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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, 2020
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:
(303) 892-8715

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Class A Common Stock, Par Value $0.01	NBHC	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 whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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, 2020, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately $796,000,000 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 22, 2021, NBHC had outstanding 30,642,692 shares of Class A voting common stock with $0.01 par value per share, excluding 165,940 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 2021 Annual Meeting of Shareholders to be filed within 120 days of December 31, 2020 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,” “target,” “plan,” “project,” “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 any potential government shutdowns;
- 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;

- 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 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 credit reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements;
- widespread natural and other disasters, dislocations, political instability, pandemics, 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;
- adverse effects due to the novel Coronavirus Disease 2019 ("COVID-19") on the Company and its clients, counterparties, employees and third-party service providers, and the adverse impacts on our business, financial position, results of operations and prospects;
- a cyber-security incident, data breach or a failure of a key information technology system;
- impact of reputational risk on such matters as business generation and retention;

- other risks and uncertainties listed from time to time in the Company's reports and documents filed with the Securities and Exchange Commission; and
- our success at managing the risks involved in the foregoing items.

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

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. The Company is headquartered in Denver, Colorado, and its primary operations are conducted through its wholly owned subsidiary, NBH Bank (the "Bank"). The Company provides a variety of banking products and services to both commercial and consumer clients through a network of 90 banking centers, as of December 31, 2020, located primarily in Colorado and the greater Kansas City region, and through online and mobile banking products and services. As of December 31, 2020, we had $6.7 billion in assets, $4.4 billion in loans, $5.7 billion in deposits and $0.8 billion in shareholders' equity.

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: Community Banks of Colorado and Community Banks Mortgage, a division of NBH Bank, in Colorado, Bank Midwest and Bank Midwest Mortgage in Kansas and Missouri, and Hillcrest Bank and Hillcrest Bank Mortgage in Texas, Utah and New Mexico. 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.

We began banking operations in October 2010 and, as of December 31, 2020, we have completed six bank acquisitions. We have transformed these banks into one collective banking operation with a strong capital position, organic growth, prudent underwriting, a granular and well-diversified loan portfolio and meaningful market share with continued opportunity for expansion.

Our Market Area

Our core markets are broadly defined as Colorado, the greater Kansas City region, Texas, Utah and New Mexico. We are the third largest banking center network among Colorado-based banks and the eighth largest banking center network in the greater Kansas City metropolitan statistical area ("MSA") among Missouri- and Kansas-based banks ranked by deposits as of June 30, 2020 (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 in our markets positions us well for growth opportunities. 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.

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	$ 106.6	148.3	3.0	8.5%	18.0%	$ 83,768	50%
Front Range, CO[3]	144.1	235.1	4.8	8.4%	18.4%	80,902	50%
Kansas City, MO-KS MSA	72.4	102.8	2.2	4.8%	8.0%	69,742	43%
Austin, TX	51.3	94.7	2.2	5.4%	30.3%	82,650	51%
Dallas, TX	375.1	> 250.0	7.7	6.7%	19.2%	73,009	60%
Salt Lake City, UT	59.7	54.4	1.2	3.8%	14.4%	78,785	80%
U.S.[4]				6.7%	7.0%	66,010	56%

(1) Unemployment data is as of December 31, 2020.
(2) For the period 2010 through 2020.
(3) Colorado Front Range is a population weighted average of the following Colorado MSAs: Denver, Boulder, Colorado Springs, Fort Collins and Greeley.
(4) Top 3 competitor combined deposit market share based on U.S. Top 20 MSAs (determined by population).

Source: S&P Global as of December 31, 2020, except Deposits and Top 3 Competitor Combined Deposit Market Shares, which reflects data as of June 30, 2020.

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.

While we remain focused on executing on our business strategies, in 2020 the COVID-19 pandemic necessitated a shift to focus our immediate attention on the following three priorities: 1) protecting the health of our associates and clients, 2) ensuring the safety and soundness of our bank, and 3) acting on every opportunity to prudently support our clients and the communities where we do business. We continue to leverage our digital banking platform with our clients and have been working diligently to support our clients who are experiencing financial hardship through participation in the Small Business Administration's ("SBA") Paycheck Protection Program ("PPP") created under the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), including assistance with PPP loan forgiveness applications for the first draw loans, PPP loan applications for the second draw and loan modifications, as needed.

The key components of our strategic plan are:

- *Focus on client-centered, relationship-driven banking strategy*. 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. 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 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 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, including banking center consolidations.

- *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 comprehensive 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. In light of the strain placed on certain industries by the COVID-19 pandemic, the Company has prudently evaluated and continues to closely monitor our entire loan portfolio. To manage credit risk and yield, we are taking a very careful approach to extending new credit. 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. 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 main focus is on our primary markets of Colorado, the greater Kansas City region, Texas, Utah and New Mexico, including teams, asset portfolios, specialty commercial finance businesses, and whole banks. From time to time, we also consider other types of opportunities that would be expected to improve our profitability, leverage greater scale and/or leverage technology to grow our digital offerings.

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. While the pandemic has created operating stress for many businesses, our teams continually monitor the financial health of our clients in order to manage the increased risk presented by the pandemic and its impact to the global economy. Our strong capital and liquidity

have allowed us to prudently navigate a challenging economy, and we believe we are well positioned to continue to support our clients and communities.

Products and Services

Through the 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, Texas, Utah and New Mexico. We conduct our banking business through 90 banking centers, with 45 of those located in Colorado, 37 in Kansas and Missouri, two in Texas, one in Utah and five in New Mexico as of December 31, 2020. 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 personalized 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:

Commercial and Specialty Banking

Our commercial bankers focus on small- and medium-sized businesses and commercial real estate investors/developers 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 positions us well for continued growth in our originated loan portfolio. During 2020, our teams have also been working diligently to support our clients who are experiencing financial hardship due to COVID-19 through participation in the SBA's Paycheck Protection Program, including assistance with PPP loan forgiveness applications, and loan modifications, as needed. 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 agribusiness 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 one to three years, 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, 2020, 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, hospitality 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 the lessor of a 75% or less loan to cost or 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. During 2020, we participated in the CARES Act Paycheck Protection Program, and continue to do so, by offering PPP loans to provide support and funding to our clients affected by the COVID-19 pandemic. Our approach to PPP loans has been to provide the greatest value to our clients both with a thorough and efficient PPP loan origination process and through efficient and expeditious PPP forgiveness.

Commercial Deposit and Treasury Management 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).

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. 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. Currently, conventional loans in states where the bank has market presence may be sold with servicing retained or with servicing released. Government loans and conventional loans in states where the bank does not have a market presence are generally sold with servicing released. We have 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. We do not originate or purchase negatively amortizing or sub-prime residential loans.

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.

Lending Activities

Our loan portfolio includes commercial and industrial loans, commercial real estate loans, residential real estate loans, business loans and consumer loans. In light of the strain placed on certain industries by the COVID-19 pandemic, the Company has prudently evaluated and continues to closely monitor our entire loan portfolio. To manage credit risk and yield, we are taking a very careful approach to extending new credit. The principal risk evaluated 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 City region, Texas, Utah and New Mexico 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, especially during the COVID-19 pandemic, 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.

Human Capital

Our core values Integrity, Meritocracy, Teamwork and Citizenship, represent our belief that our Company's long-term success is deeply tied to having a dedicated and engaged workforce and a commitment to the communities we serve. We are committed to building and contributing to a healthy workplace environment for our associates by investing in competitive compensation and benefit packages, promoting inclusion of diverse viewpoints and backgrounds, providing training and career development opportunities and promoting qualified associates within our organization.

Associate Statistics

We are committed to attracting, developing, and retaining associates who reflect the communities in which we serve. Partnerships with professional associations, schools and universities imbedded within our local footprint, and the use of various technology solutions assist us in connecting and building relationships with a diverse pool of candidates. As of December 31, 2020, we employed 1,166 full-time and 58 part-time associates throughout the six states in our business footprint.

The market for top talent is highly competitive. We recognize that workforce turnover is not only financially costly, but it does not align with our commitment to our team. We believe we are best served when we can invest through meritocracy within our current talent pool. The average tenure of service of our associates is approximately seven years.

Equity, Diversity and Inclusion

We strongly believe that equity, diversity and inclusion are important elements in building and sustaining a successful organization and positive, results-driven culture. Additionally, equity, diversity and inclusion helps us to connect and build better relationships within our Company and communities. As a result of our efforts:

- 68% of the Company's workforce is female and 57% of the Company's managerial roles are female, as of December 31, 2020.

- Minorities represent 24% of the Company's workforce and 20% of the Company's managerial roles, as of December 31, 2020.
- In 2020, we hired 390 associates, and 74% of those new associates were female and 33% were minorities.
- In 2020, 228 associates, or 19% of our workforce, were promoted, and 68% of those individuals were female and 21% were minorities.

The Company oversees its Equity, Diversity and Inclusion efforts through its Equity, Diversity and Inclusion Committee that is comprised of a multi-disciplinary group of associates throughout NBH Bank with oversight by the executive management team. To further our diversity goals for our workforce, the Company has also implemented programs developed to foster equality and leadership opportunities for the entire associate base, including events with keynote speakers, panels and Q&A forums to enable associate feedback. Our management team also plays an integral part in championing women in business by hosting networking events, serving on panels and sponsoring relevant events that foster understanding and engagement, such as the ATHENA leadership awards.

Associate Development and Training

We believe that building the best team requires investing in our associates' professional development. Associates have access to our learning center, NBH University, which offers a variety of courses that center around professional development. Additionally, we have connection mentors in place to assist new associates with expanding their network, building professional skills, helping navigate the organization and assist in onboarding.

Compensation and Benefits

Our Company offers comprehensive benefits packages to our associates, including medical and prescription drug insurance, dental insurance and vision insurance as well as several voluntary benefit options. Our compensation structure recognizes the individual performance of our associates through merit-based salary increases with a focus on variable pay and paying for performance.

We also encourage our associates to think about their long-term financial stability. Our associates have the opportunity to participate in our 401(k) plan, which includes contribution matches from the Company. Additionally, we offer a stock purchase plan (ASPP) to our associates which allows those who work 20 hours or more per week to purchase shares in our Company through payroll deductions at a 10% discount.

Community Engagement

We strive to make a positive impact in the communities we serve through consistent engagement, as well as maintaining strong partnerships with a wide range of charitable organizations and causes. All bank associates are granted up to eight paid hours each year to donate their time to non-profit organizations that align with our CRA initiatives.

Safety and Respect in the Workplace

We are committed to providing a safe and secure work environment in accordance with applicable labor, safety, health, anti-discrimination and other workplace laws. We strive for all of our associates to feel safe and empowered at work. To that end, we maintain a whistleblower hotline that allows associates and others to anonymously voice concerns. We prohibit retaliation against an individual who reported a concern or assisted with an inquiry or investigation.

Our Company has taken workplace safety very seriously during the COVID-19 pandemic. From the onset of the pandemic and into the month of May, we provided "premium pay" for banking center and operations associates whose job functions required them to be physically present. We have restricted services in our banking center lobbies to by appointment-only, maintained drive-thru services for our clients, provided two weeks paid time off for our associates affected by COVID-19 illness and/or quarantines, waived medical plan cost-sharing and co-pays for COVID-19 testing and treatment, instituted daily health assessments for associates who are working in our physical locations and have followed applicable health and governmental guidelines on quarantining.

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.

NBH Bank as a Colorado State-Chartered Bank

Our bank subsidiary, NBH Bank, is a Colorado state-chartered bank and 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%. Additionally, 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 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.

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. The EGRRCPA directed the federal banking agencies to develop a "Community Bank Leverage Ratio", calculated by dividing tangible equity capital by average consolidated total assets. In October 2019, the federal banking agencies adopted a Community Bank Leverage Ratio of 9%. If a "qualified community bank", generally a depository institution or depository institution holding company with consolidated assets of less than $10 billion, has a leverage ratio which exceeds the Community Bank Leverage Ratio, then the institution is considered to have met all generally applicable leverage and risk based capital requirements, the capital ratio requirements for "well capitalized" status under the prompt corrective action rules and any other leverage or capital requirements to which it is subject. At this time the Company and NBH Bank has not elected to apply this regime.

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.

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 ("ACL") 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, 2020, 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 a financial institution. 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.

In addition, 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 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 or is entitled to appoint or elect a majority of the board of directors. For investments under those thresholds, regulators will examine whether the investor has the ability to exercise a controlling influence over the depository institution's voting shares an investor acquires as well as the number of directors the investor is able to appoint or elect. Similarly, if an investor's ownership of our voting securities or ability to appoint or elect directors 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.

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 ("FRB").

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 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.

COVID-19 Legislation and Regulatory Response

The COVID-19 pandemic is creating extensive disruptions to the global economy, to businesses, and to the lives of individuals throughout the world. There have been a number of regulatory actions intended to help mitigate the adverse economic impact of the COVID-19 pandemic on borrowers, including several mandates from the bank regulatory agencies, requiring financial institutions to work constructively with borrowers affected by the COVID-19 pandemic.

On March 27, 2020, the CARES Act was signed into law. The CARES Act is a $2.2 trillion economic stimulus bill that intended to provide relief in the wake of the COVID-19 pandemic. Several provisions within the CARES Act led to action from the bank regulatory agencies. There are also separate provisions within the legislation that directly impact financial institutions, including affording borrowers with federally-backed mortgage loans experiencing a financial hardship due to the COVID-19 pandemic the option to request forbearance, regardless of delinquency status, for up to 360 days. In addition, servicers of federally-backed mortgage loans were prohibited from initiating foreclosures during what was initially a 60-day

period beginning March 18, 2020, but has since been extended several times and is currently in effect. The CARES Act also established the directive to provide loans to businesses impacted by COVID through the PPP.

The bank regulatory agencies have stressed the importance of financial institutions continuing to assist borrowers impacted by the COVID-19 pandemic, and indicated that adequate flexibility will be given to financial institutions who work with such borrowers. On April 3, 2020, the bank regulatory agencies issued a joint policy statement to facilitate mortgage servicers' ability to place consumers in short-term payment forbearance programs, and followed with a final rule on June 23, 2020 that makes it clear servicers do not violate Regulation X (which places restrictions and requirements upon lenders related to consumers who apply for and receive mortgage loans) by offering certain COVID-19-related loss mitigation options based on an evaluation of limited information collected from the borrower. Additionally, on September 29, 2020, the bank regulatory agencies issued a rule that deferred appraisal and evaluation requirements after the closing of certain residential and CRE transactions through December 31, 2020. On January 20, 2021, the new Administration issued an Executive Order extending the federal eviction moratorium through March 31, 2021. This eviction moratorium could be further extended through September 30, 2021 if the COVID-19 relief package proposed by the new Administration is adopted by Congress in its current form.

On December 27, 2020, the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 was signed into law, which also contains provisions that could directly impact financial institutions. The act directs financial regulators to support community development financial institutions and minority depository institutions and directs Congress to re-appropriate $429 billion in unobligated CARES Act funds through a newly structured PPP.

The Federal Reserve, in cooperation with the Department of the Treasury, has established many financing and liquidity programs. The Main Street Lending Program is intended to keep credit flowing to small and mid-sized businesses that were in sound financial condition before the coronavirus pandemic but now need financing to maintain operations. The Paycheck Protection Program Liquidity Facility supplies liquidity to PPP participating financial institutions through term financing backed by PPP loans. Further, the federal bank regulatory agencies issued several interim final rules throughout the course of 2020 to neutralize the regulatory capital and liquidity effects for banks that participate in the Federal Reserve liquidity facilities.

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

The COVID-19 pandemic is adversely affecting us, our clients and third-party service providers, and the adverse impacts on our business, financial position, operations and prospects has been and could continue to be significant.

The COVID-19 pandemic has impacted our business and financial results, and its ultimate impact on our business will depend on highly uncertain and unpredictable future developments, including the magnitude and duration of the pandemic and actions taken by governmental authorities in response to the pandemic, particularly within our geographic footprint. The pandemic and resultant governmental action have severely restricted economic activity, reduced economic output, and resulted in a deterioration in economic conditions. This has resulted in temporary closures of many businesses, some of which include our borrowers, the institution of social distancing and sheltering in place requirements, high rates of unemployment and underemployment, historically low interest rates, and disruptions in consumer spending, among other things. These negative economic conditions have negatively impacted our financial results and are expected to have a continued adverse effect on our business, including adversely impacting the demand for our products and services, our net

interest income and our liquidity and regulatory capital requirements. Additionally, as interest rates remain at historically low levels or if unemployment continues to remain high, the increased demand for mortgage products, including refinancing, may decrease.

Furthermore, the pandemic could continue to result in the recognition of credit losses in our loan portfolios and increases in our allowance for credit losses, particularly if businesses remain closed or operate at reduced capacities, the impact on the national economy continues to worsen, or more clients draw on their lines of credit or seek additional loans to help finance their businesses. Small and mid-sized businesses make up a large portion of our commercial loan portfolio and are particularly vulnerable to the financial effects of the COVID-19 pandemic due to their increased reliance on continuing cash flow to fund day-to-day operations. Although government programs have sought, and may further seek, to provide relief to these types of businesses, there can be no assurance that these programs will succeed. Our participation directly or on behalf of our clients in U.S. government programs, such as the Paycheck Protection Program and the Main Street Lending Program, that are designed to support individuals, households and businesses impacted by the economic disruptions caused by the COVID-19 pandemic, could be criticized and subject us to increased governmental and regulatory scrutiny, negative publicity or increased exposure to litigation, which could increase our operational, legal and compliance costs and damage our reputation. In addition, we may be exposed to credit risk on a PPP loan if a determination is made by the SBA that there is a deficiency in the manner in which the loan was originated, funded or serviced. In such a case, the SBA may deny its liability under the guaranty, reduce the amount of the guaranty, or, if it has already paid under the guaranty, seek recovery of any related loss from us.

Our business operations may also be disrupted if significant portions of our workforce, key personnel or third-party service providers are unable to work effectively, including because of illness, unavailability, quarantines, government actions, internal or external failure of information technology infrastructure, or other restrictions in connection with the pandemic. Until the COVID-19 pandemic subsides, it will continue to impact our business, results of operations, and financial condition, as well as our regulatory capital and liquidity ratios and may also have the effect of heightening many of the other risk factors.

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. The COVID-19 pandemic has impacted our local economics through continued temporary closures or other restrictions on businesses, higher unemployment rates and disruption to consumer spending. 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, lower home sales and commercial activity, further or prolonged pressure on energy prices, high unemployment, and the economic effects of natural disasters, severe weather conditions, health emergencies or pandemics, cyberattacks, outbreaks of hostilities, terrorism or other geopolitical instabilities. 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 government-sponsored entities. Changes in any of these policies, including as a result of the new administration, 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 influenced by the application of the acquisition method of accounting, which requires 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 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. The COVID-19 pandemic may negatively impact commercial real estate values, particularly hospitality and leisure, office and retail properties. Residential real estate may also be negatively impacted by higher unemployment driven in part by the pandemic.

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. Further surges in COVID-19 cases may increase the risk of maintaining adequate staffing in our banking centers and other key areas.

Our allowance for credit losses and fair value adjustments may prove to be insufficient to absorb losses inherent in our loan or other real estate owned ("OREO") portfolio.

On January 1, 2020, the Company adopted ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, the new accounting standard promulgated by the Financial Accounting Standards Board ("FASB"), regarding the recognition of credit losses. This standard made significant changes to the accounting and disclosures for credit losses on financial instruments recorded on an amortized cost basis, including our loans held for investment. The new current expected credit loss ("CECL") impairment model requires an estimate of expected credit losses for financial assets measured over the contractual life of an instrument based on historical experience, current conditions and reasonable and supportable forecasts. The standard provides significant flexibility and requires a high degree of judgment in order to develop an estimate of expected lifetime losses. Providing for lifetime losses for our loan portfolio is a change to the previous method of providing allowances for loan losses that are probable and incurred. It may also result in even small changes to future forecasts having a significant impact on the allowance, which could make the allowance more volatile, and regulators may impose additional capital buffers to absorb this volatility. The unique and unprecedented impacts of the COVID-19 pandemic may also lead to greater volatility in economic conditions, potentially increasing volatility in the required allowance amount.

The determination of the appropriate level of the allowance for credit 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 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 credit 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 credit losses and may require an increase in the allowance for credit 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 credit losses, we will need additional provisions to increase the allowance for credit losses. Any increases in the allowance for credit 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. While our OREO portfolio is smaller than it has been in recent years, the COVID-19 pandemic and future acquisitions could result in a higher OREO balance, which could negatively affect our earning as a result of 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. In addition, the COVID-19 pandemic may negatively impact commercial real estate values, particularly hospitality and leisure, office and retail properties. Residential real estate may also be negatively impacted by higher unemployment driven in part by the pandemic.

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 significant additional costs to comply with such requirements which may further adversely affect us. The CARES Act and related legislation have imposed additional restrictions with respect to foreclosures and the handling of delinquent payments. 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. There is also uncertainty regarding what legislative or regulatory changes may occur as a result of the change in leadership resulting from the recent elections, or, if changes occur, the ultimate effect they would have upon our financial condition or results of operations.

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.

With respect to the PPP, we could be criticized and subject to increased governmental and regulatory scrutiny, negative publicity or increased exposure to litigation, which could increase our operational, legal and compliance costs and damage our reputation. In addition, we may be exposed to credit risk on a PPP loan if a determination is made by the SBA that there is a deficiency in the manner in which the loan was originated, funded or serviced. In such a case, the SBA may deny its liability under the guaranty, reduce the amount of the guaranty, or, if it has already paid under the guaranty, seek recovery of any related loss from us.

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 ("GSE"). 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.

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 online banking 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, including internet-based or other digital 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, including relative to our digital banking platform;
- 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, or 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.

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. The Federal Reserve lowered interest rates significantly in 2020. A continued low interest rate environment 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.

In 2017, the United Kingdom’s Financial Conduct Authority (the “FCA”) announced that it will no longer persuade or require banks to submit rates for the London Interbank Offered Rate (“LIBOR”) after 2021. Subsequently, in November 2020, the FCA proposed end dates immediately following the December 31, 2021 publication for the one-week and two-month LIBOR settings, and the June 30, 2023 publication for other LIBOR tenors. These announcements, 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.” In addition, regulators, industry groups and certain committees (e.g., the Alternative Reference Rates Committee) have, among other things, published recommended fallback language for LIBOR-linked financial instruments, identified recommended alternatives for certain LIBOR rates (e.g., the Secured Overnight Financing Rate (“SOFR”) as the recommended alternative to U.S. Dollar LIBOR), and proposed implementations of the recommended alternatives in floating rate instruments. At this time, it is not possible to predict whether these specific recommendations and proposals will be broadly accepted, whether they will continue to evolve and what the effect of their implementation may be on the market for floating-rate financial instruments. We began indexing new retail adjustable rate mortgages to SOFR in the third quarter of 2020 and are in the process of addressing LIBOR-based commercial loans, including updating International Swaps and Derivative Association (“ISDA”) protocols in interest rate derivatives.

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. Such transition may also result in litigation with counterparties impacted by the transition as well as increased regulatory scrutiny and other adverse consequences. Any replacement benchmark ultimately adopted as a substitute for LIBOR may behave differently than LIBOR in a manner detrimental to our financial performance.

We are highly dependent on the internet, cloud technologies and third-party providers. Systems failures or interruptions could have a material adverse effect on us.

Our business is highly dependent on the increasing use of the internet, mobile devices and cloud technologies. Further, we have and will continue to be subject to an increasing risk of operational disruption and information security incidents as a result. These events can arise from a variety of sources, many of which are not under our control because of our reliance on third party technology systems and outsourcing services for key processes including data processing, loan servicing and deposit processing; and for key services including internet, and mobile technology. Potential causes for incidents may include human error, electrical or telecommunication outages, hardware failures, and malicious activity. Any of these events could cause interruption to the Company's operations, as well as the operations of our clients. If significant, sustained or repeated, these events 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, or could trigger further regulatory and financial penalty if determined to be non-compliant with evolving privacy and data protection laws. These events could have a material adverse effect on the Company.

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 and regulatory relationships. 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. The COVID-19 pandemic has heightened these risks as vulnerabilities for our clients and the Company have increased given work from home and shelter at home orders as well as consumer behaviors independent of jurisdictional orders. Furthermore, crisis conditions caused by the pandemic may lead to more attempts by both domestic and international parties to commit cyber-attacks or other fraudulent acts.

Our systems and network are subject to ongoing cyber incidents such as unauthorized access, loss or destruction of data, account takeovers, unavailability of service, computer viruses or other malicious code, phishing schemes, ransomware and other similar events. Third parties with whom we do business may also be sources of cybersecurity risks. 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 cause serious negative consequences, including reputational damage, litigation exposure and, regulatory scrutiny, and could result in a violation of applicable privacy and data protection laws. 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 or ransomware attacks are designed to disrupt key business services, such as client-facing web sites. We are not able to anticipate or implement preventive measures against all security breaches of these types, especially because the techniques used change frequently and 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 third-party 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 significantly on numerous other third party service providers to conduct other aspects of our business operations and face similar risks relating to them. While many of our agreements with third parties contain indemnification provisions, we may not be able to recover sufficiently, or at all, under the provisions to offset any losses we may incur from third-party cyber incidents.

