and increased $913.4 million, or 28.7%, since December 31, 2017, driven by the Peoples acquisition and new loan originations of a record $1.2 billion, led by commercial and industrial loan originations of $909.6 million.
Originated loans increased $615.6 million, or 20.8%, due to a 35.4% increase in commercial loans, partially offset by expected payoffs of non-owner occupied commercial real estate.

Credit quality

Credit quality remained strong, as non-performing loans (comprised of non-accrual loans and non-accrual TDRs) were 0.60% of total loans at December 31, 2018 compared to 0.66% at December 31, 2017. Non-performing assets to total loans and OREO totaled 0.85% at December 31, 2018 compared to 0.99% at December 31, 2017. Net charge-offs totaled 0.02%, compared to 0.36% in the prior year.
Provision for loan losses on originated and acquired loans totaled $5.0 million during 2018, compared to $13.1 million in the prior year, a decrease of $8.1 million. The current provision was recorded to support the increase in originated loans.

Client deposit funded balance sheet

Total deposits averaged $4.6 billion during the fourth quarter of 2018, increasing $600.2 million, or 14.9%, compared to the fourth quarter of 2017. The increase was driven by $729.9 million in total deposits added on January 1, 2018 from the Peoples acquisition, coupled with transaction deposit growth.
Demand deposits averaged $1.1 billion during the fourth quarter of 2018 and grew $170.8 million, or 18.3%, compared to the fourth quarter of 2017 due to organic growth and the Peoples acquisition.
Average transaction deposits totaled $3.5 billion during the fourth quarter of 2018, increasing $629.1 million, or 21.8%, for the fourth quarter of 2018 compared to the fourth quarter of 2017.

- Time deposits averaged $1.1 billion during the fourth quarter of 2018, decreasing $28.9 million, compared to the fourth quarter of 2017. An increase from the Peoples acquisition was offset by a decrease from legacy accounts.
- The mix of transaction deposits to total deposits improved to 76.2% at December 31, 2018 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 0.45%, increasing from 0.41% in the prior year, due to higher cost of savings, money market and time deposits.

Revenues

- Fully taxable equivalent (FTE) net interest income totaled $201.9 million and increased $49.8 million, or 32.7% compared to prior year.
- The FTE net interest margin widened 0.43% to 3.93% from 2017 as the yield on earning assets increased 0.49%, led by a 0.44% increase in the originated portfolio yields due to short-term rate increases, partially offset by an increase in the cost of deposits of 0.04%. Our ability to maintain a low deposit beta during 2018 was a key contributor in the expansion of our net interest margin.
- Non-interest income totaled $70.8 million, increasing $31.6 million from prior year primarily due to the Peoples acquisition.

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Expenses

- Non-interest expense totaled $189.3 million, representing an increase of $52.7 million from prior year, primarily driven by the Peoples acquisition. Included in 2018 were $8.0 million of pre-tax acquisition costs compared to $3.2 million for the year ended December 31, 2017.
- Income tax expense totaled $12.2 million during 2018 compared to $21.3 million during 2017, a decrease of $9.1 million. Included in income tax expense was $1.3 million and $4.2 million of tax benefits from stock compensation activity during 2018 and 2017, respectively. In addition, income tax expense during 2017 included an $18.5 million non-cash, one-time charge related to the deferred tax asset re-measurement, due to the Tax Cuts and Jobs Act (the “Act”). Adjusting for the above mentioned stock compensation activity and deferred tax assets re-measurement, the effective tax rate for 2018 would be 18.3% compared to an adjusted 2017 rate of 19.7%.

Strong capital position

- Capital ratios are strong as our capital position remains in excess of federal bank regulatory thresholds. As of December 31, 2018, our consolidated tier 1 leverage ratio was 10.5% and our consolidated tier 1 risk-based capital and common equity tier 1 risk-based capital ratios were both 12.9%.
- At December 31, 2018, common book value per share was $22.59, while tangible common book value per share was $18.77, or $19.40 after consideration of the excess accretable yield value of $0.63 per share.
- Since early 2013, we have repurchased 26.6 million shares, or 50.9% of the 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. We began banking operations in 2010 by acquiring 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 acquisition and other expansionary opportunities in a very competitive environment.