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 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 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 on acquired loans is accreted into interest income over the weighted average remaining contractual life of the loans. Therefore, our net interest margins may initially increase due to the discount accretion. We expect the yields on the total loan portfolio will decline as our acquired loan portfolios pay down or mature and the corresponding accretion of the discount decreases. We expect downward pressure on our interest income to the extent that the runoff of our acquired loan portfolios is not replaced with comparable high-yielding loans. This could result in higher net interest margins and interest income in current periods and lower net interest margins and interest income in future periods.

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

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

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; 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 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 organic loan growth and strategic acquisitions of financial services franchises. 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. As a result of the COVID-19 pandemic and the ensuing economic uncertainty, our ability to develop consistent organic loan growth has been challenged as the Company continues to take a very careful approach to extending new credit.

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 write-downs 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 acquisition and, thus, produce lower returns than we believed our purchase price 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. Valuations for acquired assets are more challenging because of the COVID-19 pandemic, creating a risk of greater volatility in the future. 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 a majority 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, including with respect to the CARES Act, 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. This risk could be intensified by the COVID-19 pandemic, which may negatively impact commercial real estate values, particularly hospitality and leisure, office and retail properties. Residential real estate may also be negatively impacted by higher unemployment driven in part by the pandemic.

Risks Relating to the Regulation of Our Industry

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, including the effects of the Dodd Frank Act Wall Street Reform and Consumer Protection Act of 2010, 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.

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 or 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 declare in its unilateral discretion. Dividends are paid 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, 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, 2020, we operated 45 banking centers in Colorado, 37 in Kansas and Missouri, five in New Mexico, two in Texas and one in Utah. Of these banking centers, 66 were owned and 24 locations were leased.

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Item 3. LEGAL PROCEEDINGS.

From time to time, we are a party to various litigation matters incidental to the conduct of our business. We do not believe that any of our pending legal proceedings, individually or in the aggregate, will have a material adverse effect on our business, prospects, financial condition, results of operations or liquidity.

Item 4. MINE SAFETY DISCLOSURES.

None.

PART II

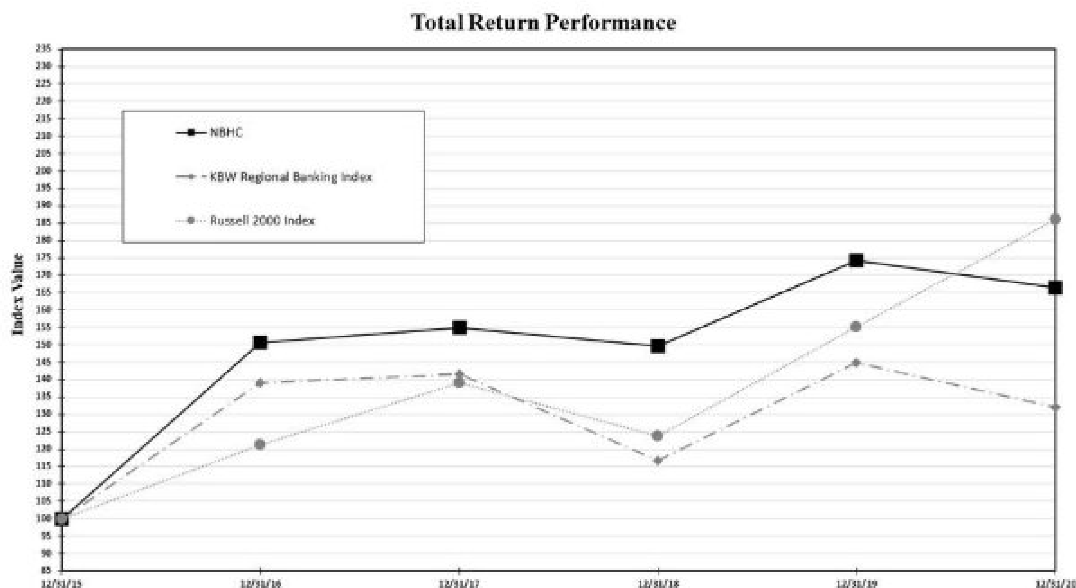
Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market for Registrant's Common Equity

Shares of the Company's common stock are traded on the New York Stock Exchange ("NYSE") under the symbol "NBHC". The Company had 184 shareholders of record as of February 22, 2021. Management estimates that the number of beneficial owners is significantly greater.

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, 2015, with dividends invested on a total return basis.



	Period Ending					
Index	**12/31/15**	**12/31/16**	**12/31/17**	**12/31/18**	**12/31/19**	**12/31/20**
NBHC	100.00	150.66	154.84	149.53	174.28	166.50
KBW Regional Banking Index	100.00	139.12	141.63	116.86	144.76	132.18
Russell 2000 Index	100.00	121.28	139.02	123.69	155.21	186.15

The following table sets forth information about our repurchases of our common stock during the fourth quarter of 2020:

Period	**Total number of shares purchased**	**Average price paid per share**	**Total number of shares purchased as part of publicly announced plans or programs**	**Maximum approximate dollar value of shares that may yet be purchased under the plans or programs** [(2)]
October 1 - October 31, 2020[(1)]	552	$ 26.36	—	$ 43,101,943
November 1 - November 30, 2020[(1)]	5,467	30.15	—	43,101,943
Total	6,019	$ 29.80	—	$ 43,101,943

(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 February 26, 2020, the Company's Board of Directors authorized the repurchase of up to an additional $50.0 million of common stock. Under this authorization, $43,101,943 remained available for purchase at December 31, 2020.

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, 2020, the aggregate number of Company common stock available for issuance under the 2014 Plan was 4,314,726 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% of the fair market value of Company common stock on the last day of the offering period. As of December 31, 2020, the aggregate number of Company common stock available for issuance under the ESPP was 302,876 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	768,129	$ 26.35	4,617,602
Equity plans not approved by security holders	—	—	—
Total	768,129	$ 26.35	4,617,602

Item 6. SELECTED FINANCIAL DATA.

The following table sets forth a summary of selected historical financial information derived from our audited consolidated financial statements as of and for the five years ended December 31, 2020. This information 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 and per share data, or as otherwise noted.

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Summary of Selected Historical Consolidated Financial Data

Consolidated Statements of Financial Condition Data:

	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016
Cash and cash equivalents	$ 605,565	$ 110,190	$ 109,556	$ 257,364	$ 152,736
Investment securities available-for-sale (at fair value)	661,955	638,249	791,102	855,345	884,232
Investment securities held-to-maturity	376,615	182,884	235,398	258,730	332,505
Non-marketable securities	16,493	29,751	27,555	15,030	14,949
Loans [1]	4,353,726	4,415,406	4,092,308	3,178,947	2,860,921
Allowance for credit losses	(59,777)	(39,064)	(35,692)	(31,264)	(29,174)
Loans, net	4,293,949	4,376,342	4,056,616	3,147,683	2,831,747
Loans held for sale	247,813	117,444	48,120	4,629	24,187
Other real estate owned	4,730	7,300	10,596	10,491	15,662
Premises and equipment, net	106,982	112,151	109,986	93,708	95,671
Goodwill and other intangible assets, net	132,955	126,388	128,497	61,237	66,579
Other assets	212,893	194,813	159,240	139,248	154,778
Total assets	$ 6,659,950	$ 5,895,512	$ 5,676,666	$ 4,843,465	$ 4,573,046
Deposits	$ 5,676,232	$ 4,737,132	$ 4,535,621	$ 3,979,559	$ 3,868,649
Other liabilities	163,027	391,460	446,039	331,499	168,208
Total liabilities	5,839,259	5,128,592	4,981,660	4,311,058	4,036,857
Total shareholders’ equity	820,691	766,920	695,006	532,407	536,189
Total liabilities and shareholders’ equity	$ 6,659,950	$ 5,895,512	$ 5,676,666	$ 4,843,465	$ 4,573,046

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

Consolidated Statements of Operations Data:

	As of and for the years ended				
	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016
Interest income	$ 218,002	$ 242,601	$ 221,391	$ 164,421	$ 160,448
Interest expense	25,056	36,771	23,954	18,115	14,808
Net interest income	192,946	205,830	197,437	146,306	145,640
Provision for loan losses	17,630	11,643	5,197	12,972	23,651
Net interest income after provision for loan losses	175,316	194,187	192,240	133,334	121,989
Non-interest income	140,258	82,752	70,775	39,205	40,027
Non-interest expense	206,177	180,745	189,334	136,677	136,009
Income before income taxes	109,397	96,194	73,681	35,862	26,007
Income tax expense	20,806	15,829	12,230	21,283	2,947
Net income	$ 88,591	$ 80,365	$ 61,451	$ 14,579	$ 23,060
Share Information:					
Earnings per share, basic	$ 2.87	$ 2.57	$ 2.00	$ 0.54	$ 0.81
Earnings per share, diluted	2.85	2.55	1.95	0.53	0.79
Adjusted earnings per share, diluted[1]	2.91	2.57	2.16	1.26	0.79
Dividends paid	0.80	0.75	0.54	0.34	0.22
Book value per share	26.79	24.60	22.59	19.81	20.32
Tangible common book value per share[2]	23.09	20.89	18.77	17.94	18.15
Total shareholders' equity to total assets	12.32%	13.01%	12.24%	10.99%	11.72%
Tangible common equity to tangible assets[2]	10.80%	11.27%	10.39%	10.06%	10.61%
Weighted average common shares outstanding, basic	30,857,086	31,175,825	30,748,234	26,928,763	28,313,061
Weighted average common shares outstanding, diluted	31,075,857	31,530,817	31,430,074	27,709,659	29,091,343
Common shares outstanding	30,634,291	31,176,627	30,769,063	26,875,585	26,386,583

(1) Represents a non-GAAP financial measure. See non-GAAP reconciliation below.

(2) Tangible book value per share and tangible common equity to tangible assets are non-GAAP financial measures. 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.”

Key Ratios

	As of and for the years ended				
	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016
Return on average assets	1.40%	1.38%	1.10%	0.31%	0.50%
Return on average tangible assets[1]	1.44%	1.42%	1.15%	0.38%	0.57%
Return on average tangible assets, adjusted[1]	1.47%	1.43%	1.26%	0.82%	0.57%
Return on average equity	11.24%	10.89%	9.28%	2.67%	3.95%
Return on average tangible common equity[1]	13.27%	13.07%	11.60%	3.61%	5.04%
Return on average tangible common equity, adjusted[1]	13.54%	13.18%	12.76%	7.75%	5.04%
Loan to deposit ratio (end of period)	76.70%	93.21%	90.23%	80.00%	74.58%
Non-interest bearing deposits to total deposits (end of period)	37.19%	25.01%	23.64%	22.68%	21.89%
Net interest margin[3]	3.33%	3.83%	3.85%	3.36%	3.39%
Net interest margin FTE[1][3][8]	3.42%	3.93%	3.93%	3.50%	3.49%
Interest rate spread FTE[4][8]	3.21%	3.65%	3.77%	3.35%	3.38%
Yield on earning assets[2]	3.76%	4.52%	4.31%	3.78%	3.74%
Yield on earning assets FTE[1][2][8]	3.85%	4.61%	4.40%	3.91%	3.84%
Cost of interest bearing liabilities	0.64%	0.96%	0.63%	0.56%	0.46%
Cost of deposits	0.45%	0.64%	0.45%	0.41%	0.36%
Non-interest income to total revenue FTE[8]	41.46%	28.18%	25.95%	20.49%	21.09%
Non-interest expense to average assets	3.26%	3.10%	3.38%	2.90%	2.92%
Non-interest expense to average assets, adjusted[1]	3.22%	3.08%	3.23%	2.84%	2.92%
Efficiency ratio	61.52%	62.22%	69.78%	70.80%	70.30%
Efficiency ratio FTE[1][8]	60.59%	61.15%	68.64%	68.63%	68.79%
Efficiency ratio FTE, adjusted[1][8]	59.90%	60.84%	65.72%	66.97%	68.79%
Total Loans Asset Quality Data[5][6][7]					
Non-performing loans to total loans	0.47%	0.49%	0.60%	0.66%	1.07%
Non-performing loans to total loans excluding PPP loans	0.49%	0.49%	0.60%	0.66%	1.07%
Non-performing assets to total loans and OREO	0.58%	0.66%	0.85%	0.99%	1.61%
Non-performing assets to total loans and OREO excluding PPP loans	0.60%	0.66%	0.85%	0.99%	1.61%
Allowance for credit losses to total loans	1.37%	0.88%	0.87%	0.98%	1.02%
Allowance for credit losses to total loans excluding PPP loans	1.43%	0.88%	0.87%	0.98%	1.02%
Allowance for credit losses to non-performing loans	293.21%	179.62%	145.94%	148.88%	94.98%
Net charge-offs to average loans	0.06%	0.19%	0.02%	0.36%	0.80%

(1) Ratio represents a 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 or loans are excluded from interest-earning assets.
(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 consist of non-accruing loans and restructured loans on non-accrual.
(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 ("FTE") basis using the statutory rate of 21% for 2020, 2019 and 2018 and 35% for 2017 and 2016. The taxable equivalent adjustments included above are $5,103, $5,065, $4,482, $5,852 and $4,081 for the years ended 2020, 2019, 2018, 2017, and 2016, respectively.

About Non-GAAP Financial Measures

Certain of the financial measures and ratios we present, including “tangible assets,” “return on average tangible assets,” “return on average tangible common equity,” “tangible common book value,” “tangible common book value per share,” “tangible common equity,” “tangible common equity to tangible assets,” “adjusted 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.

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

Tangible Common Book Value Ratios

	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016
Total shareholders' equity	$ 820,691	$ 766,920	$ 695,006	$ 532,407	$ 536,189
Less: goodwill and core deposit intangible assets, net	(122,575)	(123,758)	(124,941)	(61,237)	(66,580)
Add: deferred tax liability related to goodwill	9,155	8,241	7,327	10,873	9,323
Tangible common equity (non-GAAP)	$ 707,271	$ 651,403	$ 577,392	$ 482,043	$ 478,932
Total assets	$ 6,659,950	$ 5,895,512	$ 5,676,666	$ 4,843,465	$ 4,573,046
Less: goodwill and core deposit intangible assets, net	(122,575)	(123,758)	(124,941)	(61,237)	(66,580)
Add: deferred tax liability related to goodwill	9,155	8,241	7,327	10,873	9,323
Tangible assets (non-GAAP)	$ 6,546,530	$ 5,779,995	$ 5,559,052	$ 4,793,101	$ 4,515,789
Tangible common equity to tangible assets calculations:					
Total shareholders' equity to total assets	12.32%	13.01%	12.24%	10.99%	11.72%
Less: impact of goodwill and core deposit intangible assets, net	(1.52)%	(1.74)%	(1.85)%	(0.93)%	(1.11)%
Tangible common equity to tangible assets (non-GAAP)	10.80%	11.27%	10.39%	10.06%	10.61%
Tangible common book value per share calculations:					
Tangible common equity (non-GAAP)	$ 707,271	$ 651,403	$ 577,392	$ 482,043	$ 478,932
Divided by: ending shares outstanding	30,634,291	31,176,627	30,769,063	26,875,585	26,386,583
Tangible common book value per share (non-GAAP)	$ 23.09	$ 20.89	$ 18.77	$ 17.94	$ 18.15
Tangible common book value per share, excluding accumulated other comprehensive income calculations:					
Tangible common equity (non-GAAP)	$ 707,271	$ 651,403	$ 577,392	$ 482,043	$ 478,932
Accumulated other comprehensive income, net of tax	(9,766)	(2,062)	11,275	6,242	1,762
Tangible common book value, excluding accumulated other comprehensive income, net of tax (non-GAAP)	697,505	649,341	588,667	488,285	480,694
Divided by: ending shares outstanding	30,634,291	31,176,627	30,769,063	26,875,585	26,386,583
Tangible common book value per share, excluding accumulated other comprehensive income, net of tax (non-GAAP)	$ 22.77	$ 20.83	$ 19.13	$ 18.17	$ 18.22

Return on Average Tangible Assets and Return on Average Tangible Equity

	As of and for the years ended				
	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016
Net income	$ 88,591	$ 80,365	$ 61,451	$ 14,579	$ 23,060
Add: impact of core deposit intangible amortization expense, after tax	910	899	1,649	3,259	3,343
Net income adjusted for impact of core deposit intangible amortization expense, after tax	$ 89,501	$ 81,264	$ 63,100	$ 17,838	$ 26,403
Average assets	$ 6,326,268	$ 5,837,121	$ 5,607,532	$ 4,705,241	$ 4,651,953
Less: average goodwill and core deposit intangible asset, net of deferred tax liability related to goodwill	(114,031)	(116,104)	(118,546)	(52,958)	(59,977)
Average tangible assets (non-GAAP)	$ 6,212,237	$ 5,721,017	$ 5,488,986	$ 4,652,283	$ 4,591,976
Average shareholders' equity	$ 788,286	$ 737,923	$ 662,420	$ 546,716	$ 583,686
Less: average goodwill and core deposit intangible asset, net of deferred tax liability related to goodwill	(114,031)	(116,104)	(118,546)	(52,958)	(59,977)
Average tangible common equity (non-GAAP)	$ 674,255	$ 621,819	$ 543,874	$ 493,758	$ 523,709
Return on average assets	1.40%	1.38%	1.10%	0.31%	0.50%
Return on average tangible assets (non-GAAP)	1.44%	1.42%	1.15%	0.38%	0.57%
Return on average equity	11.24%	10.89%	9.28%	2.67%	3.95%
Return on average tangible common equity (non-GAAP)	13.27%	13.07%	11.60%	3.61%	5.04%

Fully Taxable Equivalent Yield on Earning Assets and Net Interest Margin

	As of and for the years ended				
	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016
Interest income	$ 218,002	$ 242,601	$ 221,391	$ 164,421	$ 160,448
Add: impact of taxable equivalent adjustment	5,103	5,065	4,482	5,852	4,081
Interest income FTE (non-GAAP)	$ 223,105	$ 247,666	$ 225,873	$ 170,273	$ 164,529
Net interest income	$ 192,946	$ 205,830	$ 197,437	$ 146,306	$ 145,640
Add: impact of taxable equivalent adjustment	5,103	5,065	4,482	5,852	4,081
Net interest income FTE (non-GAAP)	$ 198,049	$ 210,895	$ 201,919	$ 152,158	$ 149,721
Average earning assets	$ 5,795,864	$ 5,368,073	$ 5,131,694	$ 4,353,320	$ 4,290,171
Yield on earning assets	3.76%	4.52%	4.31%	3.78%	3.75%
Yield on earning assets FTE (non-GAAP)	3.85%	4.61%	4.40%	3.91%	3.84%
Net interest margin	3.33%	3.83%	3.85%	3.36%	3.39%
Net interest margin FTE (non-GAAP)	3.42%	3.93%	3.93%	3.50%	3.49%

Efficiency Ratio

	As of and for the years ended				
	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016
Net interest income	$ 192,946	$ 205,830	$ 197,437	$ 146,306	$ 145,640
Add: impact of taxable equivalent adjustment	5,103	5,065	4,482	5,852	4,081
Net interest income, FTE (non-GAAP)	$ 198,049	$ 210,895	$ 201,919	$ 152,158	$ 149,721
Non-interest income	$ 140,258	$ 82,752	$ 70,775	$ 39,205	$ 40,027
Non-interest expense	$ 206,177	$ 180,745	$ 189,334	$ 136,677	$ 136,009
Less: core deposit intangible asset amortization	(1,183)	(1,183)	(2,170)	(5,342)	(5,480)
Non-interest expense, adjusted for core deposit intangible asset amortization	$ 204,994	$ 179,562	$ 187,164	$ 131,335	$ 130,529
Non-interest expense, adjusted for core deposit intangible asset amortization	$ 204,994	$ 179,562	$ 187,164	$ 131,335	$ 130,529
Banking center consolidation-related expense	(2,348)	(898)	—	—	—
Non-recurring Peoples acquisition-related expenses	—	—	(7,957)	(2,691)	—
Tax reform bonus[(1)]	—	—	—	(491)	—
Adjusted non-interest expense (non-GAAP)	$ 202,646	$ 178,664	$ 179,207	$ 128,153	$ 130,529
Efficiency ratio	61.52%	62.22%	69.78%	70.80%	70.30%
Efficiency ratio FTE (non-GAAP)	60.59%	61.15%	68.64%	68.63%	68.79%
Adjusted efficiency ratio FTE (non-GAAP)	59.90%	60.84%	65.72%	66.97%	68.79%

(1) 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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Adjusted Financial Results

	As of and for the years ended				
	December 31, 2020	**December 31, 2019**	**December 31, 2018**	**December 31, 2017**	**December 31, 2016**
Adjustments to net income:					
Net income	$ 88,591	$ 80,365	$ 61,451	$ 14,579	$ 23,060
Adjustments[1][2]	1,806	689	6,321	20,430	—
Adjusted net income (non-GAAP)	$ 90,397	$ 81,054	$ 67,772	$ 35,009	$ 23,060
Adjustments to earnings per share:					
Earnings per share - diluted	$ 2.85	$ 2.55	$ 1.95	$ 0.53	$ 0.79
Adjustments[1][2]	0.06	0.02	0.21	0.73	—
Adjusted earnings per share - diluted (non-GAAP)	$ 2.91	$ 2.57	$ 2.16	$ 1.26	$ 0.79
Adjustments to return on average tangible assets:					
Adjusted net income (non-GAAP)	$ 90,397	$ 81,054	$ 67,772	$ 35,009	$ 23,060
Add: impact of core deposit intangible amortization expense, after tax	910	899	1,649	3,259	3,343
Net income adjusted for impact of core deposit intangible amortization expense, after tax	91,307	81,953	69,421	38,268	26,403
Average tangible assets (non-GAAP)	6,212,237	5,721,017	5,488,986	4,652,283	4,591,976
Adjusted return on average tangible assets (non-GAAP)	1.47%	1.43%	1.26%	0.82%	0.57%
Adjustments to return on average tangible common equity:					
Net income adjusted for impact of core deposit intangible amortization expense, after tax	$ 91,307	$ 81,953	$ 69,421	$ 38,268	$ 26,403
Average tangible common equity (non-GAAP)	674,255	621,819	543,874	493,758	523,709
Adjusted return on average tangible common equity (non-GAAP)	13.54%	13.18%	12.76%	7.75%	5.04%
Adjustments to non-interest expense:					
Non-interest expense	$ 206,177	$ 180,745	$ 189,334	$ 136,677	$ 136,009
Adjustments[1][2]	2,348	898	7,957	3,182	—
Adjusted non-interest expense (non-GAAP)	203,829	179,847	181,377	133,495	136,009
Non-interest expense to average assets, adjusted (non-GAAP)	3.22%	3.08%	3.23%	2.84%	2.92%
(1) Adjustments:					
Non-interest expense adjustments:					
Banking center consolidation-related expense	$ 2,348	$ 898	$ —	$ —	$ —
Non-recurring Peoples acquisition-related expenses	—	—	7,957	2,691	—
Tax reform bonus[3]	—	—	—	491	—
Total non-interest expense adjustments (non-GAAP)	$ 2,348	$ 898	$ 7,957	$ 3,182	$ —
Total pre-tax adjustments (non-GAAP)	$ 2,348	$ 898	$ 7,957	$ 3,182	$ —
Collective tax expense impact	(542)	(209)	(1,636)	(1,209)	—
Deferred tax asset remeasurement	—	—	—	18,457	—
Adjustments (non-GAAP)	$ 1,806	$ 689	$ 6,321	$ 20,430	$ —

(2) Non-GAAP adjustments for the year ended December 31, 2019 have been updated to conform to the current period presentation.

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

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, 2020, 2019, and 2018, 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.

Management's discussion focuses on 2020 results compared to 2019. For a discussion of 2019 results compared to 2018, refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

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

Overview

Our focus is on building relationships by creating a win-win scenario for our clients and our Company. We believe in providing solutions and services to our clients that are based on fairness and simplicity. We have established a solid financial services franchise with a sizable presence for deposit gathering and building client relationships necessary for growth. We also believe that our established presence in our core markets of Colorado, the greater Kansas City region, Texas, Utah and New Mexico, which are outperforming national averages, positions us well for growth opportunities. As of December 31, 2020, we had $6.7 billion in assets, $4.4 billion in loans, $5.7 billion in deposits and $0.8 billion in equity.

Recent Events

The COVID-19 pandemic has caused substantial disruption to the communities we serve and has changed the way we live and work. We continue to remain committed to ensuring our associates, clients and communities are receiving the support they need during these challenging times. Our banking centers remain operational through our drive-thru services and on an appointment-only basis in the lobbies. We have continued to leverage our digital banking platform with our clients. Our teams have been working diligently to support our clients who are experiencing financial hardship due to COVID-19 through participation in the SBA's Paycheck Protection Program, including assistance with PPP loan forgiveness applications, and loan modifications, as needed. While the initial release of the vaccine is promising, the length of time that the government-mandated measures must remain in place to address COVID-19 is unknown. The pandemic has already had a significantly negative impact to the U.S. labor market, consumer spending and business operations, and it is not clear how quickly the vaccine can be widely deployed and when government-mandated measures will be removed.

Operating Highlights and Key Challenges

Profitability and returns

- Net income increased $8.2 million, or 10.2%, to $88.6 million, as of December 31, 2020, compared to the prior year. Net income during 2020 included $1.8 million, after tax, of expenses related to banking center consolidations. Adjusting for these expenses, net income would have been $90.4 million, or $2.91 per diluted share. Net income during 2019 included $0.7 million, after tax, of expenses related to banking center consolidations. Adjusting for these expenses, net income would have been $81.1 million, or $2.57 per diluted share.
- A CECL model-driven provision for loan losses totaled $17.6 million, including a $0.1 million provision for unfunded loan commitment reserves, driven by deteriorating economic conditions caused by the impact of COVID-19. The year ended December 31, 2019 included a loan loss provision of $11.6 million.
- The return on average tangible assets was 1.44% for 2020, compared to 1.42% for 2019. Adjusting for the banking center consolidation-related expense, the return on average tangible assets for the years ended December 31, 2020 and 2019 was 1.47% and 1.43%, respectively.

- The return on average tangible common equity was 13.27% for 2020, compared to 13.07% for 2019. Adjusting for the banking center consolidation-related expense, the return on average tangible common equity for the years ended December 31, 2020 and 2019 was 13.54% and 13.18%, respectively.

Strategic execution

- Continue to pro-actively address the impacts of the COVID-19 pandemic through executing on our priorities as detailed in the “Recent Events” section above.
- Funded $358.9 million in SBA Paycheck Protection Program loans for 2,164 clients. In assisting our clients through the forgiveness process we had achieved forgiveness on 50% of our original PPP loan balances with the remaining balance totaling $176.1 million as of December 31, 2020.
- As part of our continued focus on improving operating efficiencies and investing in digital solutions for our clients, we consolidated 11 banking centers during 2020 and one in January of 2021. Consolidation-related expense of $2.3 million was recorded to non-interest expense during the year ended December 31, 2020. Additionally, in January 2021, we announced the consolidation of seven additional banking centers across our markets that are expected to be substantially completed in the first half of 2021. Once completed, this will bring our total banking center network down by 22%, compared to the third quarter of 2019 when we began these initiatives.
- Maintain 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.
- We continue to carefully monitor our entire loan portfolio and have no industry exposure exceeding 5% of total loans for industries highly impacted by COVID-19, such as restaurants, retailers, hospital/medical, multifamily, oil and gas, hotels and lodging.

Loan portfolio

- Loans outstanding totaled $4.4 billion, decreasing $61.7 million, or 1.4%, from the prior year, largely due to lower commercial and industrial loans of $140.9 million, or 10.0%, that were offset by PPP loans of $176.1 million.
- We are taking a very careful approach to extending new credit as well as continuing an intense focus on managing credit risk and yield. Total loan originations during the year ended December 31, 2020 were $1.2 billion, led by commercial loan originations of $807.3 million, which included PPP loan originations of $358.9 million.
- COVID-related loan modifications are handled individually on a relationship basis. As of December 31, 2020, $173.6 million, or 4.0%, of total loans were on a COVID-related modification plan.

Credit quality

- Provision for loan losses totaled $17.6 million and $11.6 million during 2020 and 2019, respectively. During 2020, provision for loan losses was recorded to provide coverage for the impact of deteriorating economic conditions as a result of COVID-19 and included a $0.1 million provision for unfunded loan commitment reserves.
- Allowance for credit losses increased by 53.0% from December 31, 2019 to December 31, 2020 due to the adoption of CECL on January 1, 2020 and to provide coverage for the economic impact of the COVID-19 pandemic. The ACL totaled 1.37% of total loans compared to 0.88% at December 31, 2019. Excluding PPP loans, the ACL totaled 1.43% of total loans at December 31, 2020.
- Net charge-offs of $2.7 million and $8.3 million were recorded during 2020 and 2019, respectively. Net charge-offs to average total loans totaled 0.06% and 0.19% for 2020 and 2019, respectively.
- Credit quality remained strong, as non-performing loans (comprised of non-accrual loans and non-accrual troubled debt restructured loans) decreased to 0.47% of total loans at December 31, 2020, compared to 0.49% at December 31, 2019. Non-performing assets to total loans and OREO totaled 0.58% at December 31, 2020 compared to 0.66% at December 31, 2019. Excluding PPP loans, non-performing loans to total loans were 0.49%, and non-performing assets to total loans and OREO were 0.60% at December 31, 2020.
- Loans 30 days or more past due and still accruing interest totaled three basis points of total loans, the lowest level in our company’s history, as of December 31, 2020.

Client deposit funded balance sheet

- Average transaction deposits for the fourth quarter of 2020 totaled $4.6 billion, increasing 28.8%, compared to $3.6 billion for the same period in the prior year.
- Average total deposits for the fourth quarter of 2020 totaled $5.7 billion, increasing 21.1%, compared to $4.7 billion for the same period in the prior year.
- The mix of transaction deposits to total deposits improved 490 basis points to 82.6% at December 31, 2020 from 77.7% at December 31, 2019.
- Cost of deposits totaled 0.45% for the year ended December 31, 2020, decreasing 19 basis points compared to the year ended December 31, 2019.

Revenues

- Fully taxable equivalent net interest income totaled $198.0 million for the year ended December 31, 2020 and decreased $12.8 million, or 6.1%, compared to the prior year due to the decline in short-term interest rates as a result of monetary policy actions by the Federal Reserve.
- The FTE net interest margin narrowed 51 basis points to 3.42% for the year ended December 31, 2020, as compared to the prior year due to lower earning asset yields. The yield on earning assets decreased 76 basis points, led by an 73 basis point decrease in the originated loan portfolio yields due to the decline in short-term interest rates. The cost of funds decreased 28 basis points to 0.46%.
- Non-interest income totaled $140.3 million during 2020, increasing $57.5 million, or 69.5%, from 2019, primarily driven by record mortgage banking income totaling $102.4 million. During 2020, service charges and bank card fees decreased a combined $2.1 million due to changes in consumer behavior due to the COVID-19 pandemic.

Expenses

- Non-interest expense totaled $206.2 million during 2020, representing an increase of $25.4 million, or 14.1%, from 2019. Salaries and benefits increased $18.4 million due to higher mortgage banking compensation-related expense. Banking center consolidation-related expense totaling $2.3 million was incurred during 2020, compared to $0.9 million during the same period in the last year. Additionally, included in the prior period were net gains on the sale of OREO of $7.2 million, compared to minimal net gains on the sale of OREO recorded in 2020.
- Income tax expense totaled $20.8 million during 2020, compared to $15.8 million during 2019. Tax expense was lowered by $2.2 million of tax benefit from stock compensation activity during 2019. Adjusting for the stock compensation activity, the 2020 and 2019 effective tax rate was 19.0% and 18.7%, respectively.

Strong capital position

- Capital ratios continue to be strong and in excess of federal bank regulatory agency “well capitalized” thresholds. As of December 31, 2020, our consolidated tier 1 leverage ratio was 10.70%, and our common equity tier 1 and consolidated tier 1 risk based capital ratios were 14.70%.
- At December 31, 2020, common book value per share was $26.79. The tangible common book value per share increased $2.20 to $23.09 at December 31, 2020, compared to December 31, 2019, as the earnings and positive fair market value adjustments in the available-for-sale securities portfolio outpaced the share repurchases, dividends and CECL cumulative effect adjustment.
- The Bank maintains ample liquidity with excess cash liquidity of $365 million and access to $2.2 billion in readily available funds.

Key Challenges

There are a number of significant challenges confronting us and our industry. We face continual challenges implementing our business strategy, including growing the assets, particularly loans, and deposits of our business amidst intense competition, changing interest rates, adhering to changes in the regulatory environment and identifying and consummating disciplined acquisition and other expansionary opportunities in a very competitive environment. Prevailing interest rates began

decreasing in mid-2019, remain low and are expected to remain near zero for the foreseeable future as a result of monetary policy actions by the Federal Reserve.

The COVID-19 pandemic has caused disruption and is likely to continue to present challenges to our business. Temporary closures and sheltering in place policies have altered the way our clients and associates live and work. Our banking centers remain operational through our drive-thru services and on an appointment-only basis in the lobbies, and we have continued to leverage our digital banking platform with our clients. Our teams have been working diligently to support our clients who are experiencing financial hardship due to COVID-19 through participation in the SBA's Paycheck Protection Program, including assistance with PPP loan forgiveness applications, and loan modifications, as needed. While conditions regarding the pandemic may be improving, there is continued uncertainty regarding economic recovery, the success of vaccine distribution and the effectiveness of administered vaccines.

Our markets have historically outperformed the national averages on many key indicators; however, the economic impact from the COVID-19 pandemic continues to cause economic strain nationally and across all of our markets. We are taking a very careful approach to extending new credit as well as continuing an intense focus on managing credit risk and yield. 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.

As of December 31, 2020, the Company had low exposure to industries highly impacted by the COVID-19 pandemic. Within the commercial loan segment, restaurants were 4.8%, retailers 2.9%, hospital/medical 4.8% and oil and gas 0.7% of total loans. Within the commercial real estate non-owner occupied loan segment, hotel and lodging was 4.2%, multifamily 1.6% and retail 1.2% of total loans. The Company had no direct exposure to other industries and loan types more highly impacted by the pandemic including aviation, cruise lines, energy services, auto manufacturing/dealer floor plans, hedge funds, convention centers, credit cards, malls and taxi/ride share businesses. Furthermore, the Company had no consumer credit card, indirect auto or car leasing exposure.

The agriculture industry is in the sixth year of depressed commodity prices and is also being impacted by the COVID-19 pandemic. Our food and agribusiness portfolio is only 4.8% of total loans and is well-diversified across food production, crop and livestock types. Crop and livestock loans represent 0.8% of total loans. We have maintained relationships with food and agribusiness clients that generally possess low leverage and, correspondingly, low bank debt to assets, minimizing any potential credit losses in the future.

Our loans outstanding at December 31, 2020 totaled $4.4 billion, representing a decrease of $61.7 million, or 1.4%, compared to December 31, 2019, largely due to lower commercial and industrial loans of $140.9 million, or 10.0%. The decrease was partially offset by PPP loans, which totaled $176.1 million as of December 31, 2020. During 2020, our weighted average rate on new loans funded at the time of origination was 3.06%, compared to the weighted average yield of our originated loan portfolio of 4.05% (FTE). Future growth in our interest income will ultimately be dependent on our ability to continue to generate sufficient volumes of high-quality originated loans and other high-quality earning assets as well as Federal Reserve interest rate policy decisions.

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, including FinTechs, 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 determination of the allowance

for credit losses. See additional discussion of our ACL policy in note 2 – Summary of Significant Accounting Policies in the notes to our consolidated financial statements for the year ended December 31, 2020.

The determination of the ACL, which represents management's estimate of lifetime credit losses inherent in our loan portfolio at the balance sheet date, involves a high degree of judgment and complexity. The Company estimates the collective ACL by first disaggregating the loan portfolio into segments based upon broad characteristics such as primary use and underlying collateral. Within these segments, the portfolio is further disaggregated into classes of loans with similar attributes and risk characteristics. The collective ACL is determined at the class level, analyzing loss history based upon specific loss drivers and risk factors affecting each loan class. The Company utilizes a discounted cash flow ("DCF") model that incorporates forecasts of certain national macroeconomic factors (reasonable and supportable forecasts) which drive the losses predicted in establishing the Company's collective ACL. Management accounts for the inherent uncertainty of the underlying economic forecast by reviewing and weighting alternate forecast scenarios. For periods beyond the reasonable and supportable forecast period, the Company reverts to historical long-term average loss rates on a straight-line basis. Additionally, the collective ACL calculation includes subjective adjustments for qualitative risk factors that are likely to cause estimated credit losses to differ from historical experience. Changes in these assumptions, estimates or the conditions surrounding them may have a material impact on our financial condition. For further discussion of the ACL, see notes 2 and 7 to our consolidated financial statements.

Future Accounting Pronouncements

The Company is still evaluating the impact from ASU 2020-04, *Reference Rate Reform* (Topic 848): *Facilitation of the Effects of Reference Rate Reform on Financial Reporting* and does not expect the adoption of that pronouncement to have a material impact on its financial statements.

Financial Condition

Total assets were $6.7 billion at December 31, 2020, compared to $5.9 billion at December 31, 2019, an increase of $764.4 million, or 13.0%. Cash and cash equivalents increased $495.4 million, and total loans decreased $61.7 million, or 1.4%. The allowance for credit losses increased $20.7 million, or 53.0%, to $59.8 million at December 31, 2020. It included a CECL adoption Day 1 increase of $5.8 million, partially offsetting the increase in total assets.

During 2020, lower cost demand, savings and money market deposits ("transaction deposits") increased $1.0 billion, or 27.5%, compared to the prior year, as we benefited from cash inflows resulting from the CARES Act economic stimulus and continued developing full banking relationships with our clients. Our clients used their core operating accounts for PPP funds and economic stimulus checks, which aided the strong deposit growth. In addition to providing excess cash liquidity, the increase in transaction deposits provided low-cost funding utilized to fund PPP loans and pay off short-term borrowings.

Investment securities

Available-for-sale

Total investment securities available-for-sale were $662.0 million at December 31, 2020, compared to $638.2 million at December 31, 2019, an increase of $23.7 million, or 3.71%. During 2020 and 2019, purchases of available-for-sale securities totaled $286.1 million and $45.7 million, respectively. Maturities and paydowns of available-for-sale securities during 2020 and 2019 totaled $271.5 million and $195.5 million, respectively. There were no sales of available-for-sale securities during 2020. Proceeds from sales of available-for-sale securities during 2019 totaled $20.4 million.

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

	December 31, 2020				December 31, 2019			
	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	$ 193,424	$ 196,334	29.6%	1.36%	$ 93,770	$ 95,256	14.9%	2.59%
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	454,345	462,779	69.9%	1.45%	543,275	542,037	84.9%	2.13%
Municipal securities	362	375	0.1%	3.46%	495	487	0.1%	3.60%
Corporate debt	2,000	1,998	0.3%	5.83%	—	—	—	—
Other securities	469	469	0.1%	0.00%	469	469	0.1%	0.00%
Total investment securities available-for-sale	$ 650,600	$ 661,955	100.0%	1.44%	$ 638,009	$ 638,249	100.0%	2.20%

As of December 31, 2020 and 2019, nearly all the 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 (“MBS”) are comprised of securities backed by FHLMC, FNMA and GNMA securities.

Mortgage-backed securities may have actual maturities that differ from contractual maturities depending on the repayment characteristics and experience of the underlying financial instruments. The estimated weighted average life of the available-for-sale mortgage-backed securities portfolio was 2.7 years and 2.9 years at December 31, 2020 and December 31, 2019, respectively. This estimate is based on assumptions and actual results may differ. At December 31, 2020 and December 31, 2019, the duration of the total available-for-sale investment portfolio was 2.6 years and 2.7 years, respectively.

At December 31, 2020 and 2019, adjustable rate securities comprised 2.3% and 2.8%, respectively, of the available-for-sale mortgage-backed security 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 2.00% per annum and 2.40% per annum at December 31, 2020 and 2019, respectively.

The available-for-sale investment portfolio included $11.7 million and $5.3 million of unrealized gains and $0.4 million and $5.1 million of unrealized losses at December 31, 2020 and December 31, 2019, respectively. We believe any unrealized losses are a result of prevailing interest rates, and as such, we do not believe that any of the securities with unrealized losses were impaired. Management believes that default of the available-for-sale securities is highly unlikely. FHLMC, FNMA and GNMA guaranteed mortgage-backed securities have a long history of zero credit losses, an explicit guarantee by the U.S. government (although limited for FNMA and FHLMC securities) and yields that generally trade based on market views of prepayment and liquidity risk rather than credit risk.

Held-to-maturity

At December 31, 2020, we held $376.6 million of held-to-maturity investment securities, compared to $182.9 million at December 31, 2019, an increase of $193.7 million, or 105.9%. Purchases of held-to-maturity securities totaled $284.2 million and $10.2 million during 2020 and 2019, respectively. Maturities and paydowns of held-to-maturity securities totaled $88.1 million and $60.9 million during 2020 and 2019, respectively.

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

	December 31, 2020				December 31, 2019			
	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	$ 306,187	$ 310,930	81.3%	1.39%	$ 127,560	$ 128,770	69.7%	3.19%
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	70,428	70,761	18.7%	0.41%	55,324	54,971	30.3%	1.90%
Total investment securities held-to-maturity	$ 376,615	$ 381,691	100.0%	1.21%	$ 182,884	$ 183,741	100.0%	2.80%

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 included $5.3 million and $1.3 million of unrealized gains and $0.3 million and $0.5 million of unrealized losses at December 31, 2020 and December 31, 2019, respectively.

The Company does not measure expected credit losses on a financial asset, or group of financial assets, in which historical credit loss information adjusted for current conditions and reasonable and supportable forecasts results in an expectation that nonpayment of the amortized cost basis is zero. Management evaluated held-to-maturity securities noting they are backed by loans guaranteed by either U.S. government agencies or U.S. government sponsored entities, and management believes that default is highly unlikely given this governmental backing and long history without credit losses. Additionally, management notes that yields on which the portfolio generally trades are based upon market views of prepayment and liquidity risk and not credit risk. The Company has no intention to sell the securities and believes it will not be required to sell the securities before the recovery of their amortized cost

Mortgage-backed securities may have actual maturities that differ from contractual maturities depending on the repayment characteristics and experience of the underlying financial instruments. The estimated weighted average expected life of the held-to-maturity mortgage-backed securities portfolio as of December 31, 2020 and December 31, 2019 was 2.4 years and 2.4 years, respectively. This estimate is based on assumptions and actual results may differ. The duration of the total held-to-maturity portfolio was 2.4 years and 2.3 years as of December 30, 2020 and December 31, 2019, respectively.

Loans overview

At December 31, 2020, 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.

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

	December 31, 2020	December 31, 2019	December 31, 2020 vs. December 31, 2019 % Change
Originated:			
Commercial:			
Commercial and industrial	$ 1,248,530	$ 1,380,248	(9.5)%
Municipal and non-profit	870,410	833,707	4.4%
Owner-occupied commercial real estate	464,417	414,477	12.0%
Food and agribusiness	205,189	245,320	(16.4)%
PPP loans(1)	176,106	—	100.0%
Total commercial	2,964,652	2,873,752	3.2%
Commercial real estate non-owner occupied	542,642	505,479	7.4%
Residential real estate	581,555	651,656	(10.8)%
Consumer	18,581	21,030	(11.6)%
Total originated	4,107,430	4,051,917	1.4%
Acquired:			
Commercial:			
Commercial and industrial	22,102	31,284	(29.4)%
Municipal and non-profit	381	3,819	(90.0)%
Owner-occupied commercial real estate	51,821	75,645	(31.5)%
Food and agribusiness	5,108	7,807	(34.6)%
Total commercial	79,412	118,555	(33.0)%
Commercial real estate non-owner occupied	89,354	125,426	(28.8)%
Residential real estate	77,105	118,762	(35.1)%
Consumer	425	746	(43.0)%
Total acquired	246,296	363,489	(32.2)%
Total loans	$ 4,353,726	$ 4,415,406	(1.4)%

(1) PPP loan balances are net of fees and costs and include principal totaling $179,531 as of December 31, 2020.

Our loan portfolio decreased $61.7 million, or 1.4%, since December 31, 2019. We are taking a careful approach to extending credit and focusing on managing credit risk and yield. Year-to-date loan originations through December 31, 2020 totaled $1.2 billion, including $358.9 million of PPP loan originations, which were offset by elevated levels of paydowns and payoffs.

Our commercial and industrial loan portfolio is comprised of diverse industry segments. At December 31, 2020, these segments included finance and financial services, primarily lender finance loans of $257.9 million, hospital/medical loans of $207.8 million, manufacturing-related loans of $111.2 million, and a variety of smaller subcategories of commercial and industrial loans. Food and agribusiness loans, which are well-diversified across food production, crop and livestock types, totaled $210.3 million and were 28.0% of the Company's risk based capital. Crop and livestock loans represent 0.8% of total loans.

Non-owner occupied CRE loans were 84.3% of the Company's risk based capital, or 14.5% of total loans, and no specific property type comprised more than 5.0% of total loans. The Company maintains very little exposure to retail properties, comprising 4.1% of total loans. Multi-family loans totaled $71.4 million, or 1.6% of total loans as of December 31, 2020.

The Company maintains a granular and well-diversified loan portfolio with self-imposed concentration limits. In light of the strain placed on certain industries by the COVID-19 pandemic, the Company has carefully evaluated and continues to closely monitor our entire loan portfolio. Within the commercial loan segment, certain highly impacted industries are noted as follows: restaurants were 4.8%, retailers 2.9%, hospital/medical 4.8% and oil and gas 0.7% of total loans. Within the commercial real estate non-owner occupied loan segment, hotel and lodging was 4.2%, multifamily 1.6% and retail 1.2% of total loans. The Company had no direct exposure to other industries more highly impacted by the pandemic including aviation, cruise lines, energy services, auto manufacturing/dealer floor plans, hedge funds, convention centers, credit cards, malls and taxi/ride share businesses. Furthermore, the Company had no consumer credit card, indirect auto or car leasing exposure.

When considering the loan portfolio in its entirety, 77.0% of loans were located within our footprint of Colorado, the greater Kansas City region, Texas, Utah and New Mexico as of December 31, 2020, based on the domicile of the borrower or, in the case of collateral-dependent loans, the geographical location of the collateral.

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 $1.2 billion over the past 12 months, led by commercial loan originations of $807.3 million, which included PPP loan originations of $358.9 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 2020 and 2019:

	Fourth quarter 2020	Third quarter 2020	Second quarter 2020	First quarter 2020	Total 2020
Commercial:					
Commercial and industrial	$ 96,625	$ 11,354	$ (8,726)	$ 118,999	$ 218,252
Municipal and non-profit	25,348	6,083	49,679	13,968	95,078
Owner occupied commercial real estate	36,085	23,758	22,078	37,372	119,293
Food and agribusiness	19,191	13,876	(10,480)	(6,787)	15,800
PPP loans	—	122	358,798	—	358,920
Total commercial	177,249	55,193	411,349	163,552	807,343
Commercial real estate non-owner occupied	52,018	24,937	18,992	80,792	176,739
Residential real estate	41,355	49,786	29,024	46,273	166,438
Consumer	1,858	2,980	2,206	2,320	9,364
Total	$ 272,480	$ 132,896	$ 461,571	$ 292,937	$ 1,159,884

Included in originations are net fundings (paydowns) under revolving lines of credit of $50,982, ($27,899), ($55,826) and $48,789 as of the fourth quarter 2020, third quarter 2020, second quarter 2020 and first quarter 2020, respectively.

	Fourth quarter 2019	Third quarter 2019	Second quarter 2019	First quarter 2019	Total 2019
Commercial:					
Commercial and industrial	$ 69,048	$ 144,554	$ 125,527	$ 138,106	$ 477,235
Municipal and non-profit	46,114	31,482	25,513	21,579	124,688
Owner occupied commercial real estate	46,965	16,149	41,380	26,405	130,899
Food and agribusiness	20,348	(4,894)	18,217	15,213	48,884
PPP loans	—	—	—	—	—
Total Commercial	182,475	187,291	210,637	201,303	781,706
Commercial real estate non-owner occupied	41,256	79,929	36,632	69,125	226,942
Residential real estate	43,493	49,022	40,012	38,627	171,154
Consumer	2,315	2,986	3,264	1,958	10,523
Total	$ 269,539	$ 319,228	$ 290,545	$ 311,013	$ 1,190,325

Included in originations are net fundings under revolving lines of credit of $1,756, $37,062, $48,955 and $105,235 as of the fourth quarter 2019, third quarter 2019, second quarter 2019 and first quarter 2019, respectively.