General economic conditions remained stable in 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 food and agriculture portfolio is only 5.6% of total loans and is well-diversified across food production, crop and livestock types. Crop and livestock loans represent 23.1% of the food and agriculture loan portfolio. 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 December 31, 2018 totaled $4.0 billion, representing an increase of $963.1 million, or 31.5% compared to December 31, 2017, driven by Peoples acquired loans and a record $1.2 billion in loan originations in 2018, partially offset by loan paydowns and payoffs during 2018. Our 310-30 loans have produced higher yields than our originated and acquired loans, due to accretion of fair value adjustments. During 2018, our weighted average rate on new loans funded at the time of origination was 5.20% (fully taxable equivalent), compared to the weighted average yield of our originated loan portfolio of 4.50% (fully taxable equivalent). Fully taxable equivalent net interest income reached an inflection point in the second quarter of 2017 and continued through the fourth 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

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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 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.

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 below, 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, 2018.

Accounting for Acquired Loans

Included in our loan portfolio are originated loans and acquired loans. The estimated fair values of acquired loans at the acquisition date are based on a discounted cash flow methodology that considers various factors, including the type of loan or pool of loans with similar characteristics, and related collateral, classification status, fixed or variable interest rate, maturity and any prepayment terms of the loan, whether or not the loan is amortizing, and a discount rate reflecting our assessment of risk inherent in the cash flow estimates. The determination of the fair value of acquired loans takes into account credit quality deterioration and probability of loss, and as a result the related allowance for loan losses is not carried forward at the time of acquisition.

A significant portion of the loans acquired in the Hillcrest Bank, Bank of Choice, and Community Banks of Colorado acquisitions had deteriorated credit quality at the date of acquisition and management accounted for all loans acquired through these acquisitions under ASC 310-30 (with the exception of loans with revolving privileges, which were outside the scope of ASC 310-30). These loans are grouped into pools based on purpose and/or type of loan, geography and risk rating, and take into account the sources of repayment and collateral. Each pool is accounted for as a single loan for which the integrity is maintained throughout the life of the asset. When a pool exhibits evidence of credit deterioration since origination and it is probable at the date of acquisition that we will not collect all principal and interest payments in accordance with the terms of the loan agreement, the expected shortfall in the expected future cash flows compared to the contractual amount due is recognized as a non-accretable difference. Any excess of the expected future cash flows over the acquisition date fair value is known as the accretable discount, or accretable yield, and through accretion is recognized as interest income over the remaining life of the respective pool. Contractual fees not expected to be collected are not included in ASC 310-30 contractual cash flows. Should fees be subsequently collected, the cash flows are accounted for as originated and acquired fee income in the period they are received. Loans that meet the criteria for non-accrual of interest at the time of acquisition may be considered performing at and subsequent to acquisition, regardless of whether the client is contractually delinquent, if the timing and expected cash flows on such loans can be reasonably estimated and if collection of the new carrying value of such loans is expected. If the timing and expected cash flows of a pool cannot be reasonably estimated, that pool may be placed on non-accrual status, the accretion of income will cease, and interest income will be recognized on a cash basis. In addition, a pool will be accounted for on a cash basis to the extent the remaining discount on the pool is equal its unpaid principal balance.

Loan pools accounted for under ASC 310-30 are periodically remeasured to determine expected future cash flows. In determining the expected cash flows, we evaluate the credit profile, contractual interest rates, collateral values and expected prepayments of the loan pools. Prepayment assumptions are based on statistical models that take into account factors such as the loan interest rate, credit profile of the borrowers, the years in which the loans were originated, and whether the loans were

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fixed or variable rate loans. Decreases to the expected future cash flows in the applicable pool generally result in an immediate provision for loan losses charged to the consolidated statements of operations. Conversely, subsequent increases in the expected future cash flows result in a transfer from the non-accretable difference to the accretable yield, which is then accreted as a yield adjustment over the remaining life of the pool once any previously recorded impairment expense has been recouped. These cash flow estimations are inherently subjective as they require material estimates, all of which may be susceptible to significant change.

Loans outside the scope of ASC 310-30 are accounted for under ASC Topic 310, Receivables. Discounts created when the loans are recorded at their estimated fair values at acquisition are accreted over the remaining life of the loan as an adjustment to the respective loan's yield. Similar to originated loans, the accrual of interest income is discontinued on acquired loans that are not accounted for under ASC 310-30 when the collection of principal or interest, in whole or in part, is doubtful. Interest is not accrued on loans 90 days or more past due unless they are well secured and in the process of collection.

Allowance for Loan Losses

The determination of the ALL, which represents management's estimate of probable losses inherent in our loan portfolio at the balance sheet date, including acquired loans to the extent necessary, involves a high degree of judgment and complexity. The determination of the ALL takes into consideration, among other matters, the estimated fair value of the underlying collateral, economic conditions, particularly as such conditions relate to the market areas in which we operate, historical net loan losses and other factors that warrant recognition. Any change in these factors, or the rise of any other factors that we, or our regulators, may deem necessary to consider when estimating the ALL, may materially affect the ALL and provisions for loan losses. For further discussion of the ALL, see "—Financial Condition—Asset Quality" and "—Financial Condition—Allowance for Loan Losses" and notes 2 and 8 to our consolidated financial statements.

Financial Condition

Total assets increased to $5.7 billion at December 31, 2018 from $4.8 billion at December 31, 2017. Total loans were $4.1 billion at December 31, 2018, and grew $913.4 million, or 28.7% from December 31, 2017. Originated and acquired loans outstanding totaled $4.0 billion and increased $963.1 million, or 31.5%, from December 31, 2017 driven by the Peoples acquisition and originated loan growth. We originated a record $1.2 billion in loans during 2018, led by commercial originations of $909.6 million. The acquired 310-30 loan portfolio declined $49.7 million, or 41.2%, from December 31, 2017. During 2018, loans held for sale grew $43.5 million compared to 2017 due to the addition of the Peoples mortgage business. Cash and cash equivalents totaled $109.6 million and decreased $147.8 million, or 57.4%, 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 decreased $87.6 million, or 7.9%, to $1.0 billion at December 31, 2018, due to paydowns within the portfolio. During 2018, transaction deposits increased $593.6 million, or 20.7%, while time deposits decreased $37.5 million, or 3.4%. FHLB advances increased $172.5 million, when compared to December 31, 2017, to fund new loan originations.

Investment Securities

Available-for-sale

Total investment securities available-for-sale were $791.1 million at December 31, 2018, compared to $855.3 million at December 31, 2017, a decrease of $64.2 million, or 7.5%. During 2018 and 2017, sales of investment securities available-for-sale totaled $33.6 million and $0.0 million, respectively. During 2018 and 2017, maturities and pay downs of available-for-sale securities totaled $216.1 million and $224.3 million, respectively. Purchases of available-for-sale securities during 2018 and 2017 totaled $40.7 million and $202.7 million, respectively.

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Our available-for-sale investment securities portfolio is summarized as follows for the periods indicated:

	December 31, 2018				December 31, 2017			
	Amortized cost	Fair value	Percent of portfolio	Weighted average yield	Amortized cost	Fair value	Percent of portfolio	Weigh averag yield
Mortgage-backed securities:								
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ 147,283	$ 146,642	18.5%	2.53%	$ 167,269	$ 168,648	19.8%	2.39%
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	661,354	643,381	81.3%	2.15%	702,107	685,230	80.1%	1.93%
Municipal securities	619	610	0.1%	3.67%	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	$ 809,725	$ 791,102	100.0%	2.22%	$ 870,849	$ 855,345	100.0%	2.02%

As of December 31, 2018 and 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 Federal Home Loan Mortgage Corporation ("FHLMC"), Federal National Mortgage Association ("FNMA") and Government National Mortgage Association ("GNMA") securities. The other mortgage-backed securities are comprised of securities backed by FHLMC, FNMA and GNMA securities.

At December 31, 2018 and 2017, adjustable rate securities comprised 3.7% 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 2.39% per annum and 2.18% per annum at December 31, 2018 and 2017, respectively.