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

	December 31, 2020			
	Due within 1 year	Due after 1 but within 5 years	Due after 5 years	Total
Commercial:				
Commercial and industrial	$ 109,586	$ 927,881	$ 233,165	$ 1,270,632
Municipal and non-profit	42,222	164,994	663,575	870,791
Owner occupied commercial real estate	24,510	177,311	314,418	516,239
Food and agribusiness	80,691	105,815	23,791	210,297
PPP loans	—	176,106	—	176,106
Total commercial	257,009	1,552,107	1,234,949	3,044,065
Commercial real estate non-owner occupied	72,486	426,291	133,219	631,996
Residential real estate	18,569	36,747	603,343	658,659
Consumer	5,167	10,886	2,953	19,006
Total loans	$ 353,231	$ 2,026,031	$ 1,974,464	$ 4,353,726

	December 31, 2019			
	Due within 1 year	Due after 1 but within 5 years	Due after 5 years	Total
Commercial:				
Commercial and industrial	$ 137,396	$ 1,013,753	$ 260,382	$ 1,411,531
Municipal and non-profit	26,009	126,634	684,883	837,526
Owner occupied commercial real estate	18,663	170,092	301,367	490,122
Food and agribusiness	57,159	168,827	27,142	253,128
Total commercial	239,227	1,479,306	1,273,774	2,992,307
Commercial real estate non-owner occupied	85,188	377,850	167,868	630,906
Residential real estate	27,251	49,818	693,348	770,417
Consumer	6,600	11,978	3,198	21,776
Total loans	$ 358,266	$ 1,918,952	$ 2,138,188	$ 4,415,406

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 total loans with maturities over one year is as follows at the dates indicated:

	December 31, 2020					
	Fixed		Variable		Total	
	Balance	Weighted average rate	Balance	Weighted average rate	Balance	Weighted average rate
Commercial						
Commercial and industrial	$ 320,745	4.68%	$ 840,301	3.11%	$ 1,161,046	3.54%
Municipal and non-profit[(1)]	803,350	3.55%	25,219	2.83%	828,569	3.53%
Owner occupied commercial real estate	261,406	4.82%	230,323	3.88%	491,729	4.51%
Food and agribusiness	57,360	5.02%	72,246	3.67%	129,606	4.27%
PPP loans	176,106	1.00%	—	—	176,106	1.00%
Total commercial	1,618,967	3.79%	1,168,089	3.29%	2,787,056	3.58%
Commercial real estate non-owner occupied	253,879	4.65%	305,631	3.42%	559,510	3.98%
Residential real estate	298,759	3.60%	341,332	4.14%	640,091	3.89%
Consumer	11,384	4.92%	2,455	3.50%	13,839	4.66%
Total loans with > 1 year maturity	$ 2,182,989	3.86%	$ 1,817,507	3.47%	$ 4,000,496	3.68%

	December 31, 2019					
	Fixed		Variable		Total	
	Balance	Weighted average rate	Balance	Weighted average rate	Balance	Weighted average rate
Commercial						
Commercial and industrial	294,406	4.95%	$ 979,730	4.39%	$ 1,274,136	4.52%
Municipal and non-profit[1]	779,293	3.60%	32,224	3.60%	811,517	3.60%
Owner occupied commercial real estate	235,337	4.87%	236,122	4.79%	471,459	4.99%
Food and agribusiness	50,287	5.19%	145,682	4.61%	195,969	4.76%
Total commercial	1,359,323	4.22%	1,393,758	4.46%	2,753,081	4.34%
Commercial real estate non-owner occupied	243,201	4.75%	302,516	4.46%	545,717	4.59%
Residential real estate	326,210	3.66%	416,955	4.54%	743,165	4.15%
Consumer	12,156	5.52%	3,020	4.94%	15,176	5.40%
Total loans with > 1 year maturity	$ 1,940,890	4.20%	$ 2,116,249	4.48%	$ 4,057,139	4.34%

(1) Included in municipal and non-profit fixed rate loans are loans totaling $387,105 and $403,700 that have been swapped to variable rates at current market pricing at December 31, 2020 and 2019, respectively. Included in the municipal and non-profit segment are tax exempt loans totaling $711,582 and $701,825 with a weighted average rate of 3.33% and 3.41% at December 31, 2020 and 2019, respectively.

Asset quality

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

Additionally, we have implemented procedures to timely identify loans that may become problematic in order to ensure the most beneficial resolution for 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 TDRs in accordance with ASC 310-40. 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 and past due loans

Non-performing assets consist of non-accrual loans, TDRs on non-accrual and OREO. Interest income that would have been recorded had non-accrual loans performed in accordance with their original contract terms during 2020 and 2019 was $1.2 million and $1.7 million, respectively.

Past due status is monitored as an indicator of credit deterioration. Loans are considered past due or delinquent when the contractual principal or interest due in accordance with the terms of the loan agreement remains unpaid after the due date of the scheduled payment. Loans that are 90 days or more past due are put on non-accrual status unless the loan is well secured and in the process of collection.

The following table sets forth the non-performing assets and past due loans as of the dates presented:

	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016
Non-accrual loans:					
Non-accrual loans, excluding restructured loans	$ 12,190	$ 16,894	$ 21,017	$ 13,745	$ 14,009
Restructured loans on non-accrual	8,197	4,854	3,439	7,255	16,708
Non-performing loans	20,387	21,748	24,456	21,000	30,717
OREO	4,730	7,300	10,596	10,491	15,662
Other repossessed assets	17	—	—	—	—
Total non-performing assets	$ 25,134	$ 29,048	$ 35,052	$ 31,491	$ 46,379
Loans 30-89 days past due and still accruing interest	$ 968	$ 6,349	$ 5,066	$ 5,124	$ 3,626
Loans 90 days or more past due and still accruing interest	162	1,662	1,047	25,407	40,470
Non-accrual loans	20,387	21,748	24,456	21,000	30,717
Total past due and non-accrual loans	$ 21,517	$ 29,759	$ 30,569	$ 51,531	$ 74,813
Accruing restructured loans	$ 13,945	$ 6,885	$ 5,944	$ 8,461	$ 5,766
Allowance for credit losses	59,777	39,064	35,692	31,264	29,174
Non-performing loans to total loans	0.47%	0.49%	0.60%	0.66%	1.07%
Non-performing loans to total loans excluding PPP loans	0.49%	0.49%	0.60%	0.66%	1.07%
Total 90 days past due and still accruing interest and non-accrual loans to total loans	0.47%	0.53%	0.62%	1.46%	2.49%
Total non-performing assets to total loans and OREO	0.58%	0.66%	0.85%	0.99%	1.61%
Total non-performing assets to total loans and OREO, excluding PPP loans	0.60%	0.66%	0.85%	0.99%	1.61%
ACL to non-performing loans	293.21%	179.62%	145.94%	148.88%	94.98%

During 2020, total non-performing loans decreased $1.4 million, or 6.3%, from December 31, 2019. During 2020, accruing TDRs increased $7.1 million.

Loans 30-89 days past due and still accruing interest decreased $5.4 million from December 31, 2019 to December 31, 2020, and loans 90 days or more past due and still accruing interest decreased $1.5 million from December 31, 2019 to December 31, 2020, for a collective decrease in total past due loans of $6.9 million. Loans 30 days or more past due were 0.03% of total loans at December 31, 2020, the lowest level in our Company’s history.

The Company continues to monitor the operating status and trends of our clients to enable us to quickly detect credit deterioration and take action where needed. The CARES Act afforded financial institutions the option to modify loans within certain parameters in response to the COVID-19 pandemic without requiring the modifications to be classified as TDRs under ASC Topic 310 if the borrower has been adversely impacted by COVID-19 and was current on their loan payments as of December 31, 2019. During 2020, the Company has executed COVID-related loan modifications totaling $519.0 million. Loans with COVID-related modifications during 2020 totaled 11.9% of the total loan portfolio at December 31, 2020. Of those loans, $345.4 million have resumed making principal or interest payments or paid in full as of December 31, 2020. Modified loans that remained on a payment deferral plan at December 31, 2020 totaled $173.6 million, or 4.0% of the total loan portfolio, of which 26.2% were a subsequent modification. Monthly interest payments were required on 96.2% of the COVID modified loans as of December 31, 2020. All COVID modified loans were classified as performing as of December 31, 2020.

The following table sets forth COVID-19 loan modifications currently on a deferral plan as of the date presented:

	December 31, 2020									
	Loans outstanding		Loans modified		Modification type				
	Balance	Percentage of loan portfolio	Balance	Percentage of loan segment	3-month interest only	4 to 6-month interest only	7 to 12-month interest only	3 to 6-month full payment deferral	6 to 12-month full payment deferral
Commercial	$ 2,867,959	66.0%	$ 44,655	1.6%	$ —	$ —	$ 40,097	$ 649	$ 3,909
Commercial real estate non-owner occupied	631,996	14.5%	126,423	20.0%	—	—	126,423	—	—
Residential real estate	658,659	15.1%	2,495	0.4%	—	356	158	1,693	288
Consumer	19,006	0.4%	4	0.0%	4	—	—	—	—
Total excluding PPP loans	$ 4,177,620	96.0%	$ 173,577	4.2%	$ 4	$ 356	$ 166,678	$ 2,342	$ 4,197
PPP loans	176,106	4.0%	—	0.0%	—	—	—	—	—
Total loans	$ 4,353,726	100.0%	$ 173,577	4.0%	$ 4	$ 356	$ 166,678	$ 2,342	$ 4,197

Allowance for credit losses

The ACL represents the amount that we believe is necessary to absorb estimated lifetime credit losses inherent in the loan portfolio at the balance sheet date and involves a high degree of judgment and complexity. On January 1, 2020, the Company adopted ASU 2016-13, *Measurement of Credit Losses on Financial Instruments* which replaced the incurred loss methodology for recognizing credit losses with a CECL model. The Company utilizes a DCF model developed within a third-party software tool to establish expected lifetime credit losses for the loan portfolio. The ACL is calculated as the difference between the amortized cost basis and the projections from the DCF analysis. The DCF model allows for individual life of loan cash flow modeling, excluding extensions and renewals, using loan-specific interest rates and repayment schedules including estimated prepayment rates and loss recovery timing delays. The model incorporates forecasts of certain national macroeconomic factors, including unemployment rates, home price index ("HPI"), retail sales and gross domestic product ("GDP"), which drive correlated loss rates. The determination and application of the ACL accounting policy involves judgments, estimates and uncertainties that are subject to change. For periods beyond the reasonable and supportable forecast period, we revert to historical long-term average loss rates on a straight-line basis.

We measure expected credit losses for loans on a pooled basis when similar risk characteristics exist. We have identified four primary loan segments within the ACL model that are further stratified into 11 loan classes to provide more granularity in analyzing loss history and to allow for more definitive qualitative adjustments based upon specific risk factors affecting each loan class. Generally, the underlying risk of loss for each of these loan segments will follow certain norms/trends in various economic environments. Loans that do not share risk characteristics are evaluated on an individual basis and are not included in the collective evaluation. Following are the loan classes within each of the four primary loan segments:

Commercial	Non-owner occupied commercial real estate	Residential real estate	Consumer
Commercial and industrial	Construction	Senior lien	Consumer
Owner occupied commercial real estate	Acquisition and development	Junior lien	
Food and agribusiness	Multifamily		
Municipal and non-profit	Non-owner occupied		

Loans on non-accrual, in bankruptcy and TDRs with a balance greater than $250,000 are excluded from the pooled analysis and are evaluated individually. If management determines that foreclosure is probable, expected credit losses are evaluated based on the criteria listed below, adjusted for selling costs as appropriate. Typically, these loans consist of commercial, commercial real estate and agriculture loans and exclude homogeneous loans such as residential real estate and consumer loans. Specific allowances are determined by collectively analyzing:

- the borrower's resources, ability and willingness to repay in accordance with the terms of the loan agreement;
- the likelihood of receiving financial support from any guarantors;

- the adequacy and present value of future cash flows, less disposal costs, of any collateral; and
- the impact current economic conditions may have on the borrower's financial condition and liquidity or the value of the collateral.

The collective resulting ACL for loans is calculated as the sum of the general reserves, specific reserves on individually evaluated loans, and qualitative factor adjustments. While these amounts are calculated by individual loan or on a pool basis by segment and class, the entire ACL is available for any loan that, in our judgment, should be charged-off. The determination and application of the ACL accounting policy involves judgments, estimates, and uncertainties that are subject to change. Changes in these assumptions, estimates or the conditions surrounding them may have a material impact on our financial condition, liquidity or results of operations.

Provision for loan losses for funded loans of $17.5 million, and provision for unfunded loan commitments of $0.1 million was recorded during the year ended December 31, 2020 to provide coverage for the impact of deteriorating economic conditions as a result of COVID-19 and to support net charge-offs. Net charge-offs on loans during the year ended December 31, 2020 were $2.7 million, or 0.06% of total loans. Specific reserves on loans totaled $1.9 million at December 31, 2020.

During the year ended December 31, 2019, provision for loan losses of $11.6 million was recorded to support originated loan growth and cover net charge-offs. Net charge-offs were $8.3 million, or 0.19% of total loans, and specific reserves on individually evaluated loans totaled $1.8 million at December 31, 2019.

The Company has elected to exclude accrued interest receivable ("AIR") from the ACL calculation. When a loan is placed on non-accrual, any recorded AIR is reversed against interest income. As of December 31, 2020 and December 31, 2019, AIR from loans totaled $16.7 million and $17.2 million, respectively.

Total ACL

After considering the above mentioned factors, we believe that the ACL of $59.8 million is adequate to cover estimated lifetime losses inherent in the loan portfolio at December 31, 2020. However, it is likely that future adjustments to the ACL will be necessary. Any changes to the underlying assumptions, circumstances or estimates, including but not limited to impacts of COVID-19 on the macro-economic forecast, used in determining the ACL, could adversely affect the Company's results of operations, liquidity or financial condition.

The following schedule presents, by class stratification, the changes in the ACL during the years listed:

	As of and for the years ended				
	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016
	Total loans	Total loans	Total loans	Total loans	Total loans
Beginning balance	$ 39,064	$ 35,692	$ 31,264	$ 29,174	$ 27,119
Cumulative effect adjustment[(1)]	5,836	—	—	—	—
Charge-offs:					
Commercial	(2,023)	(7,422)	(895)	(10,342)	(20,684)
Commercial real estate non-owner occupied	(412)	(116)	(11)	—	(321)
Residential real estate	(67)	(124)	(118)	(236)	(408)
Consumer	(726)	(937)	(1,134)	(737)	(777)
Total charge-offs	(3,228)	(8,599)	(2,158)	(11,315)	(22,190)
Recoveries	571	328	1,389	433	594
Net charge-offs	(2,657)	(8,271)	(769)	(10,882)	(21,596)
Provision for loan loss	17,534	11,643	5,197	12,972	23,651
Ending allowance for credit losses	$ 59,777	$ 39,064	$ 35,692	$ 31,264	$ 29,174
Ratio of annualized net charge-offs to average total loans during the period	0.06%	0.19%	0.02%	0.36%	0.80%
Ratio of ACL to total loans outstanding at period end	1.37%	0.88%	0.87%	0.98%	1.02%
Ratio of ACL to total loans outstanding, excluding PPP loans at period end	1.43%	0.88%	0.87%	0.98%	1.02%
Ratio of ACL to total non-performing loans at period end	293.21%	179.62%	145.94%	148.88%	94.98%
Total loans	$ 4,353,726	$ 4,415,406	$ 4,092,308	$ 3,178,947	$ 2,860,921
Average total loans outstanding during the period	4,578,894	4,288,226	3,819,603	3,029,446	2,700,794
Average total loans outstanding, excluding PPP loans during the period	4,352,984	4,288,226	3,819,603	3,029,446	2,700,794
Non-performing loans	20,387	21,748	24,456	21,000	30,717

(1) Related to the adoption of Accounting Standards Update No. 2016-13, *Measurement of Credit Losses on Financial Instruments*. Refer to note 1 – Basis of Presentation and note 7 – Allowance for Credit Losses of our consolidated financial statements for further details.

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

	December 31, 2020			
	Total loans	% of total loans	Related ACL	ACL as a % of total ACL
Commercial	$ 2,867,959	66.0%	$ 30,376	50.8%
PPP loans[(1)]	176,106	4.0%	—	0.0%
Commercial real estate non-owner occupied	631,996	14.5%	17,448	29.2%
Residential real estate	658,659	15.1%	11,492	19.2%
Consumer	19,006	0.4%	461	0.8%
Total	$ 4,353,726	100.0%	$ 59,777	100.0%

(1) PPP loans are fully guaranteed by the SBA.

	December 31, 2019			
	Total loans	% of total loans	Related ACL	ACL as a % of total ACL
Commercial	$ 2,992,307	67.8%	$ 30,442	77.9%
Commercial real estate non-owner occupied	630,906	14.3%	4,850	12.4%
Residential real estate	770,417	17.4%	3,468	8.9%
Consumer	21,776	0.5%	304	0.8%
Total	$ 4,415,406	100.0%	$ 39,064	100.0%

	December 31, 2018			
	Total loans	% of total loans	Related ACL	ACL as a % of total ACL
Commercial	$ 2,644,571	64.6%	$ 27,137	76.1%
Commercial real estate non-owner occupied	592,212	14.5%	4,406	12.3%
Residential real estate	830,815	20.3%	3,800	10.6%
Consumer	24,710	0.6%	349	1.0%
Total	$ 4,092,308	100.0%	$ 35,692	100.0%

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

	December 31, 2016			
	Total loans	% of total loans	Related ACL	ACL as a % of total ACL
Commercial	$ 1,560,430	54.6%	$ 18,821	64.6%
Commercial real estate non-owner occupied	526,792	18.4%	5,642	19.3%
Residential real estate	744,885	26.0%	4,387	15.0%
Consumer	28,814	1.0%	324	1.1%
Total	$ 2,860,921	100.0%	$ 29,174	100.0%

Deposits

Deposits from banking clients serve as a primary funding source for our banking operations and our ability to gather and manage deposit levels is critical to our success. Deposits not only provide a low-cost funding source for our loans, but also provide a foundation for the client relationships that are critical to future loan growth. The following table presents information regarding our deposit composition at December 31, 2020 and 2019:

	December 31, 2020		December 31, 2019		Increase (decrease)	
					Amount	% Change
Non-interest bearing demand deposits	$ 2,111,045	37.1%	$ 1,184,945	25.0%	$ 926,100	78.2%
Interest bearing demand deposits	514,286	9.1%	738,496	15.6%	(224,210)	(30.4)%
Savings accounts	646,829	11.4%	542,531	11.5%	104,298	19.2%
Money market accounts	1,417,940	25.0%	1,213,007	25.6%	204,933	16.9%
Total transaction deposits	4,690,100	82.6%	3,678,979	77.7%	1,011,121	27.5%
Time deposits < $250,000	820,229	14.5%	894,459	18.9%	(74,230)	(8.3)%
Time deposits ≥ $250,000	165,903	2.9%	163,694	3.4%	2,209	1.3%
Total time deposits	986,132	17.4%	1,058,153	22.3%	(72,021)	(6.8)%
Total deposits	$ 5,676,232	100.0%	$ 4,737,132	100.0%	$ 939,100	19.8%

The following table shows scheduled maturities of certificates of deposit with denominations greater than or equal to $250,000 as of December 31, 2020:

	December 31, 2020
Three months or less	$ 19,672
Over 3 months through 6 months	18,467
Over 6 months through 12 months	65,364
Thereafter	62,400
Total time deposits ≥ $250,000	$ 165,903

At December 31, 2020 and 2019, time deposits that were scheduled to mature within 12 months totaled $659.5 million and $726.9 million, respectively. Of the time deposits scheduled to mature within 12 months at December 31, 2020, $103.5 million were in denominations of $250,000 or more, and $556.0 million were in denominations less than $250,000. The aggregate amount of certificates of deposit in denominations that meet or exceed the FDIC insurance limit was $165.9 million and $163.7 million at December 31, 2020 and 2019, respectively. Note 12 to the consolidated financial statements provides a maturity schedule of time deposits outstanding at December 31, 2020.

Other borrowings

As of December 31, 2020 and 2019, the Bank sold securities under agreements to repurchase totaling $22.9 million and $56.9 million, respectively. In addition, as a member of the FHLB, the Bank has access to a line of credit and term financing from the FHLB with total available credit of $0.9 billion at December 31, 2020. The Bank utilizes its FHLB line of credit as a funding mechanism for originated loans and loans held for sale. At December 31, 2020, the Bank had no outstanding borrowings with the FHLB. At December 31, 2019, the Bank had $192.7 million in line of credit advances from the FHLB that matured within a day and one term advance totaling $15.0 million with a fixed interest rate of 2.33% and a maturity date in October 2020. The Bank may pledge investment securities and loans as collateral for FHLB advances. There were no investment securities pledged at December 31, 2020. At December 31, 2019, investment securities pledged totaled $17.6 million. Loans pledged were $1.2 billion at December 31, 2020 and $1.5 billion at December 31, 2019. Interest expense related to FHLB advances totaled $1.3 million and $6.2 million for the years ended December 31, 2020 and 2019, respectively.

Regulatory Capital

Our subsidiary bank and the holding company are subject to the regulatory capital adequacy requirements of the Federal Reserve Board and the FDIC, as applicable. Failure to meet the minimum capital requirements can initiate certain mandatory and possibly further discretionary actions by regulators that could have a material adverse effect on us. At December 31, 2020 and 2019, our subsidiary bank and the consolidated holding company exceeded all capital ratio requirements under prompt corrective action and other regulatory requirements, as further detailed in note 14 of our consolidated financial statements.

Results of Operations

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

Overview of results of operations

We recorded net income of $88.6 million, or $2.85 per diluted share, during 2020, compared to net income of $80.4 million, or $2.55 per diluted share, during 2019. Adjusting for the banking center consolidation-related expense, net income was $90.4 million, or $2.91 per diluted share, during 2020, and $81.1 million, or $2.57 per diluted share, during 2019.

Net interest income

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

The table below presents the components of net interest income on a FTE basis for the years ended December 31, 2020, 2019 and 2018. The effects of trade-date accounting of investment securities for which the cash had not settled are not considered interest earning assets and are excluded from this presentation for time frames prior to their cash settlement, as are the market value adjustments on the investment securities available-for-sale and loans.

	For the year ended December 31, 2020			For the year ended December 31, 2019			For the year ended December 31, 2018		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate	Average balance	Interest	Average rate
Interest earning assets:									
Originated loans FTE[(1)(2)(3)]	$ 4,237,091	$ 171,592	4.05%	$ 3,838,229	$ 183,502	4.78%	$ 3,166,374	$ 142,461	4.50%
Acquired loans	299,901	27,909	9.31%	443,025	35,992	8.12%	653,229	51,765	7.92%
Loans held for sale	185,182	5,628	3.04%	113,183	4,407	3.89%	73,644	3,380	4.59%
Investment securities available-for-sale	591,870	11,406	1.93%	713,686	15,472	2.17%	883,737	18,493	2.09%
Investment securities held-to-maturity	248,006	5,099	2.06%	207,784	5,825	2.80%	258,809	7,252	2.80%
Other securities	26,903	1,157	4.30%	28,060	1,770	6.31%	18,093	1,096	6.06%
Interest earning deposits and securities purchased under agreements to resell	206,911	314	0.15%	24,106	698	2.90%	77,808	1,426	1.83%
Total interest earning assets FTE[(2)]	$ 5,795,864	$ 223,105	3.85%	$ 5,368,073	$ 247,666	4.61%	$ 5,131,694	$ 225,873	4.40%
Cash and due from banks	74,461			76,788			88,847		
Other assets	511,721			430,402			419,607		
Allowance for credit losses	(55,778)			(38,142)			(32,616)		
Total assets	$ 6,326,268			$ 5,837,121			$ 5,607,532		
Interest bearing liabilities:									
Interest bearing demand, savings and money market deposits	$ 2,730,857	$ 8,605	0.32%	$ 2,426,963	$ 13,277	0.55%	$ 2,418,326	$ 8,758	0.36%
Time deposits	1,038,107	15,024	1.45%	1,074,506	16,526	1.54%	1,132,748	12,283	1.08%
Securities sold under agreements to repurchase	28,585	132	0.46%	60,445	668	1.11%	87,691	295	0.34%
Federal Home Loan Bank advances	95,418	1,295	1.36%	269,207	6,300	2.34%	133,932	2,618	1.95%
Total interest bearing liabilities	$ 3,892,967	$ 25,056	0.64%	$ 3,831,121	$ 36,771	0.96%	$ 3,772,697	$ 23,954	0.63%
Demand deposits	1,497,940			1,159,080			1,082,158		
Other liabilities	147,075			108,997			90,257		
Total liabilities	5,537,982			5,099,198			4,945,112		
Shareholders' equity	788,286			737,923			662,420		
Total liabilities and shareholders' equity	$ 6,326,268			$ 5,837,121			$ 5,607,532		
Net interest income FTE[(2)]		$ 198,049			$ 210,895			$ 201,919	
Interest rate spread FTE[(2)]			3.21%			3.65%			3.77%
Net interest earning assets	$ 1,902,897			$ 1,536,952			$ 1,358,997		
Net interest margin FTE[(2)]			3.42%			3.93%			3.93%
Average transaction deposits	$ 4,228,797			$ 3,586,043			$ 3,500,484		
Average total deposits	5,266,904			4,660,549			4,633,232		
Ratio of average interest earning assets to average interest bearing liabilities	148.88%			140.12%			136.02%		

(1) Originated loans are net of deferred loan fees, less costs, which are included in interest income over the life of the loan.
(2) Presented on an FTE basis using the statutory tax rate of 21% for all periods presented. The taxable equivalent adjustments included above are $5,103, $5,065 and $4,482 for the years ended 2020, 2019 and 2018, respectively.
(3) Loan fees included in interest income totaled $15,713, $6,328 and $6,027 during 2020, 2019 and 2018, respectively.