The available-for-sale investment portfolio included $20.9 million and $18.2 million of gross unrealized losses at December 31, 2018 and 2017, respectively, which were partially offset by $2.3 million and $2.7 million of gross unrealized gains, 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 December 31, 2018, we held $235.4 million of held-to-maturity investment securities, compared to $258.7 million at December 31, 2017, a decrease of $23.3 million, or 9.0%. During 2018 and 2017, maturities and paydowns of held-to-maturity securities totaled $61.9 million and $71.1 million, respectively. Purchases of held-to-maturity securities totaled $40.2 million during 2018.

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

	December 31, 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	$ 157,115	$ 154,412	66.7%	3.24%	$ 204,352	$ 204,048	79.0%	3.23%
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	78,283	76,514	33.3%	2.25%	54,378	52,723	21.0%	1.66%
	$ 235,398	$ 230,926	100.0%	2.91%	$ 258,730	$ 256,771	100.0%	2.90%

Total investment securities held-to-maturity

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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 $230.9 million and $256.8 million, at December 31, 2018 and 2017, respectively, and included $4.5 million and $2.0 million of net unrealized losses for the respective periods. 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.

Loans Overview

At December 31, 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 2 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. Management accounted for all loans acquired in the Hillcrest Bank, Bank of Choice and Community Banks of Colorado acquisitions under ASC 310-30, with the exception of loans with revolving privileges, which were outside the scope of ASC 310-30. In our Bank Midwest transaction, we did not acquire all of the loans of the former Bank Midwest but, rather, selected certain loans based upon specific criteria of performance, adequacy of collateral, and loan type that were performing at the time of acquisition. As a result, none of the loans acquired in the Bank Midwest transaction are accounted for under ASC 310-30 nor are any of the loans acquired in the Pine River or Peoples acquisitions.

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The table below shows the loan portfolio composition and the breakout of the portfolio between originated loans, acquired loans, and ASC 310-30 loans at the respective dates:

	December 31, 2018	December 31, 2017	December 31, 2018 vs. December 31, 2017 % Change
Originated:			
Commercial:			
Commercial and industrial	$ 1,877,221	$ 1,375,028	36.5%
Owner-occupied commercial real estate	337,258	264,357	27.6%
Food and agriculture	217,294	135,397	60.5%
Energy	49,204	57,460	(14.4)%
Total commercial	2,480,977	1,832,242	35.4%
Commercial real estate non-owner occupied	407,431	464,121	(12.2)%
Residential real estate	657,633	633,578	3.8%
Consumer	22,895	23,398	(2.1)%
Total originated	3,568,936	2,953,339	20.8%
Acquired:			
Commercial:			
Commercial and industrial	53,926	994	>100%
Owner-occupied commercial real estate	84,408	8,396	>100%
Food and agriculture	4,862	3,498	39.0%
Total commercial	143,196	12,888	>100%
Commercial real estate non-owner occupied	144,388	21,020	>100%
Residential real estate	163,187	69,900	>100%
Consumer	1,722	1,177	46.3%
Total acquired	452,493	104,985	>100%
ASC 310-30 loans	70,879	120,623	(41.2)%
Total loans	$ 4,092,308	$ 3,178,947	28.7%

Our loan portfolio totaled $4.1 billion at December 31, 2018, increasing $913.4 million, or 28.7%, year-over-year on the strength of a record $1.2 billion in loan originations between the two periods. The strong originations were the result of continued market penetration benefiting from our focus on building client relationships. Originated and acquired loans outstanding totaled $4.0 billion, representing an increase of $963.1 million, or 31.5%, year-over-year, driven by Peoples acquired loans and an increase in originated loans of $615.6 million, or 20.8%. The acquired 310-30 loan portfolio declined $49.7 million, or 41.2%, from December 31, 2017, largely due to the transfer of one large acquired 310-30 problem loan transferred to OREO and sold during 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 December 31, 2018, was comprised of diverse industry segments. These segments included government and municipal loans of $501.0 million, finance and financial services loans, primarily lender finance, of $355.2 million, healthcare-related loans of $194.7 million, manufacturing-related loans of $138.2 million, and a variety of smaller subcategories of commercial and industrial loans.