Net interest income totaled $192.9 million, $205.8 million and $197.4 million during the years ended 2020, 2019 and 2018, respectively. The yield on earning assets decreased 76 basis points, led by a decrease in the originated portfolio yields due to monetary policy actions by the Federal Reserve. During 2020, the cost of funds decreased 28 basis points, compared to the prior year.

Average loans comprised $4.5 billion, or 78.3%, of total average interest earning assets during 2020, compared to $4.3 billion, or 79.8%, during 2019. The increase in average loan balances was primarily driven by an increase in average PPP loans. During 2020, we took a very careful approach to extending new credit as well as continuing an intense focus on managing credit risk and yield. This led to loan originations of $1.2 billion, during 2020, which were more than offset by higher levels of paydowns and payoffs. We continue to maintain a granular and well diversified loan portfolio with self-imposed concentration limits. In light of the strain placed on industries by the COVID-19 pandemic, we have carefully evaluated and continue to closely monitor our entire loan portfolio. Higher deposits, loan paydowns and loan payoffs, combined with lower loan originations, drove a higher average cash and cash equivalent balance of $281.4 million during the year ended December 31, 2020, compared to an average balance of $100.9 million during the year ended December 31, 2019.

Average investment securities comprised 14.5% and 17.2% of total interest earning assets during 2020 and 2019, respectively. For the year-ended December 31, 2020, investment security purchases totaled $570.3 million and were partially offset by maturities of $359.6 million.

Average balances of interest bearing liabilities increased $61.8 million during 2020 compared to 2019. The increase was driven by interest bearing demand, savings and money market deposits of $303.9 million, partially offset by decreases in FHLB advances, time deposits and securities sold under agreements to repurchase of $173.8 million, $36.4 million and $31.9 million, respectively.

Total interest expense related to interest bearing liabilities was $25.1 million and $36.8 million during 2020 and 2019, respectively, at an average cost of 0.64% and 0.96% during 2020 and 2019, respectively. Additionally, the cost of deposits decreased 19 basis points to 0.45% during 2020, compared to 0.64% during 2019, due to the decline in short-term interest rates as a result of monetary policy actions by the Federal Reserve.

The following table summarizes the changes in net interest income on an FTE basis by major category of interest earning assets and interest bearing liabilities, identifying changes related to volume and changes related to rates for 2020, 2019 and 2018:

	The year ended December 31, 2020 compared to the year ended December 31, 2019			The year ended December 31, 2019 compared to the year ended December 31, 2018		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	Rate	Net	Volume	Rate	Net
Interest income:						
Originated loans FTE[(1)(2)(3)]	$ 16,153	$ (28,063)	$ (11,910)	$ 32,120	$ 8,921	$ 41,041
Acquired loans	(13,319)	5,236	(8,083)	(17,077)	1,304	(15,773)
Loans held for sale	2,188	(967)	1,221	1,540	(513)	1,027
Investment securities available-for-sale	(2,348)	(1,718)	(4,066)	(3,687)	666	(3,021)
Investment securities held-to-maturity	827	(1,553)	(726)	(1,430)	3	(1,427)
Other securities	(50)	(563)	(613)	629	45	674
Interest earning deposits and securities purchased under agreements to resell	277	(661)	(384)	(1,555)	827	(728)
Total interest income	$ 3,728	$ (28,289)	$ (24,561)	$ 10,540	$ 11,253	$ 21,793
Interest expense:						
Interest bearing demand, savings and money market deposits	$ 958	$ (5,630)	$ (4,672)	$ 47	$ 4,472	$ 4,519
Time deposits	(527)	(975)	(1,502)	(896)	5,139	4,243
Securities sold under agreements to repurchase	(147)	(389)	(536)	(301)	674	373
Federal Home Loan Bank advances	(2,359)	(2,646)	(5,005)	3,166	516	3,682
Total interest expense	(2,075)	(9,640)	(11,715)	2,016	10,801	12,817
Net change in net interest income	$ 5,803	$ (18,649)	$ (12,846)	$ 8,524	$ 452	$ 8,976

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

(2) Presented on a fully taxable equivalent basis using the statutory tax rate of 21% for all periods presented. The taxable equivalent adjustments included above are $5,103, $5,065 and $4,482 for the years ended 2020, 2019 and 2018, respectively.

(3) Loan fees included in interest income totaled $15,713, $6,328 and $6,027 for the years ended December 31, 2020, 2019 and 2018, respectively.

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

	For the three months ended				For the years ended			
	December 31, 2020		December 31, 2019		December 31, 2020		December 31, 2019	
	Average balance	Average rate paid	Average balance	Average rate paid	Average balance	Average rate paid	Average balance	Average rate paid
Non-interest bearing demand	$ 1,898,171	0.00%	$ 1,177,958	0.00%	$ 1,497,940	0.00%	$ 1,159,080	0.00%
Interest bearing demand	660,817	0.21%	679,884	0.23%	821,813	0.23%	686,862	0.22%
Money market accounts	1,459,528	0.31%	1,221,719	0.69%	1,318,764	0.41%	1,201,377	0.75%
Savings accounts	626,252	0.18%	527,814	0.43%	590,280	0.23%	538,724	0.50%
Time deposits	1,008,297	1.16%	1,062,511	1.67%	1,038,107	1.45%	1,074,506	1.54%
Total average deposits	$ 5,653,065	0.33%	$ 4,669,886	0.64%	$ 5,266,904	0.45%	$ 4,660,549	0.64%

Provision for loan losses

The provision for loan losses represents the amount of expense that is necessary to bring the ACL to a level that we deem appropriate to absorb estimated lifetime losses inherent in the loan portfolio as of the balance sheet date. The determination of the ACL, and the resultant provision for loan losses, is subjective and involves significant estimates and assumptions.

Provision for loan losses of $17.6 million was recorded under the CECL model during 2020, including a $0.1 million provision for unfunded loan commitment reserves, to provide coverage for the impact of deteriorating economic conditions as a result of COVID-19 and to cover net charge-offs. Provision of $11.6 million was recorded under the prior incurred loss model during 2019 to support originated loan growth and net charge-offs. The allowance for credit losses totaled 1.37% of total loans at December 31, 2020, compared to 0.88% at December 31, 2019, and included a CECL adoption Day 1 increase of $5.8 million. Excluding PPP loans, the allowance for credit losses totaled 1.43% of loans at December 31, 2020.

Non-interest income

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

	For the years ended December 31,			2020 vs 2019		2019 vs 2018	
				Increase (decrease)		Increase (decrease)	
	2020	2019	2018	Amount	% Change	Amount	% Change
Service charges	$ 14,962	$ 17,895	$ 18,092	$ (2,933)	(16.4)%	$ (197)	(1.1)%
Bank card fees	15,446	14,595	14,489	851	5.8 %	106	0.7 %
Mortgage banking income	102,384	42,346	30,107	60,038	141.8 %	12,239	40.7 %
Bank-owned life insurance income	2,360	1,713	1,791	647	37.8 %	(78)	(4.4)%
Other non-interest income	4,719	5,888	5,379	(1,169)	(19.9)%	509	9.5 %
OREO-related income	387	315	917	72	22.9 %	(602)	(65.6)%
Total non-interest income	$ 140,258	$ 82,752	$ 70,775	$ 57,506	69.5 %	$ 11,977	16.9 %

Non-interest income totaled $140.3 million and $82.8 million during 2020 and 2019, respectively. During 2020, mortgage banking income reached a record $102.4 million, increasing $60.0 million, or 141.8%, compared to the prior year. The mortgage banking income increase was driven by higher loan production due to lower prevailing interest rates. During 2020, bank card fees increased $0.9 million, or 5.8%, and service charges decreased $2.9 million, or 16.4%, due to changes in consumer behavior as a result of the COVID-19 pandemic.

Non-interest expense

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

	For the years ended December 31,			2020 vs 2019		2019 vs 2018	
				Increase (decrease)		Increase (decrease)	
	2020	2019	2018	Amount	% Change	Amount	% Change
Salaries and benefits	$ 141,170	$ 122,732	$ 114,939	$ 18,438	15.0 %	$ 7,793	6.8 %
Occupancy and equipment	27,473	27,336	28,493	137	0.5 %	(1,157)	(4.1)%
Telecommunications and data processing	9,042	8,754	10,098	288	3.3 %	(1,344)	(13.3)%
Marketing and business development	2,802	3,897	4,513	(1,095)	(28.1)%	(616)	(13.6)%
FDIC deposit insurance	1,168	1,049	2,475	119	11.3 %	(1,426)	(57.6)%
Bank card expenses	4,388	4,780	5,453	(392)	(8.2)%	(673)	(12.3)%
Professional fees	2,946	3,256	6,059	(310)	(9.5)%	(2,803)	(46.3)%
Other non-interest expense	10,547	10,867	13,073	(320)	(2.9)%	(2,206)	(16.9)%
Problem asset workout	3,148	3,186	2,549	(38)	(1.2)%	637	25.0 %
Gain on OREO sales, net	(38)	(7,193)	(488)	7,155	(99.5)%	(6,705)	>100.0%
Core deposit intangible asset amortization	1,183	1,183	2,170	—	0.0 %	(987)	(45.5)%
Banking center consolidation-related expense	2,348	898	—	1,450	161.5 %	898	100.0 %
Total non-interest expense	$ 206,177	$ 180,745	$ 189,334	$ 25,432	14.1 %	$ (8,589)	(4.5)%

During 2020, non-interest expense increased $25.4 million, or 14.1%, compared to 2019, largely due to higher mortgage banking performance-related compensation. Banking center consolidation-related expense totaled $2.3 million, compared to $0.9 million during the prior year. The consolidations of 12 banking centers were announced in the second quarter of 2020 and were substantially complete at December 31, 2020. Additionally, included in the prior period were net gains on the sale of OREO of $7.2 million, compared to minimal net gains on the sale of OREO recorded in 2020.

Income taxes

Income taxes are accounted for in accordance with ASC Topic 740. Under this guidance, deferred income taxes are determined based on the estimated future tax effects of differences between the financial statement and tax basis of assets and liabilities given the provisions of enacted tax laws. ASC Topic 740 requires the establishment of a valuation allowance against the net deferred tax asset unless it is more-likely-than-not that the tax benefit of the deferred tax asset will be realized. For purposes of projecting whether the deferred tax asset will be realized, we consider tax regulations of the jurisdictions in which we operate, estimates of future taxable income, and available tax planning strategies. If tax regulations, operating results, or the ability to implement tax planning strategies varies, adjustments to the carrying value of the deferred tax assets may be required. We believe that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets.

Income tax expense totaled $20.8 million during 2020 compared to $15.8 million during 2019. Included in income tax expense was $2.2 million of tax benefits from stock compensation activity during 2019. Adjusting for the stock compensation activity, the effective tax rate for 2020 was 19.0% compared to an adjusted rate of 18.7% for 2019. As of December 31, 2020, our marginal tax rate (the rate we pay on each incremental dollar of earnings) was approximately 23%. However, our effective tax rate (income tax expense divided by income before income taxes) for a given period differs from our marginal rate largely due to income and expense items that are non-taxable or non-deductible in the calculation of income tax expense. The lower effective tax rates compared to the federal statutory tax rate was primarily due to interest income from tax-exempt lending, bank-owned life insurance income, and the relationship of these items to pre-tax income.

Liquidity and Capital Resources

Liquidity is monitored and managed to ensure that sufficient funds are available to operate our business and pay our obligations to depositors and other creditors, while providing ample available funds for opportunistic and strategic investments. On-balance sheet liquidity is represented by our cash and cash equivalents and unencumbered investment securities, and is detailed in the table below as of December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019
Cash and due from banks	$ 605,065	$ 109,690
Interest bearing bank deposits	500	500
Unencumbered investment securities, at fair value	513,945	324,918
Total	$ 1,119,510	$ 435,108

Total on-balance sheet liquidity increased $684.4 million from December 31, 2019 to December 31, 2020, primarily driven by strong deposit growth.

Through our relationship with the FHLB, we have pledged qualifying loans and investment securities allowing us to obtain additional liquidity through FHLB advances and lines of credit. The Bank may pledge investment securities and loans as collateral for FHLB advances. There were no investment securities pledged at December 31, 2020. At December 31, 2019, investment securities totaling $17.6 million were pledged as collateral for FHLB advances. The Bank had loans pledged as collateral for FHLB advances of $1.2 billion at December 31, 2020 and $1.5 billion at December 31, 2019. FHLB advances, lines of credit and other short-term borrowing availability totaled $0.9 billion at December 31, 2020. The Bank can obtain additional liquidity through the FHLB facility, if required, and also has access to the Paycheck Protection Program Liquidity Facility (“PPPLF”) and federal funds lines of credit with correspondent banks.

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

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

Exclusive from the investing activities related to acquisitions, our primary investing activities are originations and pay-offs and pay downs of loans and purchases and sales of investment securities. At December 31, 2020, pledgeable investment securities represented a significant source of liquidity. Our available-for-sale investment securities are carried at fair value and our held-to-maturity securities are carried at amortized cost. Our collective investment securities portfolio totaled $1.0 billion at December 31, 2020, inclusive of pre-tax net unrealized gains of $11.4 million on the available-for-sale securities portfolio. Additionally, our held-to-maturity securities portfolio had $5.1 million of pre-tax net unrealized gains at December 31, 2020. The gross unrealized gains and losses are detailed in note 4 of our consolidated financial statements. As of December 31, 2020, our investment securities portfolio consisted primarily of MBS, all of which were issued or guaranteed by U.S. Government agencies or sponsored enterprises. The anticipated repayments and marketability of these securities offer substantial resources and flexibility to meet new loan demand, reinvest in the investment securities portfolio, or provide optionality for reductions in our deposit funding base.

At present, financing activities primarily consist of changes in deposits and repurchase agreements, and advances from the FHLB, in addition to the payment of dividends and the repurchase of our common stock. Maturing time deposits represent a potential use of funds. As of December 31, 2020, $659.5 million of time deposits were scheduled to mature within 12 months. Based on the current interest rate environment, market conditions, and our consumer banking strategy focusing on both lower cost transaction accounts and term deposits, our strategy is to replace a portion of those maturing time deposits with transaction deposits and market-rate time deposits.

Under the Basel III requirements, at December 31, 2020, the Company and the Bank met all capital adequacy requirements, and the Bank had regulatory capital ratios in excess of the levels established for well-capitalized institutions. For more information on regulatory capital, see note 14 in our consolidated financial statements.

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

The Board of Directors has authorized multiple programs to repurchase shares of the Company’s common stock from time to time either in open market or in privately negotiated transactions in accordance with applicable regulations of the SEC. On February 26, 2020, the Board of Directors authorized a new share repurchase program for up to $50.0 million from time to time in either the open market or through privately negotiated transactions. This authorization was in addition to the $12.6 million remaining for share repurchase that was previously approved by the Board on August 5, 2016. During the first quarter of 2020, the Company repurchased 734,117 shares for $19.5 million. This completed the previous authorization approved in August 2016. The remaining authorization under the program approved in February 2020 was $43.1 million at December 31, 2020.

On January 21, 2021, our Board of Directors declared a quarterly dividend of $0.21 per common share, payable on March 15, 2021 to shareholders of record at the close of business on February 26, 2021.

Asset/Liability Management and Interest Rate Risk

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

The principal objective of the Company's asset and liability management function is to evaluate the interest rate risk within the balance sheet and pursue a controlled assumption of interest rate risk while maximizing earnings and preserving adequate levels of liquidity and capital. The asset and liability management function is under the guidance of the Asset Liability

Committee with direction from the Board of Directors. The Asset Liability Committee meets monthly to review, among other things, the sensitivity of the Company's assets and liabilities to interest rate changes, local and national market conditions and rates. The Asset Liability Committee also reviews the liquidity, capital, deposit mix, loan mix and investment positions of the Company.

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

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

Our interest rate risk model indicated that the Company was asset sensitive in terms of interest rate sensitivity at December 31, 2020 and 2019. During the year ended December 31, 2020, our asset sensitivity increased slightly for a rising rate environment as a result of the balance sheet mix. The table below illustrates the impact of an immediate and sustained 200 and 100 basis point increase and a 25 basis point decrease in interest rates on net interest income based on the interest rate risk model at December 31, 2020 and 2019:

Hypothetical shift in interest rates (in bps)	% change in projected net interest income	
	December 31, 2020	December 31, 2019
200	14.22%	6.16%
100	7.46%	3.13%
(25)	(0.46)%	(0.54)%

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

As part of the asset/liability management strategy to manage primary market risk exposures expected to be in effect in future reporting periods, management has emphasized a balanced approach to loan origination with an emphasis on shorter duration loans as well as variable rate loans given the current low rate environment. The strategy with respect to liabilities has been to continue to emphasize transaction account growth, particularly non-interest or low interest bearing non-maturing deposit accounts while building long-term client relationships. Non-maturing deposit accounts totaled 82.6% of total deposits at December 31, 2020, compared to 77.7% at December 31, 2019. We currently have no brokered time deposits.

Off-Balance Sheet Activities

In the normal course of business, we are a party to various contractual obligations, commitments and other off-balance sheet activities that contain credit, market, and operational risk that are not required to be reflected in our consolidated financial statements. The most significant of these are the loan commitments that we enter into to meet the financing needs of clients, including commitments to extend credit, commercial and consumer lines of credit and standby letters of credit. As of December 31, 2020 and 2019, we had loan commitments totaling $848.6 million and $850.3 million, respectively, and standby letters of credit that totaled $7.3 million and $11.9 million, respectively. Unused commitments do not necessarily represent future credit exposure or cash requirements, as commitments often expire without being drawn upon. We do not anticipate any material losses arising from commitments or contingent liabilities, and we do not believe that there are any material commitments to extend credit that represent risks of an unusual nature.

Contractual Obligations

In addition to the financing commitments detailed above under "Off-Balance Sheet Activities," in the normal course of business, we enter into contractual obligations that require future cash settlement. The following table summarizes the contractual cash obligations as of December 31, 2020 and the expected timing of those payments:

	Within one year	After one but within three years	After three but within five years	After five years	Total
Operating lease obligations	$ 5,276	$ 9,425	$ 7,675	$ 12,294	$ 34,670
Purchase obligations	12,135	9,209	549	—	21,893
Time deposits	659,509	293,985	31,657	981	986,132
Total	$ 676,920	$ 312,619	$ 39,881	$ 13,275	$ 1,042,695

Impact of Inflation and Changing Prices

The primary impact of inflation on our operations is reflected in increasing operating costs and non-interest expense. Unlike most industrial companies, virtually all of our assets and liabilities are monetary in nature. As a result, changes in interest rates have a more significant impact on our performance than do changes in the general rate of inflation and changes in prices. Interest rate changes do not necessarily move in the same direction, nor have the same magnitude, as changes in the prices of goods and services. Although not as critical to the banking industry as many other industries, inflationary factors may have some impact on our ability to grow, total assets, earnings and capital levels. We do not expect inflation to be a significant factor in our financial results in the near future.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
National Bank Holdings Corporation:

Opinion on the Consolidated Financial Statements

We have audited the accompanying *consolidated* statements of financial condition of National Bank Holdings Corporation and subsidiaries (the Company) as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial condition of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 24, 2021 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 3 to the consolidated financial statements, the Company has changed its method of accounting for the recognition and measurement of credit losses as of January 1, 2020 due to the adoption of ASC Topic 326, *Financial Instruments – Credit Losses*.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for credit losses for loans evaluated on a collective basis

As discussed in Note 3 to the consolidated financial statements, the Company adopted ASU No. 2016-13, Financial Instruments – Credit Losses (ASC Topic 326), as of January 1, 2020. The allowance for credit losses related to loans collectively evaluated for impairment (the collective ACL) was $43.1 million of a total ACL of $44.9 million as of January 1, 2020. As discussed in Note 7 to the consolidated financial statements, the Company's collective ACL was $57.9 million of a total allowance for credit losses of $59.8 million as of December 31, 2020. The Company estimated the January 1, 2020 collective ACL and December 31, 2020 collective ACL (together, the 2020 collective ACL) by first disaggregating the loan portfolio into segments based upon broad characteristics such as primary use and underlying collateral. Within these segments, the portfolio was further disaggregated into classes of loans with similar attributes and risk characteristics. The 2020 collective ACL was determined at the class level, analyzing loss history based upon specific loss drivers and risk factors affecting each loan class. The Company utilized a discounted cash flow (DCF) model developed within a third-party software tool to establish expected lifetime credit losses for the loan portfolio. The 2020 collective ACL was calculated as the difference between the amortized cost basis and the projections from the DCF analysis. The DCF model allows for individual life of loan cash flow modeling, excluding extensions and renewals, using loan-specific interest rates and repayment schedules including estimated prepayment rates and loss recovery timing delays. The model incorporates forecasts of certain national macroeconomic factors (reasonable and supportable forecasts) which drive correlated Probability of Default ("PD") and Loss Given Default ("LGD") rates, which in turn, drive the losses predicted in establishing the Company's 2020 collective ACL. Management accounts for the inherent uncertainty of the underlying economic forecast by reviewing and weighting alternate forecast scenarios. PD and LGD rates along with prepayment rates and loss recovery time delays are determined at a loan class level making use of both internal and peer historical loss rate data. For periods beyond the reasonable and supportable forecast period, the Company reverts to historical long-term average loss rates on a straight-line basis. The length of the forecast period spans four quarters. The length of the reversion period is based on management's assessment of the length and pattern of the current economic cycle and typically ranges from four to eight quarters. Additionally, the 2020 collective ACL calculation includes subjective adjustments for qualitative risk factors that are likely to cause estimated credit losses to differ from historical experience.

We identified the assessment of the January 1, 2020 collective ACL and December 31,2020 collective ACL as a critical audit matter. A high degree of audit effort, including specialized skills and knowledge in the industry, and subjective and complex auditor judgment was involved in the assessment of the 2020 collective ACL. Specifically, the assessment encompassed the evaluation of the 2020 collective ACL methodology, including (1) the DCF model and significant assumptions: PD, LGD, prepayment rates, loss recovery time delays, peer data, portfolio segmentation, the length and weighting of the reasonable and supportable forecast, and the reversion period, and (2) the qualitative risk factors. The assessment also included an evaluation of the conceptual soundness and performance of the underlying models and assumptions. In addition, auditor judgment was required to evaluate the sufficiency of audit evidence obtained.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's measurement of the 2020 collective ACL estimates, including controls over the:

- development and approval of the 2020 collective ACL methodology
- development of the DCF model and significant assumptions
- development of the qualitative risk factors
- analysis of the overall ACL results, trends, and ratios.

We evaluated the Company's process to develop the 2020 collective ACL estimates by testing certain sources of data, factors, and significant assumptions that the Company used, and considered the relevance and reliability of such data, factors, and significant assumptions, including an evaluation of whether additional factors or alternative assumptions should be used. In addition, we involved credit risk professionals with specialized skills and knowledge, who assisted in:

- evaluating the Company's 2020 collective ACL methodology for compliance with U.S. generally accepted accounting principles
- assessing the conceptual soundness and performance testing of the DCF model by inspecting the model documentation to determine whether the models are suitable for their intended use
- evaluating judgments made by the Company in the development of the PD, LGD, prepayment rates, loss recovery time delays, peer data, and the reversion period assumptions by comparing them to relevant Company-specific metrics and trends, and the applicable industry and regulatory practices
- evaluating the reasonable and supportable forecast judgments used to develop (i) the weighting of alternate forecast scenarios by comparing it to the Company's business environment, relevant industry practices, and comparisons to publicly available forecasts, and (ii) the length of that period by comparing to specific portfolio risk characteristics and trends
- determining whether the loan portfolio is segmented by similar risk characteristics by comparing to the Company's business environment and relevant industry practices
- evaluating the methodology used to develop the qualitative factors and the effect of those factors on the 2020 collective ACL compared with relevant credit risk factors and consistency with credit trends and identified limitations of the underlying DCF model.

We also assessed the sufficiency of the audit evidence obtained related to the 2020 collective ACL estimates by evaluating the:

- cumulative results of the audit procedures performed
- qualitative aspects of the Company's accounting practices
- the potential bias in accounting estimates.

KPMG LLP

We have served as the Company's auditor since 2010.

Kansas City, Missouri
February 24, 2021

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Financial Condition
December 31, 2020 and 2019
(In thousands, except share and per share data)

	December 31, 2020	December 31, 2019
ASSETS		
Cash and due from banks	$ 605,065	$ 109,690
Interest bearing bank deposits	500	500
Cash and cash equivalents	605,565	110,190
Investment securities available-for-sale (at fair value)	661,955	638,249
Investment securities held-to-maturity (fair value of $381,691 and $183,741 at December 31, 2020 and December 31, 2019, respectively)	376,615	182,884
Non-marketable securities	16,493	29,751
Loans	4,353,726	4,415,406
Allowance for credit losses	(59,777)	(39,064)
Loans, net	4,293,949	4,376,342
Loans held for sale	247,813	117,444
Other real estate owned	4,730	7,300
Premises and equipment, net	106,982	112,151
Goodwill	115,027	115,027
Intangible assets, net	17,928	11,361
Other assets	212,893	194,813
Total assets	$ 6,659,950	$ 5,895,512
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing demand deposits	$ 2,111,045	$ 1,184,945
Interest bearing demand deposits	514,286	738,496
Savings and money market	2,064,769	1,755,538
Time deposits	986,132	1,058,153
Total deposits	5,676,232	4,737,132
Securities sold under agreements to repurchase	22,897	56,935
Federal Home Loan Bank advances	—	207,675
Other liabilities	140,130	126,850
Total liabilities	5,839,259	5,128,592
Shareholders' equity:		
Common stock, par value $0.01 per share: 400,000,000 shares authorized; 51,487,907 and 51,487,907 shares issued; 30,634,291 and 31,176,627 shares outstanding at December 31, 2020 and December 31, 2019, respectively	515	515
Additional paid-in capital	1,011,362	1,009,223
Retained earnings	223,175	164,082
Treasury stock of 20,686,986 and 20,189,082 shares at December 31, 2020 and December 31, 2019, respectively, at cost	(424,127)	(408,962)
Accumulated other comprehensive income, net of tax	9,766	2,062
Total shareholders' equity	820,691	766,920
Total liabilities and shareholders' equity	$ 6,659,950	$ 5,895,512

See accompanying notes to the consolidated financial statements.

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations
For the Years Ended December 31, 2020, 2019 and 2018
(In thousands, except share and per share data)

	2020	2019	2018
Interest and dividend income:			
Interest and fees on loans	$ 200,026	$ 218,836	$ 193,124
Interest and dividends on investment securities	16,505	21,297	25,746
Dividends on non-marketable securities	1,157	1,770	1,096
Interest on interest-bearing bank deposits	314	698	1,425
Total interest and dividend income	218,002	242,601	221,391
Interest expense:			
Interest on deposits	23,629	29,803	21,041
Interest on borrowings	1,427	6,968	2,913
Total interest expense	25,056	36,771	23,954
Net interest income before provision for loan losses	192,946	205,830	197,437
Provision for loan losses	17,630	11,643	5,197
Net interest income after provision for loan losses	175,316	194,187	192,240
Non-interest income:			
Service charges	14,962	17,895	18,092
Bank card fees	15,446	14,595	14,489
Mortgage banking income	102,384	42,346	30,107
Bank-owned life insurance income	2,360	1,713	1,791
Other non-interest income	4,719	5,888	5,379
OREO-related income	387	315	917
Total non-interest income	140,258	82,752	70,775
Non-interest expense:			
Salaries and benefits	141,170	122,732	114,939
Occupancy and equipment	27,473	27,336	28,493
Telecommunications and data processing	9,042	8,754	10,098
Marketing and business development	2,802	3,897	4,513
FDIC deposit insurance	1,168	1,049	2,475
Bank card expenses	4,388	4,780	5,453
Professional fees	2,946	3,256	6,059
Other non-interest expense	10,547	10,867	13,073
Problem asset workout	3,148	3,186	2,549
Gain on OREO sales, net	(38)	(7,193)	(488)
Core deposit intangible asset amortization	1,183	1,183	2,170
Banking center consolidation-related expense	2,348	898	—
Total non-interest expense	206,177	180,745	189,334
Income before income taxes	109,397	96,194	73,681
Income tax expense	20,806	15,829	12,230
Net income	$ 88,591	$ 80,365	$ 61,451
Earnings per share—basic	$ 2.87	$ 2.57	$ 2.00
Earnings per share—diluted	2.85	2.55	1.95
Weighted average number of common shares outstanding:			
Basic	30,857,086	31,175,825	30,748,234
Diluted	31,075,857	31,530,817	31,430,074

See accompanying notes to the consolidated financial statements.

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
For the Years Ended December 31, 2020, 2019 and 2018
(In thousands)

	2020	2019	2018
Net income	$ 88,591	$ 80,365	$ 61,451
Other comprehensive income (loss), net of tax:			
Securities available-for-sale:			
Net unrealized gains (losses) arising during the period, net of tax (expense) benefit of ($2,634), ($4,510) and $876 for the years ended December 31, 2020, 2019 and 2018, respectively.	8,482	14,352	(2,243)
Less: amortization of net unrealized holding gains to income, net of tax benefit of $248, $320 and $361 for the years ended December 31, 2020, 2019 and 2018, respectively.	(778)	(1,015)	(1,311)
Other comprehensive income (loss)	7,704	13,337	(3,554)
Comprehensive income	$ 96,295	$ 93,702	$ 57,897

See accompanying notes to the consolidated financial statements.

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Changes in Shareholders' Equity
For the Years Ended 2020, 2019 and 2018
(In thousands, except share and per share data)

	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Accumulated other comprehensive (loss) income, net	Total
Balance, December 31, 2017	$ 515	$ 970,668	$ 60,795	$ (493,329)	$ (6,242)	$ 532,407
Cumulative effect adjustment(1)	—	—	26	—	—	26
Net income	—	—	61,451	—	—	61,451
Stock-based compensation	—	4,420	—	—	—	4,420
Issuance of stock under purchase and equity compensation plans, including gain on reissuance of treasury stock of $7,998, net	—	(2,932)	—	9,736	—	6,804
Reissuance of treasury stock of $3,398,477 shares for acquisition of Peoples, Inc.	—	42,243	—	67,970	—	110,213
Cash dividends declared ($0.54 per share)	—	—	(16,761)	—	—	(16,761)
Reclassification of certain tax effects from accumulated other comprehensive income	—	—	1,479	—	(1,479)	—
Other comprehensive loss	—	—	—	—	(3,554)	(3,554)
Balance, December 31, 2018	$ 515	$ 1,014,399	$ 106,990	$ (415,623)	$ (11,275)	$ 695,006
Cumulative effect adjustment(2)	—	—	256	—	—	256
Net income	—	—	80,365	—	—	80,365
Stock-based compensation	—	4,869	—	—	—	4,869
Issuance of stock under purchase and equity compensation plans, including gain on reissuance of treasury stock of $6,010, net	—	(10,045)	—	6,661	—	(3,384)
Cash dividends declared ($0.75 per share)	—	—	(23,529)	—	—	(23,529)
Other comprehensive income	—	—	—	—	13,337	13,337
Balance, December 31, 2019	$ 515	$ 1,009,223	$ 164,082	$ (408,962)	$ 2,062	$ 766,920
Cumulative effect adjustment(3)	—	—	(4,623)	—	—	(4,623)
Net income	—	—	88,591	—	—	88,591
Stock-based compensation	—	5,299	—	—	—	5,299
Issuance of stock under purchase and equity compensation plans, including gain on reissuance of treasury stock of $1,588, net	—	(3,160)	—	4,311	—	1,151
Repurchase of 734,117 shares	—	—	—	(19,476)	—	(19,476)
Cash dividends declared ($0.80 per share)	—	—	(24,875)	—	—	(24,875)
Other comprehensive income	—	—	—	—	7,704	7,704
Balance, December 31, 2020	$ 515	$ 1,011,362	$ 223,175	$ (424,127)	$ 9,766	$ 820,691

(1) Related to the adoption of Accounting Standards Update No. 2017-12, *Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities*.

(2) Related to the adoption of Accounting Standards Update No. 2016-02, *Leases*. Refer to note 3 – Recent Accounting Pronouncements of our consolidated financial statements for further details.

(3) Related to the adoption of Accounting Standards Update No. 2016-13, *Measurement of Credit Losses on Financial Instruments*. Refer to note 3 – Recent Accounting Pronouncements of our consolidated financial statements for further details.

See accompanying notes to the consolidated financial statements.

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2020, 2019 and 2018

(In thousands)

	2020	2019	2018
Cash flows from operating activities:			
Net income	$ 88,591	$ 80,365	$ 61,451
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Provision for loan losses	17,630	11,643	5,197
Provision (release) for mortgage loan repurchases	662	(366)	370
Depreciation and amortization	14,449	15,038	11,522
Change in current income tax receivable	(2,371)	1,955	4,246
Change in deferred income taxes	3,477	8,793	9,092
Net excess tax expense (benefit) on stock-based compensation	51	(2,160)	(1,286)
Discount accretion, net of premium amortization on securities	3,374	2,047	2,911
Loan accretion	(11,694)	(15,590)	(23,115)
Gain on sale of mortgages, net	(98,250)	(39,922)	(27,009)
Origination of loans held for sale, net of repayments	(2,376,660)	(1,317,547)	(1,005,850)
Proceeds from sales of loans held for sale	2,348,166	1,289,877	1,030,906
Bank-owned life insurance income	(2,360)	(1,713)	(1,791)
Gain on the sale of other real estate owned, net	(38)	(7,193)	(488)
Originations of mortgage serving rights	(10,354)	(27)	(30)
Impairment of mortgage servicing rights	751	129	21
Impairment on other real estate owned	470	1,082	230
Impairment on fixed assets related to banking center consolidations	1,631	898	—
Stock-based compensation	5,299	4,869	4,420
Operating lease payments	(5,414)	(5,294)	—
Acquisition-related costs	—	—	(7,957)
Change in other assets	(21,323)	(799)	(3,645)
Change in other liabilities	34,045	16,391	14,379
Net cash (used in) provided by operating activities	(9,868)	42,476	73,574
Cash flows from investing activities:			
Purchase of FHLB stock	(451)	(16,761)	(16,463)
Proceeds from redemption of FHLB stock	13,709	14,565	12,062
Purchase of FRB stock	—	—	(4,716)
Proceeds from redemption of FRB stock	—	—	1,371
Proceeds from maturities of investment securities held-to-maturity	88,071	60,948	61,913
Proceeds from maturities of investment securities available-for-sale	271,508	195,467	216,077
Proceeds from sales of investment securities available-for-sale	—	20,378	33,637
Proceeds from maturities of non-marketable securities	—	—	67
Purchase of investment securities held-to-maturity	(284,170)	(10,201)	(40,735)
Purchase of investment securities available-for-sale	(286,130)	(45,745)	(72,555)
Net decrease (increase) in loans	49,209	(312,844)	(382,441)
Purchases of premises and equipment, net	(4,352)	(11,204)	(6,277)
Purchase of bank-owned life insurance	—	(20,000)	—
Proceeds from sales of loans	—	—	713
Proceeds from sales of other real estate owned	3,671	12,112	26,346
Net cash activity from acquisition	—	—	68,984
Net cash used in investing activities	(148,935)	(113,285)	(102,017)
Cash flows from financing activities:			
Net increase (decrease) in deposits	939,100	201,511	(173,849)
Net decrease in repurchase agreements and other short-term borrowings	(34,038)	(9,112)	(64,416)
Advances from FHLB	947,431	1,477,447	889,416
FHLB repayments	(1,155,106)	(1,571,432)	(750,696)
Issuance of stock under purchase and equity compensation plans	(749)	(6,229)	(772)
Proceeds from exercise of stock options	1,832	2,788	7,576
Payment of dividends	(24,816)	(23,530)	(16,624)
Repurchase of common stock	(19,476)	—	—
Net cash provided by (used in) financing activities	654,178	71,443	(109,365)
Increase (decrease) in cash, cash equivalents and restricted cash(1)	495,375	634	(137,808)
Cash, cash equivalents and restricted cash at beginning of the year(1)	120,190	119,556	257,364
Cash, cash equivalents and restricted cash at end of period(1)	$ 615,565	$ 120,190	$ 119,556
Supplemental disclosure of cash flow information during the period:			
Cash paid for interest	$ 27,622	$ 34,458	$ 22,714
Net tax payment	22,111	9,271	(2,345)
Supplemental schedule of non-cash activities:			
Loans transferred to other real estate owned at fair value	1,533	2,705	24,940
(Decrease) increase in loans purchased but not settled	(16,351)	7,372	(21,202)
Loans transferred from loans held for sale to loans	3,625	1,732	1,038
Lease right-of-use assets obtained	—	(30,474)	—
Treasury stock reissued for acquisition	—	—	110,213

(1) Included in restricted cash is $10.0 million placed in escrow for certain potential liabilities the Company is indemnified for pursuant to the Peoples merger agreement. The restricted cash is included in other assets in the Company's consolidated statements of financial condition at December 31, 2020, 2019 and 2018.

See accompanying notes to the consolidated financial statements.

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

Note 1 Basis of Presentation

National Bank Holdings Corporation is a bank holding company that was incorporated in the State of Delaware in 2009. The Company is headquartered in Denver, Colorado, and its primary operations are conducted through its wholly owned subsidiary, NBH Bank (the "Bank"), a Colorado state-chartered bank and a member of the Federal Reserve System. The Company provides a variety of banking products to both commercial and consumer clients through a network of 90 banking centers as of December 31, 2020, located primarily in Colorado and the greater Kansas City region, and through online and mobile banking products and services.

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, NBH Bank. The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and, where applicable, with general practices in the banking industry or guidelines prescribed by bank regulatory agencies. The consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results presented. All such adjustments are of a normal recurring nature. All significant intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications of prior years' amounts are made whenever necessary to conform to current period presentation. During the first quarter of 2020, the Company updated the loan classifications in its allowance for credit losses model and loans previously referred to as “310-30” were reclassified to “acquired loans.” Certain loan classifications within the consolidated financial disclosures have been updated to reflect this change. The prior period presentations have been reclassified to conform to the current period presentations. Refer to note 6 for further discussion. All amounts are in thousands, except share data and per share data, or as otherwise noted.

General economic conditions declined during 2020 as a result of the COVID-19 pandemic, which has caused substantial disruption to the communities we serve and has changed the way we live and work. The length of the pandemic and the efficacy of the extraordinary government-mandated measures that have been put into place to address it are still unknown, but have already had, and are likely to continue to have, a significant impact to the financial condition and operations of the Company.

GAAP requires management to make estimates that affect the reported amounts of assets, liabilities, revenues and expenses and disclosures of contingent assets and liabilities. By their nature, estimates are based on judgment and available information. Management has made significant estimates in certain areas, such as the amount and timing of expected cash flows from assets, the valuation of other real estate owned, the fair value adjustments on assets acquired and liabilities assumed, the valuation of core deposit intangible assets, the valuation of investment securities, the valuation of stock-based compensation, the valuation of MSRs, the fair values of financial instruments, the allowance for credit losses and contingent liabilities. Because of the inherent uncertainties associated with any estimation process and future changes in market and economic conditions, it is possible that actual results could differ significantly from those estimates.

Note 2 Summary of Significant Accounting Policies

a) Cash and cash equivalents—Cash and cash equivalents include cash, cash items, amounts due from other banks, amounts due from the Federal Reserve Bank of Kansas City, federal funds sold, and interest-bearing bank deposits.

b) Investment securities—Investment securities may be classified in three categories: trading, available-for-sale or held-to-maturity. Management determines the appropriate classification at the time of purchase and reevaluates the classification at each reporting period. Any sales of available-for-sale securities are for the purpose of executing the Company's asset/liability management strategy, reducing borrowings, funding loan growth, providing liquidity, or eliminating a perceived credit risk in a specific security. Held-to-maturity securities are carried at amortized cost, and the available-for-sale securities are carried at estimated fair value. Unrealized gains or losses on securities available-for-sale are reported as accumulated other comprehensive income (loss) ("AOCI"), a component of shareholders' equity, net of income tax. Gains and losses realized upon sales of securities are calculated using the specific identification method. Premiums and discounts are amortized to interest income over the estimated lives of the securities. Prepayment experience is periodically evaluated and a determination made regarding the appropriate estimate of the future rates of prepayment. When a change in a bond's estimated remaining life is necessary, a corresponding adjustment is made in the related premium amortization or discount accretion. Purchases and sales of securities, including any corresponding gains or losses, are recognized on a trade-date basis and a receivable or payable is recognized for pending transaction settlements.

Management evaluates all investments in an unrealized loss position on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. If the Company has the intent to sell the security or it is more likely than not that the Company will be required to sell the security, the security is written down to fair value and the entire loss is recorded in earnings. If either of the above criteria is not met, we evaluate whether the decline in fair value is the result of credit losses or other factors. In making the assessment, we may consider various factors including the extent to which fair value is less than amortized cost, performance on any underlying collateral, downgrades in the ratings of the security by a rating agency, the failure of the issuer to make scheduled interest or principal payments and adverse conditions specifically related to the security. If the assessment indicates that a credit loss exists, the present value of cash flows expected to be collected are compared to the amortized cost basis of the security and any excess is recorded as an allowance for credit loss. When the loss is not considered a result of credit loss, the cost basis of the security is written down to fair value, with the loss charge recognized in AOCI. The Company does not measure expected credit losses for U.S. agency-backed held-to-maturity securities, since the risk of nonpayment of the amortized cost basis is zero. Credit losses are not estimated for AIR from investment securities as interest deemed uncollectible is written off through interest income.

Prior to the adoption of ASU 2016-13, declines in the fair value of held-to-maturity and available-for-sale securities below their cost that were deemed to be other-than-temporarily impaired were reflected in earnings as realized losses. In estimating other-than-temporary-impairment prior to January 1, 2020, the Company considered, among other things, the severity and duration of the unrealized loss position; adverse conditions specifically related to the security; changes in expected future cash flows; downgrades in the rating of the security by a rating agency; the failure of the issuer to make scheduled interest or principal payments; whether the Company had the intent to sell the security; and whether it was more likely than not that the Company would be required to sell the security.

c) Non-marketable securities—Non-marketable securities include FRB stock and FHLB stock. These securities have been acquired for debt facility or regulatory purposes and are carried at cost.

d) Loans receivable—Loans receivable include loans originated by the Company and loans that are acquired through acquisitions. Loans originated by the Company are carried at the principal amount outstanding, net of premiums, discounts, unearned income and deferred loan fees and costs. Loan fees and certain costs of originating loans are deferred and the net amount is amortized over the contractual life of the related loans. Acquired loans are initially recorded at fair value. Non-refundable loan origination and commitment fees, net of direct costs of originating or acquiring loans, and fair value adjustments for acquired loans, are deferred and recognized over the remaining lives of the related loans in accordance with ASC 310-20.

Estimated fair values of acquired loans are based on a discounted cash flow methodology that considers various factors including the type of loan and related collateral, the expected timing of cash flows, classification status, fixed or variable interest rate, term of loan and whether or not the loan is amortizing, and a discount rate reflecting the Company's assessment of risk inherent in the cash flow estimates. Discounts created when the loans are recorded at their estimated fair values at acquisition are accreted over the remaining term of the loan as an adjustment to the related loan's yield. Similar to originated loans described below, the accrual of interest income on acquired loans is discontinued when the collection of principal or interest, in whole or in part, is doubtful.

Interest income on acquired loans and interest income on loans originated by the Company is accrued and credited to income as it is earned using the interest method based on daily balances of the principal amount outstanding. However, interest is generally not accrued on loans 90 days or more past due, unless they are well secured and in the process of collection. Additionally, in certain situations, loans that are not contractually past due may be placed on non-accrual status due to the continued failure to adhere to contractual payment terms by the borrower coupled with other pertinent factors, such as insufficient collateral value or deficient primary and secondary sources of repayment. Accrued interest receivable is reversed when a loan is placed on non-accrual status and payments received generally reduce the carrying value of the loan. Interest is not accrued while a loan is on non-accrual status and interest income is generally recognized on a cash basis only after payment in full of the past due principal and collection of principal outstanding is reasonably assured. A loan may be placed back on accrual status if all contractual payments have been received, or sooner under certain conditions and collection of future principal and interest payments is no longer doubtful.

In the event of borrower default, the Company 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” and are identified in accordance with ASC 310-40.

The CARES Act afforded financial institutions the option to modify loans within certain parameters in response to the COVID-19 pandemic without requiring the modifications to be classified as TDRs if the borrower has been adversely impacted by COVID-19 and was current on their loan payments. The Company has modified loans due to the effects of the COVID-19 pandemic that were not classified as TDRs. Modifications include deferral of principal as well as full-payment deferral for a period ranging from three months to one year. The number and aggregate balance of COVID-related loan modifications substantially decreased during the third quarter, and we continue to monitor the remaining COVID loan modifications closely.

e) Loans held for sale—The Company has elected to record loans originated and intended for sale in the secondary market at estimated fair value. The Company estimates fair value based on quoted market prices for similar loans in the secondary market. Gains or losses are recognized upon sale and are included as a component of mortgage banking income in the consolidated statements of operations. Loans held for sale have primarily been fixed rate single-family residential mortgage loans under contract to be sold in the secondary market. In most cases, loans in this category are sold within 45 days. Currently, conventional loans in states where the bank has market presence may be sold with servicing retained or with servicing released. Government loans and conventional loans in states where the bank does not have a market presence are generally sold with servicing released. Under limited circumstances, buyers may have recourse to return a purchased loan to the Company. Recourse conditions may include early payoff, early payment default, breach of representations or warranties, or documentation deficiencies in the underwriting process.

The Company enters into commitments to originate residential mortgage loans whereby the interest rate on the loan is determined prior to funding (i.e. interest rate lock commitments). Such interest rate lock commitments on mortgage loans to be sold in the secondary market are considered to be derivatives. To protect against the price risk inherent in residential mortgage loan commitments, the Company utilizes both "best efforts" and "mandatory delivery" forward loan sale commitments to mitigate the risk of potential increases or decreases in the values of loans that would result from the change in market rates for such loans. The Company manages the interest rate risk on interest rate lock commitments by entering into forward sale contracts of mortgage backed securities. Such contracts are accounted for as derivatives and are recorded at fair value as derivative assets or liabilities. They are carried on the consolidated statements of financial condition within other assets or other liabilities, and changes in fair value are recorded net as a component of mortgage banking income in the consolidated statements of operations. The gross gains on loan sales are recognized based on new loan commitments with adjustment for price and pair-off activity. Commission expenses on loans held for sale are recognized based on loans closed.

f) Allowance for credit losses—The Company adopted ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, effective January 1, 2020.

The ACL represents management's estimate of lifetime credit losses inherent in loans as of the balance sheet date. The Company measures expected credit losses for loans on a pooled basis when similar risk characteristics exist. The Company has identified four primary loan segments that are further stratified into 11 loan classes to provide more granularity in analyzing loss history based upon specific loss drivers and risk factors affecting each loan class. Generally, the underlying risk of loss for each of these loan classes will follow certain norms/trends in various economic environments. Loans that do not share risk characteristics are evaluated on an individual basis and are not included in the collective evaluation. Those loans include loans on non-accrual status, loans in bankruptcy, and TDRs described below. If a specific allowance is warranted based on the borrower's overall financial condition, the specific allowance is calculated based on discounted expected cash flows using the loan's initial contractual effective interest rate or the fair value of the collateral less selling costs for collateral-dependent loans.

The Company utilizes a DCF model developed within a third-party software tool to establish expected lifetime credit losses for the loan portfolio. The ACL is calculated as the difference between the amortized cost basis and the projections from the DCF analysis. The DCF model allows for individual life of loan cash flow modeling, excluding extensions and renewals, using loan-specific interest rates and repayment schedules adjusted for estimated prepayment rates and loss recovery timing delays. The model incorporates forecasts of certain national macroeconomic factors, including unemployment rates, HPI, retail sales and GDP, which drive correlated probability of default ("PD") and loss given default ("LGD") rates. PD and LGD, in turn, drive the losses predicted in establishing our ACL. PD and LGD rates along with prepayment rates and loss recovery time delays are determined at a loan class level making use of both internal and peer historical loss rate data. The determination and application of the ACL accounting policy involves judgments, estimates, and uncertainties that are subject to change. For periods beyond the reasonable and supportable forecast period, we revert to historical long-term average loss rates on a straight-line basis. The length of the forecast period spans four quarters. The length of the reversion period is based on management's assessment of the length and pattern of the current economic cycle and typically ranges from four to eight quarters.

Management accounts for the inherent uncertainty of the underlying economic forecast by reviewing and weighting alternate forecast scenarios. Additionally, the ACL calculation includes subjective adjustments for qualitative risk factors that are likely to cause estimated credit losses to differ from historical experience. These qualitative adjustments may increase or reduce reserve levels and include adjustments for lending management experience and risk tolerance, loan review and audit results, asset quality and portfolio trends, loan portfolio growth and industry concentrations. The Company has elected to exclude AIR from the allowance for credit losses calculation. When a loan is placed on non-accrual, any recorded AIR is reversed against interest income.