Originated and acquired non-owner occupied CRE loans were 89.0% of the Company's risk based capital, or 13.5% of total loans, and no specific property type comprised more than 4.0% of total loans. The Company maintains very little exposure to retail properties, comprising less than 2.2% of total loans. Multi-family loans totaled $56.7 million, or 1.4% of total loans as of December 31, 2018. Originated and acquired food and agriculture loans totaled $222.2 million and were 35.8% of the Company's risk-based capital and 5.4% of total loans, and are well diversified across food production, crop and livestock types as of December 31, 2018.

When considering the loan portfolio in its entirety, 77.0% of loans were located within our footprint of Colorado, the greater Kansas City region, New Mexico, Texas and Utah as of December 31, 2018, based on the domicile of the borrower or, in the case of collateral-dependent loans, the geographical location of the collateral.

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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 a record $1.2 billion during 2018, led by commercial loan originations of $909.6 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 tables represent new loan originations during 2018 and 2017:

	Fourth quarter 2018	Third quarter 2018	Second quarter 2018	First quarter 2018	Total 2018
Commercial:					
Commercial and industrial	$ 213,335	$ 123,440	$ 232,643	$ 123,984	$ 693,402
Owner occupied commercial real estate	34,727	35,549	19,009	23,576	112,861
Food and agriculture	14,046	23,833	38,220	25,873	101,972
Energy	7,640	5,412	(929)	(10,778)	1,345
Total commercial	269,748	188,234	288,943	162,655	909,580
Commercial real estate non-owner occupied	41,031	42,300	28,316	20,694	132,341
Residential real estate	51,017	40,293	30,259	21,698	143,267
Consumer	2,592	3,797	3,588	3,238	13,215
Total	$ 364,388	$ 274,624	$ 351,106	$ 208,285	$ 1,198,403

Included in originations are net fundings under revolving lines of credit of $6,263, $34,070, $151,888, and $59,236 as of the fourth quarter 2018, third quarter 2018, second quarter 2018 and first quarter 2018, respectively.

	Fourth quarter 2017	Third quarter 2017	Second quarter 2017	First quarter 2017	Total 2017
Commercial:					
Commercial and industrial	$ 167,699	$ 73,917	$ 159,340	$ 114,414	$ 515,370
Owner occupied commercial real estate	8,937	32,787	6,899	16,988	65,611
Food and agriculture	14,050	3,335	16,696	(3,644)	30,437
Energy	(8,121)	(6,993)	9,120	(81)	(6,075)
Total Commercial	182,565	103,046	192,055	127,677	605,343
Commercial real estate non-owner occupied	21,323	46,654	47,312	36,962	152,251
Residential real estate	25,995	28,471	26,979	29,616	111,061
Consumer	1,815	3,122	3,233	2,378	10,548
Total	$ 231,698	$ 181,293	$ 269,579	$ 196,633	$ 879,203

Included in originations are net fundings under revolving lines of credit of $65,686, $(12,804), $68,305 and $33,397 as of the fourth quarter 2017, third quarter 2017, second quarter 2017 and first quarter 2017, respectively.

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

	December 31, 2018			
	Due within 1 year	Due after 1 but within 5 years	Due after 5 years	Total
Commercial:				
Commercial and industrial	$ 191,088	$ 844,015	$ 896,910	$ 1,932,013
Owner occupied commercial real estate	37,284	124,289	273,737	435,310
Food and agriculture	53,845	143,909	30,290	228,044
Energy	9,397	39,807	—	49,204
Total commercial	291,614	1,152,020	1,200,937	2,644,571
Commercial real estate non-owner occupied	87,581	330,282	174,349	592,212
Residential real estate	30,376	56,914	743,525	830,815
Consumer	7,748	12,997	3,965	24,710
Total loans	$ 417,319	$ 1,552,213	$ 2,122,776	$ 4,092,308

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	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
Food and 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

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:

	December 31, 2018					
	Fixed		Variable		Total	
	Balance	Weighted average rate	Balance	Weighted average rate	Balance	Weighted average rate
Commercial						
Commercial and industrial(1)	$ 933,202	3.92%	$ 807,139	4.98%	$ 1,740,341	4.41%
Owner occupied commercial real estate	195,354	4.61%	192,133	5.09%	387,487	5.04%
Food and agriculture	44,351	5.00%	124,234	5.21%	168,585	5.15%
Energy	21	4.50%	39,786	4.81%	39,807	4.81%
Total commercial	1,172,928	4.14%	1,163,292	5.02%	2,336,220	4.58%
Commercial real estate non-owner occupied	209,759	4.70%	273,115	5.11%	482,874	4.93%
Residential real estate	361,147	3.56%	429,909	4.61%	791,056	4.13%
Consumer	13,672	5.27%	3,196	5.57%	16,868	5.33%
Total loans with > 1 year maturity	$ 1,757,506	4.10%	$ 1,869,512	4.94%	$ 3,627,018	4.53%