The determination and application of the ACL accounting policy involves judgments, estimates, and uncertainties that are subject to change. Changes in these assumptions, estimates or the conditions surrounding them may have a material impact on our financial condition, liquidity or results of operations. Various regulatory agencies, as an integral part of the examination process, periodically review the ACL. Such agencies may require the Company to recognize additions to the ACL or reserve increases to adversely graded classified loans based on their judgments about information available to them at the time of their examinations.

The ACL is decreased by net charge-offs and is increased by provisions for loan losses that are charged to the statements of operations. Charge-offs, if any, are typically measured for each loan based on a thorough analysis of the most probable source of repayment, such as the present value of the loan's expected future cash flows, the loan's estimated fair value, or the estimated fair value of the underlying collateral less costs of disposition for collateral-dependent loans. When it is determined that specific loans, or portions thereof, are uncollectible, these amounts are charged off against the ACL.

The Company uses an internal risk rating system to indicate credit quality in the loan portfolio. The risk rating system is applied to all loans and uses a series of grades, which reflect management's assessment of the risk attributable to loans based on an analysis of the borrower's financial condition and ability to meet contractual debt service requirements. Loans that management perceives to have acceptable risk are categorized as "Pass" loans. The "Special Mention" loans represent loans that have potential credit weaknesses that deserve management's 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 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" are inadequately protected by the current sound

worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard loans have a distinct possibility of loss if the deficiencies are not corrected. “Doubtful” loans are loans that management believes the collection of payments in accordance with the terms of the loan agreement is highly questionable and improbable. Credit quality indicators are reviewed and updated in accordance with internal policy based on loan balance and risk rating. Interest accrual is discontinued on doubtful loans and certain substandard loans, as is more fully discussed in note 4.

Unfunded loan commitments

In addition to the ACL for funded loans, the Company maintains reserves to cover the risk of loss associated with off-balance sheet unfunded loan commitments. The allowance for off-balance sheet credit losses is maintained within the other liabilities in the statements of financial condition. Under the CECL framework, adjustments to this liability are recorded as provision for credit losses in the statements of operations. Unfunded loan commitment balances are evaluated by loan class and further segregated by revolving and non-revolving commitments. In order to establish the required level of reserve, the Company applies average historical utilization rates and ACL loan model loss rates for each loan class to the outstanding unfunded commitment balances.

Prior to the adoption of ASU 2016-13, the Company’s determination of the allowance took into consideration, among other matters, the estimated fair value of the underlying collateral, economic conditions, historical net loan losses, the estimated loss emergence period, estimated default rates, any declines in cash flow assumptions from acquisitions, loan structures, growth factors and other elements that warrant recognition.

Under the prior incurred loss methodology, the Company routinely evaluated adversely risk-rated credits for impairment. Impairment, if any, was typically measured for each loan based on a thorough analysis of the most probable source of repayment, including the present value of the loan’s expected future cash flows, the loan’s estimated fair value, or the estimated fair value of the underlying collateral less costs of disposition for collateral dependent loans. General allowances were established for loans with similar characteristics. In this process, general allowance factors were based on an analysis of historical loss and recovery experience, if any, related to originated and acquired loans, as well as certain industry experience, with adjustments made for qualitative or environmental factors that were likely to cause estimated credit losses to differ from historical experience. To the extent that the data supporting such factors had limitations, management’s judgment and experience played a key role in determining the allowance estimates.

g) Premises and equipment—With the exception of premises and equipment acquired through business combinations, which are initially measured and recorded at fair value, purchased land, buildings and equipment are carried at cost, including capitalized interest when appropriate, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of the asset. The Company generally assigns depreciable lives of 39 years for buildings, 7 to 15 years for building improvements, and 3 to 7 years for equipment. Leasehold improvements are amortized over the shorter of their estimated useful lives or remaining lease terms. Maintenance and repairs are charged to non-interest expense as incurred. The Company reviews premises and equipment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future net cash flows expected to result from the use of the asset and its eventual disposal is less than its carrying amount. Property and equipment that meet the held-for-sale criteria is recorded at the lower of its carrying amount or fair value less cost to sell and depreciation is ceased.

h) Goodwill and intangible assets—Goodwill is established and recorded if the consideration given during an acquisition transaction exceeds the fair value of the net assets received. Goodwill has an indefinite useful life and is not amortized, but is evaluated annually for potential impairment, or when events or circumstances indicate that it is more likely than not that the fair value of the reporting unit is less than its carrying amount. Such events or circumstances may include deterioration in general economic conditions, deterioration in industry or market conditions, an increased competitive environment, a decline in market-dependent multiples or metrics, declining financial performance, entity-specific events or circumstances or a sustained decrease in share price (either in absolute terms or relative to peers). If the Company determines, based upon the qualitative assessment, that it is more likely than not that the fair value of the reporting unit is greater than the carrying amount no additional procedures are performed; however, if the Company determines that it is more likely than not that the fair value of the reporting unit is less than the carrying amount the Company will compare the fair value of the reporting unit to its carrying amount. Any excess of the carrying amount over fair value would indicate a potential impairment and the

Company would proceed to perform an additional test to determine whether goodwill has been impaired and calculate the amount of that impairment.

Intangible assets that have finite useful lives, such as core deposit intangibles, are amortized over their estimated useful lives. The Company's core deposit intangible assets represent the value of the anticipated future cost savings that will result from the acquired core deposit relationships versus an alternative source of funding. Judgment may be used in assessing goodwill and intangible assets for impairment. Estimates of fair value are based on projections of revenues, operating costs and cash flows of the reporting unit considering historical and anticipated future results, general economic and market conditions, as well as the impact of planned business or operational strategies. The valuations use a combination of present value techniques to measure fair value considering market factors. Additionally, judgment is used in determining the useful lives of finite-lived intangible assets. Adverse changes in the economic environment, operations of the reporting unit, or changes in judgments and projections could result in a significantly different estimate of the fair value of the reporting unit and could result in an impairment of goodwill and/or intangible assets.

MSRs associated with loans originated and sold, where servicing is retained, are initially capitalized at fair value and included in intangible assets on the consolidated statements of financial condition. For subsequent measurement purposes, the Company measures servicing assets based on the lower of cost or market using the amortization method. The values of these capitalized servicing rights are amortized as an offset to the loan servicing income earned in relation to the servicing revenue expected to be earned. The carrying values of these rights are reviewed quarterly for impairment based on the fair value of those assets. For purposes of impairment evaluation and measurement, management stratifies MSRs based on the predominant risk characteristics of the underlying loans, including loan type and loan term. If, by individual stratum, the carrying amount of these MSRs exceeds fair value, a valuation allowance is established and the impairment is recognized in mortgage banking income. If the fair value of impaired MSRs subsequently increases, management recognizes the increase in fair value in current period mortgage banking income and, through a reduction in the valuation allowance, adjusts the carrying value of the MSRs to a level not in excess of amortized cost.

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

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

***j) Other real estate owned*—**OREO consists of property that has been foreclosed on or repossessed by deed in lieu of foreclosure. The assets are initially recorded at the fair value of the collateral less estimated costs to sell, with any initial valuation adjustments charged to the ALL. Subsequent downward valuation adjustments, if any, in addition to gains and losses realized on sales and net operating expenses, are recorded in non-interest expense. Costs associated with maintaining property, such as utilities and maintenance, are charged to expense in the period in which they occur, while costs relating to the development and improvement of property are capitalized to the extent the balance does not exceed fair value. All OREO acquired through acquisition is recorded at fair value, less cost to sell, at the date of acquisition.

k) Bank-owned life insurance—The Company is the owner and beneficiary of bank-owned life insurance ("BOLI") policies that it purchased on certain associates of the Company. The BOLI is carried at net realizable value with changes in net realizable value recorded in non-interest income on the consolidated statements of operations.

l) Securities purchased under agreements to resell and securities sold under agreements to repurchase—The Company periodically enters into purchases or sales of securities under agreements to resell or repurchase as of a specified future date. The securities purchased under agreements to resell are accounted for as collateralized financing transactions and are reflected as an asset in the consolidated statements of financial condition. The securities pledged by the counterparties are held by a third party custodian and valued daily. The Company may require additional collateral to ensure full collateralization for these transactions. The repurchase agreements are considered financing agreements and the obligation to repurchase assets sold is reflected as a liability in the consolidated statements of financial condition of the Company. The repurchase agreements are collateralized by debt securities that are under the control of the Company.

m) Stock-based compensation—The Company accounts for stock-based compensation in accordance with ASC Topic 718. The Company grants stock-based awards including stock options, restricted stock and performance stock units. Stock option grants are for a fixed number of common shares and are issued at exercise prices which are not less than the fair value of a share of stock at the date of grant. The options vest over a time period stated in each option agreement and may be subject to other performance vesting conditions, which require the related compensation expense to be recorded ratably over the requisite service period starting when such conditions become probable. Restricted stock is granted for a fixed number of shares, the transferability of which is restricted until such shares become vested according to the terms in the award agreement. Restricted shares may have multiple vesting qualifications, which can include time vesting of a set portion of the restricted shares and performance criterion, such as market criteria that are tied to specified market conditions of the Company's common stock price and performance targets tied to the Company's earnings per share.

The fair value of stock options is measured using a Black-Scholes model. The fair value of time-based restricted stock awards and performance stock units with performance based vesting criteria is based on the Company's stock price on the date of grant. The fair value of performance stock units with market-based vesting criteria is measured using a Monte Carlo simulation model. Compensation expense for the portion of the awards that contain performance and service vesting conditions is recognized over the requisite service period based on the fair value of the awards on the grant date. Compensation expense for the portion of the awards that contain a market vesting condition is recognized over the derived service period based on the fair value of the awards on the grant date. The amortization of stock-based compensation reflects any estimated forfeitures, and the expense realized in subsequent periods may be adjusted to reflect the actual forfeitures realized. The outstanding stock options primarily carry a maximum contractual term of ten years. To the extent that any award is forfeited, surrendered, terminated, expires, or lapses without being vested or exercised, the shares of stock subject to such award not delivered are again made available for awards under the Plan.

All excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) are recognized in the consolidated statements of operations as a component of income tax expense or benefit and are classified as an operating activity within the Company's consolidated statements of cash flows. The tax effects of exercised, expired or vested awards are treated as discrete items in the reporting period in which they occur and may result in increased volatility in our effective tax rate. Cash paid by the Company when directly withholding shares for tax withholding purposes is classified as a financing activity in the consolidated statements of cash flows.

n) Income taxes—The Company and its subsidiaries file U.S. federal and certain state income tax returns on a consolidated basis. Additionally, the Company and its subsidiaries file separate state income tax returns with various state jurisdictions. The provision for income taxes includes the income tax balances of the Company and all of its subsidiaries.

Deferred tax assets and liabilities are recognized for temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled. Deferred tax assets and liabilities are adjusted for the effects of changes in tax rates in the period of change. The Company establishes a valuation allowance when management believes, based on the weight of available evidence, it is more likely than not that some portion of the deferred tax assets will not be realized.

The Company recognizes and measures income tax benefits based upon a two-step model: 1) a tax position must be more likely than not to be sustained based solely on its technical merits in order to be recognized; and 2) the benefit is measured as the largest dollar amount of that position that is more likely than not to be sustained upon settlement. The difference between the benefit recognized for a position in this model and the tax benefit claimed on a tax return is treated as an unrecognized tax benefit. The Company recognizes income tax related interest and penalties in other non-interest expense.

o) Earnings per share—The Company applies the two-class method of computing earnings per share as certain of the Company's restricted shares are entitled to non-forfeitable dividends and are therefore considered to be a class of participating securities. The two-class method allocates income according to dividends declared and participation rights in undistributed income. Basic earnings per share is computed by dividing income allocated to common shareholders by the weighted average number of common shares outstanding during each period. Diluted income per common share is computed by dividing income allocated to common shareholders by the weighted average common shares outstanding during the period, plus amounts representing the dilutive effect of stock options outstanding, certain unvested restricted shares, or other contracts to issue common shares ("common stock equivalents") using the treasury stock method. Common stock equivalents are excluded from the computation of diluted earnings per common share in periods in which they have an anti-dilutive effect.

***p) Interest Rate Swap Derivatives*—**The Company carries all derivatives on the statement of financial condition at fair value. All derivative instruments are recognized as either assets or liabilities depending on the rights or obligations under the contracts. All gains and losses on the derivatives due to changes in fair value are recognized in earnings each period.

The Company offers interest rate swap products to certain of its clients to manage potential changes in interest rates. Each contract between the Company and a client is offset with a contract between the Company and an institutional counterparty, thus minimizing the Company's exposure to rate changes. The Company's portfolio consists of a "matched book," and as such, changes in fair value of the swap pairs will largely offset in earnings. In accordance with applicable accounting guidance, if certain conditions are met, a derivative may be designated as (1) a hedge of the exposure to changes in the fair value of a recognized asset or liability, or of an unrecognized firm commitment, that are attributable to a particular risk (referred to as a fair value hedge) or (2) a hedge of the exposure to variability in the cash flows of a recognized asset or liability, or of a forecasted transaction, that is attributable to a particular risk (referred to as a cash flow hedge). The Company documents all hedging relationships at the inception of each hedging relationship and uses industry accepted methodologies and ranges to determine the effectiveness of each hedge. The fair value of the hedged item is calculated using the estimated future cash flows of the hedged item and applying discount rates equal to the market interest rate for the hedged item at the inception of the hedging relationship (inception benchmark interest rate plus an inception credit spread), adjusted for changes in the designated benchmark interest rate thereafter.

q) Treasury stock —When the Company acquires treasury stock, the sum of the consideration paid and direct transaction costs after tax is recognized as a deduction from equity. The cost basis for the reissuance of treasury stock is determined using a first-in, first-out basis. To the extent that the reissuance price is more than the cost basis (gain), the excess is recorded as an increase to additional paid-in capital in the consolidated statements of financial condition. If the reissuance price is less than the cost basis (loss), the difference is recorded to additional paid-in capital to the extent there is a cumulative treasury stock paid-in capital balance. Any loss in excess of the cumulative treasury stock paid-in capital balance is charged to retained earnings.

***r) Acquisition activities*—**The Company accounts for business combinations under the acquisition method of accounting. Assets acquired and liabilities assumed are measured and recorded at fair value at the date of acquisition, including identifiable intangible assets. If the fair value of net assets acquired exceeds the fair value of consideration paid, a bargain purchase gain is recognized at the date of acquisition. Conversely, if the consideration paid exceeds the fair value of the net assets acquired, goodwill is recognized at the acquisition date. Fair values are subject to refinement for up to a maximum of one year after the closing date of an acquisition as information relative to closing date fair values becomes available. Adjustments recorded to the acquired assets and liabilities assumed are applied prospectively in accordance with Accounting Standards Codification ("ASC") Topic 805. The determination of the fair value of loans acquired takes into account credit quality deterioration and probability of loss; therefore, the related ALL is not carried forward at the time of acquisition.

Identifiable intangible assets are recognized separately if they arise from contractual or other legal rights or if they are separable (i.e., capable of being sold, transferred, licensed, rented, or exchanged separately from the entity). Deposit liabilities and the related depositor relationship intangible assets, known as the core deposit intangible assets, may be exchanged in observable exchange transactions. As a result, the core deposit intangible asset is considered identifiable, because the separability criterion has been met.

Note 3 Recent Accounting Pronouncements

Revenue from Contracts with Customers—In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. This update supersedes revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance in the FASB Accounting Standards Codification. The new guidance stipulates that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides specific steps that entities should apply in order to achieve this principle.

The new guidance does not apply to revenue associated with financial assets and liabilities, including loans, leases, securities, and derivatives that are accounted for under other GAAP. Accordingly, the majority of the Company's revenues are not affected. The Company adopted ASU 2014-09 on January 1, 2018 utilizing the modified retrospective approach. Additionally, the Company has determined certain service charges, bank card fees and real estate sales are within the scope of the ASU, but has not identified changes to the timing or amount of revenue recognition. Accounting policies and procedures did not change materially as the principles of revenue recognition from the ASU are largely consistent with existing guidance and current practices applied by the Company. Refer to note 15 of our consolidated financial statements for required disclosures under the new standard.

Leases—In February 2016, the FASB issued ASU 2016-02, *Leases*. The guidance in ASU 2016-02 supersedes the lease recognition requirements in ASC Topic 840, *Leases*. The new standard established a right-of-use ("ROU") model that requires a lessee to record a ROU asset and lease liability on the balance sheet for all leases with terms longer than 12 months. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statements. ASU 2016-02 became effective for the Company on January 1, 2019 and initially required transition using a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. In July 2018, the FASB issued ASU 2018-11 which, among other things, provided an additional transition method that allows entities to not apply the guidance in ASU 2016-02 in the comparative periods presented in the financial statements and instead recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. We elected to apply certain practical expedients provided under ASU 2016-02 whereby we will not reassess (i) whether any expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases and (iii) initial direct costs for any existing leases. We also did not apply the recognition requirements of ASU 2016-02 to any short-term leases (as defined by related accounting guidance). The updates did not significantly change lease accounting requirements applicable to lessors and did not significantly impact our financial statements in relation to contracts whereby we act as a lessor. We applied the modified-retrospective transition approach prescribed by ASU 2018-11. Upon adoption of ASU 2016-02 and ASU 2018-11 on January 1, 2019, we recognized right-of-use assets and related lease liabilities totaling $30.5 million with a cumulative-effect adjustment to beginning retained earnings of $0.3 million, after tax.

Financial Instruments - Credit Losses—In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*. This update replaces the current incurred loss methodology for recognizing credit losses with a CECL model, which requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This amendment broadens the information that an entity must consider in developing its expected credit loss estimates. Additionally, the update amends the accounting for credit losses for available-for-sale debt securities and purchased financial assets with a more-than-insignificant amount of credit deterioration since origination. This update requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of a company's loan portfolio. We adopted ASU 2016-13 on January 1, 2020 using a modified retrospective approach. Results for reporting periods beginning after January 1, 2020 are presented under ASU 2016-13 while prior period amounts continue to be reported in accordance with previously applicable GAAP. Upon adoption, the Company recognized a $5.8 million increase in the allowance for credit losses with a corresponding reduction to retained earnings, net of tax, of $4.6 million. Since the investment securities portfolio was comprised of mortgage-backed securities issued by government sponsored entities as of January 1, 2020, no credit loss allowance was required upon adoption.

Derivatives and Hedging - Targeted Improvements to Accounting for Hedging Activities—In August 2017, the FASB issued ASU 2017-12*, Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities.* The purpose of this updated guidance is to better align a company's financial reporting for hedging activities with the economic objectives of those activities. ASU 2017-12 is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2018. The Company early adopted ASU 2017-12 during the first quarter of 2018 and recorded a cumulative effect adjustment of $26 thousand within equity in the consolidated statements of financial condition.

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

Other Pronouncements— The Company adopted ASU 2016-01, *Financial Instruments - Recognition and Measurement of Financial Assets and Financial Liabilities* (Topic 825); ASU 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payment*s; ASU 2017-04, *Intangibles - Goodwill and Other* (Topic 350): *Simplifying the Test for Goodwill Impairment;* ASU 2017-05, *Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets* (Subtopic 610-20); ASU 2018-07, *Compensation – Stock Compensation* (Topic 718): *Improvements to Nonemployee Share-Based Payment Accounting*; and ASU 2018-13, *Fair Value Measurement* (Topic 820): *Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement* with no material impact on its financial statements. The Company early adopted ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract* (Subtopic 350-40) on a prospective basis with no material impact on its financial statements.

Note 4 Investment Securities

The Company's investment securities portfolio is comprised of available-for-sale and held-to-maturity investment securities. These investment securities totaled $1.0 billion at December 31, 2020 and included $0.6 billion of available-for-sale securities and $0.4 billion of held-to-maturity securities. At December 31, 2019, investment securities totaled $0.8 billion and included $0.6 billion of available-for-sale securities and $0.2 billion of held-to-maturity securities.

Available-for-sale

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

	December 31, 2020			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities:				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ 193,424	$ 2,952	$ (42)	$ 196,334
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	454,345	8,778	(344)	462,779
Municipal securities	362	13	—	375
Corporate debt	2,000	—	(2)	1,998
Other securities	469	—	—	469
Total investment securities available-for-sale	$ 650,600	$ 11,743	$ (388)	$ 661,955

	December 31, 2019			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities:				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ 93,770	$ 1,497	$ (11)	$ 95,256
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	543,275	3,818	(5,056)	542,037
Municipal securities	495	—	(8)	487
Other securities	469	—	—	469
Total investment securities available-for-sale	$ 638,009	$ 5,315	$ (5,075)	$ 638,249

During 2020 and 2019, purchases of available-for-sale securities totaled $286.1 million and $45.7 million, respectively. Maturities and paydowns of available-for-sale securities during 2020 and 2019 totaled $271.5 million and $195.5 million, respectively. There were no sales of available-for-sale securities during 2020. Proceeds from sales of available-for-sale securities during 2019 totaled $20.4 million.

At December 31, 2020 and 2019, the Company's available-for-sale investment portfolio was primarily comprised of mortgage-backed securities, and all mortgage-backed securities were backed by GSE collateral such as FHLMC and FNMA and the government owned agency GNMA.

The tables below summarize the available-for-sale securities with unrealized losses as of the dates shown, along with the length of the impairment period:

	December 31, 2020					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Mortgage-backed securities:						
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ 26,878	$ (42)	$ 1	$ —	$ 26,879	$ (42)
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	95,888	(328)	2,138	(16)	98,026	(344)
Corporate debt	1,998	(2)	—	—	1,998	(2)
Total	$ 124,764	$ (372)	$ 2,139	$ (16)	$ 126,903	$ (388)

	December 31, 2019					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Mortgage-backed securities:						
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ 10,413	$ (7)	$ 1,421	$ (4)	$ 11,834	$ (11)
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	41,983	(281)	254,380	(4,775)	296,363	(5,056)
Municipal securities	—	—	372	(8)	372	(8)
Total	$ 52,396	$ (288)	$ 256,173	$ (4,787)	$ 308,569	$ (5,075)

Management evaluated all of the available-for-sale securities in an unrealized loss position at December 31, 2020 and December 31, 2019. The portfolio included 22 securities, which were in an unrealized loss position at December 31, 2020,

compared to 67 securities at December 31, 2019. The unrealized losses in the Company's investment portfolio at December 31, 2020 were caused by changes in interest rates. The Company has no intention to sell these securities and believes it will not be required to sell the securities before the recovery of their amortized cost. Management believes that default of the available-for-sale securities is highly unlikely. FHLMC, FNMA and GNMA guaranteed mortgage-backed securities have a long history of zero credit losses, an explicit guarantee by the U.S. government (although limited for FNMA and FHLMC securities) and yields that generally trade based on market views of prepayment and liquidity risk rather than credit risk.

Certain securities are pledged as collateral for public deposits, securities sold under agreements to repurchase and to secure borrowing capacity at the FRB, if needed. The fair value of available-for-sale investment securities pledged as collateral totaled $385.8 million and $352.3 million at December 31, 2020 and 2019, respectively. The Bank may also pledge available-for-sale investment securities as collateral for FHLB advances. No securities were pledged for this purpose at December 31, 2020, and securities totaling $13.6 million were pledged as collateral at December 31, 2019.

Mortgage-backed securities may have actual maturities that differ from contractual maturities depending on the repayment characteristics and experience of the underlying financial instruments. As of December 31, 2020, municipal securities of $0.1 million was due in one year or less and municipal securities of $0.3 million was due between one to five years. Corporate debt securities of $2.0 million were due after five years through ten years. Other securities of $0.5 million as of December 31, 2020 have no stated contractual maturity date.

As of December 31, 2020 and December 31, 2019, AIR from available-for-sale investment securities totaled $1.1 million and $1.3 million, respectively, and was included within other assets on the statements of financial condition.

Held-to-maturity

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

	December 31, 2020			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities:				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ 306,187	$ 4,940	$ (197)	$ 310,930
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	70,428	396	(63)	70,761
Total investment securities held-to-maturity	$ 376,615	$ 5,336	$ (260)	$ 381,691

	December 31, 2019			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities:				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ 127,560	$ 1,239	$ (29)	$ 128,770
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	55,324	82	(435)	54,971
Total investment securities held-to-maturity	$ 182,884	$ 1,321	$ (464)	$ 183,741

During 2020 and 2019, purchases of held-to-maturity securities totaled $284.2 million and $10.2 million, respectively. Maturities and paydowns of held-to-maturity securities totaled $88.1 million and $60.9 million during 2020 and 2019, respectively.