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	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%
Food and 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 $473,440 and $417,660 as of December 31, 2018 and 2017, respectively, that have been swapped to variable rates at current market pricing. Included in the commercial segment are tax exempt loans totaling $685,644 and $617,889 with a weighted average rate of 3.27% and 3.15% at December 31, 2018 and 2017, respectively.

Accretable Yield

At December 31, 2018, the accretable yield balance was $35.9 million compared to $46.6 million at December 31, 2017. We remeasure the expected cash flows quarterly for all 24 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 $8.5 million and $8.6 million reclassification from non-accretable difference to accretable yield during 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:

	December 31, 2018	December 31, 2017
Remaining accretable yield on loans accounted for under ASC 310-30	$ 35,901	$ 46,568
Remaining accretable fair value mark on originated and acquired loans	8,659	1,771
Total remaining accretable yield and fair value mark	$ 44,560	$ 48,339

Asset Quality

All of the assets acquired in our acquisitions were marked to fair value at the date of acquisition, and the fair value adjustments to loans included a credit quality component. We utilize traditional credit quality metrics to evaluate the overall credit quality of our loan portfolio; however, our historical credit quality ratios are somewhat limited in their comparability to industry averages or to other financial institutions because of the percentage of acquired problem loans and given that any asset quality deterioration that existed at the date of acquisition was considered in the original fair value adjustments.

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.

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

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 “troubled debt restructurings” or "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 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, troubled debt restructurings on non-accrual, OREO and other repossessed assets. Non-accrual loans and troubled debt restructurings 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. During the third quarter of 2014, we revised our definition of non-performing assets and non-performing loans to exclude accruing loans 90 days past due and accruing troubled debt restructurings to more accurately align the financial metrics related to non-performing assets and non-performing loans with our financial results. Prior period information has been modified for this revision. Interest income that would have been recorded had non-accrual loans performed in accordance with their original contract terms during 2018, 2017 and 2016 was $1.4 million, $1.5 million and $2.6 million, respectively.

All loans accounted for under ASC 310-30 were classified as performing assets at December 31, 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.

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

	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014
Non-accrual loans:					
Commercial:					
Commercial and industrial	$ 4,670	$ 3,747	$ 1,160	$ 942	$ 221
Owner occupied commercial real estate	6,658	3,336	2,054	954	385
Food and agriculture	768	2,003	297	1,904	130
Energy	—	—	6,517	—	—
Total commercial	12,096	9,086	10,028	3,800	736
Commercial real estate non-owner occupied	1,900	784	66	407	222
Residential real estate	6,979	3,846	3,875	3,617	2,845
Consumer	42	29	40	30	37
Total non-accrual loans, excluding restructured loans	21,017	13,745	14,009	7,854	3,840
Restructured loans on non-accrual:					
Commercial:					
Commercial and industrial	840	4,020	7,527	3,888	3,994
Owner occupied commercial real estate	273	143	2	319	458
Food and agriculture	—	—	1,608	81	365
Energy	742	1,645	6,128	12,009	—
Total commercial	1,855	5,808	15,265	16,297	4,817
Commercial real estate non-owner occupied	—	—	—	815	—
Residential real estate	1,584	1,336	1,301	679	1,966
Consumer	—	111	142	2	190
Total restructured loans on non-accrual	3,439	7,255	16,708	17,793	6,973
Total non-performing loans	24,456	21,000	30,717	25,647	10,813
OREO	10,596	10,491	15,662	20,814	29,120
Other repossessed assets	—	—	—	894	849
Total non-performing assets	$ 35,052	$ 31,491	$ 46,379	$ 47,355	$ 40,782
Loans 90 days or more past due and still accruing interest	$ 895	$ 150	$ —	$ 166	$ 263
Accruing restructured loans	$ 5,944	$ 8,461	$ 5,766	$ 8,403	$ 19,275
ALL	$ 35,692	$ 31,264	$ 29,174	$ 27,119	$ 17,613
Total non-performing loans to total loans	0.60%	0.66%	1.07%	0.99%	0.50%
Loans 90 days or more past due and still accruing interest to total loans	0.02%	0.00%	0.00%	0.01%	0.01%

Total non-performing assets to total loans and OREO	0.85%	0.99%	1.61%	1.81%	1.86%
ALL to non-performing loans	145.94%	148.88%	94.98%	105.74%	162.89%

During 2018, total non-performing loans increased $3.5 million, or 16.5%, from December 31, 2017 due to acquired Peoples loans, partially offset by paydowns during the period. During 2018, accruing TDRs decreased $4.4 million.

OREO totaled $10.6 million at December 31, 2018 and increased $0.1 million from December 31, 2017. During 2018, a total of $25.9 million of OREO was sold primarily driven by one large property that was previously an acquired 310-30 loan

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which was transferred to OREO during the second quarter of 2018. OREO sales during 2018 resulted in a net gain of $0.5 million while OREO write-downs during 2018 were $0.2 million. Total non-performing assets to total loans and OREO was 0.85% and 0.99% at December 31, 2018 and December 31, 2017, respectively.

The following table represents the carrying value of our accruing and non-accrual loans compared to the unpaid principal balance ("UPB") as of December 31, 2018:

	Accruing Unpaid principal balance	Carrying value	Carrying value/ UPB	Non-accrual Unpaid principal balance	Carrying value	Carrying value/ UPB	Total Unpaid principal balance	Carr valu
Originated:								
Commercial:								
Commercial and industrial	$ 1,871,614	$ 1,871,949	100.1%	$ 9,086	$ 5,272	58.0%	$ 1,880,700	$ 1,8
Owner occupied commercial real estate	334,945	334,459	99.9%	3,034	2,799	92.3%	337,979	33
Food and agriculture	217,192	216,581	99.7%	722	713	98.8%	217,914	21
Energy	48,847	48,462	99.2%	5,366	742	13.8%	54,213	49
Total commercial	2,472,598	2,471,451	99.9%	18,208	9,526	52.3%	2,490,806	2,4
Commercial real estate non-owner occupied	407,909	406,916	99.8%	550	515	93.6%	408,459	40
Residential real estate	655,943	656,197	100.1%	1,531	1,436	93.8%	657,474	65
Consumer	22,866	22,864	99.9%	36	31	86.1%	22,902	22
Total originated loans	3,559,316	3,557,428	99.9%	20,325	11,508	56.6%	3,579,641	3,5
Acquired:								
Commercial:								
Commercial and industrial	56,142	53,688	95.6%	297	238	80.1%	56,439	53
Owner occupied commercial real estate	81,904	80,276	98.0%	4,492	4,132	92.0%	86,396	84
	4,897	4,807	98.2%	83	55		4,980	4,8

Food and agriculture								
Total commercial	142,943	138,771	97.1%	4,872	4,425	90.8%	147,815	14
Commercial real estate	145,249	143,003	98.5%	1,937	1,385	71.5%	147,186	14
Residential real estate	157,853	156,060	98.9%	8,466	7,127	84.2%	166,319	16
Consumer	1,686	1,711	101.5%	10	11	110.0%	1,696	1,
Total acquired loans	447,731	439,545	98.2%	15,285	12,948	84.7%	463,016	45
ASC 310-30 loans:								
Commercial	26,156	20,398	78.0%	—	—	0.0%	26,156	20
Commercial real estate non-owner occupied	50,643	40,393	79.8%	—	—	0.0%	50,643	40
Residential real estate	14,897	9,995	67.1%	—	—	0.0%	14,897	9,9
Consumer	2,030	93	4.6%	—	—	0.0%	2,030	93
Total loans accounted for under ASC 310-30	93,726	70,879	75.6%	—	—	0.0%	93,726	70
Total loans	$ 4,100,773	$ 4,067,852	99.2%	$ 35,610	$ 24,456	68.7%	$	