The held-to-maturity portfolio included nine securities which were in an unrealized loss position at December 31, 2020, compared to 13 securities at December 31, 2019. The tables below summarize the held-to-maturity securities with unrealized losses as of the dates shown, along with the length of the impairment period:

	December 31, 2020					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Mortgage-backed securities:						
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ 53,453	$ (197)	$ —	$ —	$ 53,453	$ (197)
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	19,554	(63)	—	—	19,554	(63)
Total	$ 73,007	$ (260)	$ —	$ —	$ 73,007	$ (260)

	December 31, 2019					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Mortgage-backed securities:						
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ 10,478	$ (26)	$ 338	$ (3)	$ 10,816	$ (29)
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	3,925	(9)	28,554	(426)	32,479	(435)
Total	$ 14,403	$ (35)	$ 28,892	$ (429)	$ 43,295	$ (464)

The Company does not measure expected credit losses on a financial asset, or group of financial assets, in which historical credit loss information adjusted for current conditions and reasonable and supportable forecasts results in an expectation that nonpayment of the amortized cost basis is zero. Management evaluated held-to-maturity securities noting they are backed by loans guaranteed by either U.S. government agencies or U.S. government sponsored entities, and management believes that default is highly unlikely given this governmental backing and long history without credit losses. Additionally, management notes that yields on which the portfolio generally trades are based upon market views of prepayment and liquidity risk and not credit risk. The Company has no intention to sell any held-to-maturity securities and believes it will not be required to sell any held-to-maturity securities before the recovery of their amortized cost.

Certain securities are pledged as collateral for public deposits, securities sold under agreements to repurchase and to secure borrowing capacity at the FRB, if needed. The carrying value of held-to-maturity investment securities pledged as collateral totaled $140.6 million and $144.2 million at December 31, 2020 and December 31, 2019, respectively. The Bank had no held-to-maturity investment securities pledged as collateral for FHLB advances at December 31, 2020 and $4.0 million of held-to-maturity investment securities pledged at the FHLB at December 31, 2019.

Actual maturities of mortgage-backed securities may differ from scheduled maturities depending on the repayment characteristics and experience of the underlying financial instruments.

As of December 31, 2020 and December 31, 2019, AIR from held-to-maturity investment securities totaled $0.7 million and $0.5 million, respectively, and was included within other assets on the statements of financial condition.

Note 5 Non-marketable Securities

Non-marketable securities include FRB stock and FHLB stock. At December 31, 2020, the Company held $13.9 million of FRB stock and $2.6 million of FHLB stock for regulatory or debt facility purposes. At December 31, 2019, the Company held $13.9 million of FRB stock and $15.8 million of FHLB stock.

These are restricted securities which, lacking a market, are carried at cost. There have been no identified events or changes in circumstances that may have an adverse effect on the investments carried at cost.

Note 6 Loans

The loan portfolio is comprised of loans originated by the Company and loans that were acquired in connection with the Company's acquisitions. During the first quarter of 2020, the Company updated its loan classifications to include energy loans within the commercial and industrial loan class and present municipal and non-profit loans as their own class within the commercial segment. In addition, as the concept of impaired loans does not exist under CECL, disclosures that related solely to impaired loans have been removed.

The tables below show the loan portfolio composition including carrying value by segment as of the dates shown. The carrying value of loans is net of discounts, fees, costs and fair value marks of $16.2 million and $21.9 million at December 31, 2020 and 2019, respectively. Included in commercial loans are loans originated as part of the SBA's Paycheck Protection Program of which $176.1 million, net of fees and costs, are outstanding at December 31, 2020, and are fully guaranteed by the SBA.

	December 31, 2020	
	Total loans	% of total
Commercial	$ 3,044,065	70.0%
Commercial real estate non-owner occupied	631,996	14.5%
Residential real estate	658,659	15.1%
Consumer	19,006	0.4%
Total	$ 4,353,726	100.0%

	December 31, 2019	
	Total loans	% of total
Commercial	$ 2,992,307	67.8%
Commercial real estate non-owner occupied	630,906	14.3%
Residential real estate	770,417	17.4%
Consumer	21,776	0.5%
Total	$ 4,415,406	100.0%

Information about delinquent and non-accrual loans is shown in the following tables at December 31, 2020 and 2019:

	December 31, 2020					
	30-89 days past due and accruing	Greater than 90 days past due and accruing	Non-accrual loans	Total past due and non-accrual	Current	Total loans
Commercial:						
Commercial and industrial	$ 170	$ —	$ 6,312	$ 6,482	$ 1,440,256	$ 1,446,738
Municipal and non-profit	—	—	—	—	870,791	870,791
Owner occupied commercial real estate	—	—	5,450	5,450	510,789	516,239
Food and agribusiness	146	—	422	568	209,729	210,297
Total commercial	316	—	12,184	12,500	3,031,565	3,044,065
Commercial real estate non-owner occupied:						
Construction	—	—	—	—	91,125	91,125
Acquisition/development	—	—	6	6	24,665	24,671
Multifamily	—	—	1,523	1,523	67,233	68,756
Non-owner occupied	—	—	135	135	447,309	447,444
Total commercial real estate	—	—	1,664	1,664	630,332	631,996
Residential real estate:						
Senior lien	527	160	5,820	6,507	577,764	584,271
Junior lien	95	—	709	804	73,584	74,388
Total residential real estate	622	160	6,529	7,311	651,348	658,659
Consumer	30	2	10	42	18,964	19,006
Total loans	$ 968	$ 162	$ 20,387	$ 21,517	$ 4,332,209	$ 4,353,726

	December 31, 2020		
	Non-accrual loans with a related allowance for credit loss	Non-accrual loans with no related allowance for credit loss	Non-accrual loans
Commercial:			
Commercial and industrial	$ 6,080	$ 232	$ 6,312
Municipal and non-profit	—	—	—
Owner occupied commercial real estate	2,698	2,752	5,450
Food and agribusiness	88	334	422
Total commercial	8,866	3,318	12,184
Commercial real estate non-owner occupied:			
Construction	—	—	—
Acquisition/development	6	—	6
Multifamily	—	1,523	1,523
Non-owner occupied	135	—	135
Total commercial real estate	141	1,523	1,664
Residential real estate:			
Senior lien	4,158	1,662	5,820
Junior lien	709	—	709
Total residential real estate	4,867	1,662	6,529
Consumer	10	—	10
Total loans	$ 13,884	$ 6,503	$ 20,387

	December 31, 2019					
	30-89 days past due and accruing	Greater than 90 days past due and accruing	Non-accrual loans	Total past due and non-accrual	Current	Total loans
Commercial:						
Commercial and industrial	$ 2,251	$ 879	$ 10,330	$ 13,460	$ 1,398,071	$ 1,411,531
Municipal and non-profit	226	—	—	226	837,300	837,526
Owner occupied commercial real estate	595	630	2,264	3,489	486,633	490,122
Food and agribusiness	190	—	317	507	252,621	253,128
Total commercial	3,262	1,509	12,911	17,682	2,974,625	2,992,307
Commercial real estate non-owner occupied:						
Construction	—	—	—	—	77,733	77,733
Acquisition/development	187	—	416	603	26,276	26,879
Multifamily	—	—	—	—	55,808	55,808
Non-owner occupied	438	65	43	546	469,940	470,486
Total commercial real estate	625	65	459	1,149	629,757	630,906
Residential real estate:						
Senior lien	2,101	9	7,597	9,707	668,955	678,662
Junior lien	245	79	731	1,055	90,700	91,755
Total residential real estate	2,346	88	8,328	10,762	759,655	770,417
Consumer	116	—	50	166	21,610	21,776
Total loans	$ 6,349	$ 1,662	$ 21,748	$ 29,759	$ 4,385,647	$ 4,415,406

Loans are considered past due or delinquent when the contractual principal or interest due in accordance with the terms of the loan agreement remains unpaid after the due date of the scheduled payment. Non-accrual loans include non-accrual loans and TDRs on non-accrual status. There was no interest income recognized from non-accrual loans during the years ended December 31, 2020 and 2019.

The Company’s 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 and are categorized as “Pass”, “Special mention”, “Substandard” and “Doubtful”. For a description of the general characteristics of the risk grades, refer to note 2 Summary of Significant Accounting Policies.

The amortized cost basis for all loans as determined by the Company's internal risk rating system and year of origination was as follows at December 31, 2020:

	December 31, 2020								
	Origination year						Revolving loans amortized cost basis	Revolving loans converted to term	Total
	2020	2019	2018	2017	2016	Prior			
Commercial:									
Commercial and industrial:									
Pass	$ 372,041	$ 212,388	$ 189,753	$ 93,822	$ 15,145	$ 17,662	$ 499,283	$ 991	$ 1,401,085
Special mention	—	1,445	7,381	4,845	5,810	729	2,329	1,478	24,017
Substandard	23	1,238	925	11,885	56	4,840	1,341	—	20,308
Doubtful	—	—	34	456	—	809	29	—	1,328
Total commercial and industrial	372,064	215,071	198,093	111,008	21,011	24,040	502,982	2,469	1,446,738
Municipal and non-profit:									
Pass	131,961	91,911	125,247	156,275	124,269	238,453	2,675	—	870,791
Special mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total municipal and non-profit	131,961	91,911	125,247	156,275	124,269	238,453	2,675	—	870,791
Owner occupied commercial real estate:									
Pass	100,791	107,558	90,398	53,131	32,648	87,758	1,401	—	473,685
Special mention	1,581	2,236	2,714	544	3,254	19,341	—	—	29,670
Substandard	—	1,988	6,211	251	93	3,802	—	—	12,345
Doubtful	—	511	—	—	—	28	—	—	539
Total owner occupied commercial real estate	102,372	112,293	99,323	53,926	35,995	110,929	1,401	—	516,239
Food and agribusiness:									
Pass	28,139	9,198	20,242	7,198	9,556	28,330	106,007	126	208,796
Special mention	—	—	—	—	—	222	—	—	222
Substandard	—	—	—	302	—	977	—	—	1,279
Doubtful	—	—	—	—	—	—	—	—	—
Total food and agribusiness	28,139	9,198	20,242	7,500	9,556	29,529	106,007	126	210,297
Total commercial	634,536	428,473	442,905	328,709	190,831	402,951	613,065	2,595	3,044,065
Commercial real estate non-owner occupied:									
Construction:									
Pass	15,841	49,658	17,349	4,072	—	—	2,006	1,807	90,733
Special mention	392	—	—	—	—	—	—	—	392
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total construction	16,233	49,658	17,349	4,072	—	—	2,006	1,807	91,125
Acquisition/development:									
Pass	3,762	1,997	1,947	8,373	4,559	3,694	11	—	24,343
Special mention	—	—	—	34	—	253	—	—	287
Substandard	—	—	—	—	—	41	—	—	41
Doubtful	—	—	—	—	—	—	—	—	—
Total acquisition/development	3,762	1,997	1,947	8,407	4,559	3,988	11	—	24,671
Multifamily:									
Pass	29,738	13,670	137	212	18,050	4,990	—	—	66,797
Special mention	—	—	—	—	—	436	—	—	436
Substandard	—	—	—	—	—	1,523	—	—	1,523
Doubtful	—	—	—	—	—	—	—	—	—
Total multifamily	29,738	13,670	137	212	18,050	6,949	—	—	68,756
Non-owner occupied									
Pass	51,445	92,225	25,362	86,975	26,613	118,144	3,083	643	404,490
Special mention	70	5,458	5,841	22,737	—	3,662	100	—	37,868
Substandard	—	—	779	—	3,937	370	—	—	5,086
Doubtful	—	—	—	—	—	—	—	—	—
Total non-owner occupied	51,515	97,683	31,982	109,712	30,550	122,176	3,183	643	447,444
Total commercial real estate non-owner occupied	101,248	163,008	51,415	122,403	53,159	133,113	5,200	2,450	631,996

	December 31, 2020								
			Origination year				Revolving loans amortized cost basis	Revolving loans converted to term	
	2020	2019	2018	2017	2016	Prior			Total
Residential real estate:									
Senior lien									
Pass	129,551	76,504	36,493	47,887	88,358	173,091	24,884	218	576,986
Special mention	—	—	—	—	—	463	—	—	463
Substandard	95	818	20	1,232	550	4,107	—	—	6,822
Doubtful	—	—	—	—	—	—	—	—	—
Total senior lien	129,646	77,322	36,513	49,119	88,908	177,661	24,884	218	584,271
Junior lien									
Pass	3,479	4,217	2,553	1,775	1,226	3,760	55,860	365	73,235
Special mention	—	—	—	—	—	21	341	—	362
Substandard	—	112	101	177	55	287	—	59	791
Doubtful	—	—	—	—	—	—	—	—	—
Total junior lien	3,479	4,329	2,654	1,952	1,281	4,068	56,201	424	74,388
Total residential real estate	133,125	81,651	39,167	51,071	90,189	181,729	81,085	642	658,659
Consumer									
Pass	9,777	3,348	1,674	489	329	623	2,700	19	18,959
Special mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	37	—	2	8	—	—	47
Doubtful	—	—	—	—	—	—	—	—	—
Total consumer	9,777	3,348	1,711	489	331	631	2,700	19	19,006
Total loans	$ 878,686	$ 676,480	$ 535,198	$ 502,672	$ 334,510	$ 718,424	$ 702,050	$ 5,706	$ 4,353,726

Credit exposure for all loans as determined by the Company’s internal risk rating system was as follows at December 31, 2019:

	December 31, 2019				
	Pass	Special mention	Substandard	Doubtful	Total
Commercial:					
Commercial and industrial	$ 1,366,457	$ 28,226	$ 15,132	$ 1,716	$ 1,411,531
Municipal and non-profit	837,526	—	—	—	837,526
Owner occupied commercial real estate	439,315	39,986	10,821	—	490,122
Food and agribusiness	249,930	1,408	1,758	32	253,128
Total commercial	2,893,228	69,620	27,711	1,748	2,992,307
Commercial real estate non-owner occupied:					
Construction	77,733	—	—	—	77,733
Acquisition/development	26,229	—	650	—	26,879
Multifamily	55,325	—	483	—	55,808
Non-owner occupied	454,045	15,307	1,134	—	470,486
Total commercial real estate	613,332	15,307	2,267	—	630,906
Residential real estate:					
Senior lien	668,452	441	9,769	—	678,662
Junior lien	90,540	365	850	—	91,755
Total residential real estate	758,992	806	10,619	—	770,417
Consumer	21,725	1	50	—	21,776
Total loans	$ 4,287,277	$ 85,734	$ 40,647	$ 1,748	$ 4,415,406

Loans evaluated individually

We evaluate loans individually when they no longer share risk characteristics with pooled loans. These loans include loans on non-accrual status, loans in bankruptcy, and TDRs described below. If a specific allowance is warranted based on the borrower’s overall financial condition, the specific allowance is calculated based on discounted expected cash flows using the loan’s initial contractual effective interest rate or the fair value of the collateral less selling costs for collateral-dependent loans.

A loan is considered collateral-dependent when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. Management individually evaluates collateral-dependent loans with an amortized cost basis of $250 thousand or more and includes collateral-dependent loans less than $250 thousand within the general allowance population. The amortized cost basis of collateral-dependent loans over $250 thousand was as follows at December 31, 2020:

	December 31, 2020		
	Real property	Business assets	Total amortized cost basis
Commercial			
Commercial and industrial	$ 7,579	$ 3,005	$ 10,584
Owner-occupied commercial real estate	3,701	284	3,985
Food and agribusiness	334	—	334
Total Commercial	11,614	3,289	14,903
Commercial real estate non owner-occupied			
Acquisition/development	1,573	—	1,573
Multifamily	1,523	—	1,523
Total commercial real estate	3,096	—	3,096
Residential real estate			
Senior lien	2,021	—	2,021
Total residential real estate	2,021	—	2,021
Total loans	$ 16,731	$ 3,289	$ 20,020

Impaired Loans

During 2019 and 2018, prior to the adoption of ASU 2016-13, loans were considered to be impaired when it was probable that the Company would not be able to collect all amounts due in accordance with the contractual terms of the loan agreement. Impaired loans were comprised of originated and acquired loans on non-accrual status, loans in bankruptcy, and TDRs described below. If a specific allowance was warranted based on the borrower's overall financial condition, the specific allowance was calculated based on discounted cash flows using the loan's initial contractual effective interest rate or the fair value of the collateral less selling costs for collateral dependent loans.

At December 31, 2019 and 2018, the Company's recorded investment in impaired loans was $32.8 million and $31.1 million, respectively, of which $6.9 million and $4.1 million, respectively, were accruing TDRs. Impaired loans had a collective related allowance allocated to them of $1.8 million and $1.2 million at December 31, 2019 and 2018, respectively.

Additional information regarding impaired loans at December 31, 2019 and 2018 is set forth in the table below:

	December 31, 2019			December 31, 2018		
	Unpaid principal balance	Recorded investment	Allowance for losses allocated	Unpaid principal balance	Recorded investment	Allowance for losses allocated
With no related allowance recorded:						
Commercial:						
Commercial and industrial	$ 16,001	$ 10,548	$ —	$ 9,740	$ 3,771	$ —
Municipal and non-profit	—	—	—	—	—	—
Owner occupied commercial real estate	3,265	2,385	—	7,130	6,609	—
Food and agribusiness	1,468	1,220	—	1,468	1,260	—
Total commercial	20,734	14,153	—	18,338	11,640	—
Commercial real estate non-owner occupied:						
Construction	—	—	—	1,435	1,208	—
Acquisition/development	458	415	—	378	121	—
Multifamily	—	—	—	—	—	—
Non-owner occupied	90	26	—	641	547	—
Total commercial real estate	548	441	—	2,454	1,876	—
Residential real estate:						
Senior lien	4,355	3,967	—	4,229	3,814	—
Junior lien	311	269	—	409	341	—
Total residential real estate	4,666	4,236	—	4,638	4,155	—
Consumer	57	50	—	46	42	—
Total impaired loans with no related allowance recorded	$ 26,005	$ 18,880	$ —	$ 25,476	$ 17,713	$ —
With a related allowance recorded:						
Commercial:						
Commercial and industrial	$ 13,768	$ 6,435	$ 1,725	$ 7,252	$ 4,627	$ 996
Municipal and non-profit	—	—	—	—	—	—
Owner occupied commercial real estate	711	505	3	1,362	1,169	90
Food and agribusiness	757	751	35	883	845	46
Total commercial	15,236	7,691	1,763	9,497	6,641	1,132
Commercial real estate non-owner occupied:						
Construction	—	—	—	—	—	—
Acquisition/development	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
Non-owner occupied	232	171	1	313	254	2
Total commercial real estate	232	171	1	313	254	2
Residential real estate:						
Senior lien	5,808	5,034	25	6,032	5,178	27
Junior lien	1,074	987	6	1,408	1,293	8
Total residential real estate	6,882	6,021	31	7,440	6,471	35
Consumer	—	—	—	—	—	—
Total impaired loans with a related allowance recorded	$ 22,350	$ 13,883	$ 1,795	$ 17,250	$ 13,366	$ 1,169
Total impaired loans	$ 48,355	$ 32,763	$ 1,795	$ 42,726	$ 31,079	$ 1,169

The table below shows additional information regarding the average recorded investment and interest income recognized on impaired loans for the years presented:

	For the years ended			
	December 31, 2019		December 31, 2018	
	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
With no related allowance recorded:				
Commercial:				
Commercial and industrial	$ 13,062	$ 248	$ 4,132	$ 168
Municipal and non-profit	—	—	—	—
Owner occupied commercial real estate	2,849	27	6,799	38
Food and agribusiness	1,316	—	1,259	98
Total commercial	17,227	275	12,190	304
Commercial real estate non-owner occupied:				
Construction	—	—	1,208	—
Acquisition/development	575	—	606	—
Multifamily	—	—	—	—
Non-owner occupied	28	—	573	—
Total commercial real estate	603	—	2,387	—
Residential real estate:				
Senior lien	4,081	1	3,904	0
Junior lien	287	2	355	2
Total residential real estate	4,368	3	4,259	2
Consumer	11	—	12	—
Total impaired loans with no related allowance recorded	$ 22,209	$ 278	$ 18,848	$ 306
With a related allowance recorded:				
Commercial:				
Commercial and industrial	$ 6,653	$ —	$ 4,677	$ —
Municipal and non-profit	554	17	1,220	19
Owner occupied commercial real estate	796	12	862	5
Food and agribusiness	—	—	—	—
Total commercial	8,003	29	6,759	24
Commercial real estate non-owner occupied:				
Construction	—	—	—	—
Acquisition/development	—	—	—	—
Multifamily	—	—	—	—
Non-owner occupied	207	14	288	16
Total commercial real estate	207	14	288	16
Residential real estate:				
Senior lien	5,241	66	5,412	57
Junior lien	1,034	34	1,331	43
Total residential real estate	6,275	100	6,743	100
Consumer	49	—	36	—
Total impaired loans with a related allowance recorded	$ 14,534	$ 143	$ 13,826	$ 140
Total impaired loans	$ 36,743	$ 421	$ 32,674	$ 446

Interest income recognized on impaired loans noted in the tables above, primarily represents interest earned on accruing TDRs. Interest income recognized on impaired loans during the years ended December 31, 2019 and 2018 was $0.4 million and $0.4 million, respectively.

Loan modifications and troubled debt restructurings

The Company’s policy is to review each prospective credit to determine the appropriateness and the adequacy of security or collateral prior to making a loan. In the event of borrower default, the Company seeks recovery in compliance with lending laws, the respective loan agreements, and credit monitoring and remediation procedures that may include restructuring a loan to provide a concession by the Company to the borrower from their original terms due to borrower financial difficulties in

order to facilitate repayment. Additionally, if a borrower's repayment obligation has been discharged by a court, and that debt has not been reaffirmed by the borrower, regardless of past due status, the loan is considered to be a TDR.

The CARES Act afforded financial institutions the option to modify loans within certain parameters in response to the COVID-19 pandemic without requiring the modifications to be classified as TDRs under ASC Topic 310 if the borrower has been adversely impacted by COVID-19 and was current on their loan payments. During 2020, the Company modified 510 loans totaling $519.0 million due to the effects of the COVID-19 pandemic that were not classified as TDRs. Of those loans, $345.4 million have resumed making principal or interest payments or paid in full as of December 31, 2020. Modified loans that remained on a payment deferral plan at December 31, 2020 totaled $173.6 million, or 4.0% of the total loan portfolio, of which 26.2% were a subsequent modification. Of those loans, principal payment deferrals totaled $167.1 million and full payment deferrals totaled $6.5 million. All COVID modified loans were classified as performing as of December 31, 2020.

During 2020, the Company restructured 24 loans with an amortized cost basis of $10.8 million to facilitate repayment that are considered TDRs. Included in the total TDR balance as of December 31, 2020 were loans totaling $4.2 million previously accounted for under ASC 310-30. Loan modifications were a reduction of the principal payment, a reduction in interest rate, or an extension of term.

The tables below provide additional information related to accruing TDRs at December 31, 2020 and 2019:

	December 31, 2020			
	Amortized cost basis	Average year-to-date amortized cost basis	Unpaid principal balance	Unfunded commitments to fund TDRs
Commercial	$ 9,387	$ 9,544	$ 9,978	$ 150
Commercial real estate non-owner occupied	2,400	2,351	4,105	—
Residential real estate	2,121	2,185	2,922	12
Consumer	37	37	37	—
Total	$ 13,945	$ 14,117	$ 17,042	$ 162

	December 31, 2019			
	Recorded investment	Average year-to-date recorded investment	Unpaid principal balance	Unfunded commitments to fund TDRs
Commercial	$ 5,615	$ 5,788	$ 5,714	$ —
Commercial real estate non-owner occupied	141	172	192	—
Residential real estate	1,129	1,178	1,206	12
Consumer	—	—	—	—
Total	$ 6,885	$ 7,138	$ 7,112	$ 12

The following table summarizes the Company's carrying value of non-accrual TDRs as of December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019
Commercial	$ 3,397	$ 1,891
Commercial real estate non-owner occupied	1,644	410
Residential real estate	3,156	2,553
Consumer	—	—
Total non-accruing TDRs	$ 8,197	$ 4,854

Accrual of interest is resumed on loans that were previously on non-accrual only after the loan has performed sufficiently for a period of time. The Company had three TDRs totaling $3.4 million that were modified within the past 12 months and had defaulted on their restructured terms during the year ended December 31, 2020.

During 2019, the Company had two TDRs totaling $0.7 million that had been modified within the prior twelve months and defaulted on their restructured terms. For purposes of this disclosure, the Company considers "default" to mean 90 days or more past due on principal or interest. The allowance for credit losses related to TDRs on non-accrual status is determined by individual evaluation, including collateral adequacy, using the same process as loans on non-accrual status which are not classified as TDRs.

Note 7 Allowance for Credit Losses

The tables below detail the Company's allowance for credit losses as of the dates shown:

	Year ended December 31, 2020				
	Commercial	Non-owner occupied commercial real estate	Residential real estate	Consumer	Total
Beginning balance	$ 30,442	$ 4,850	$ 3,468	$ 304	$ 39,064
Cumulative effect adjustment[1]	(1,299)	1,666	5,314	155	5,836
Charge-offs	(2,023)	(412)	(67)	(726)	(3,228)
Recoveries	394	—	32	145	571
Provision	2,862	11,344	2,745	583	17,534
Ending balance	30,376	17,448	11,492	461	59,777

(1) Related to the adoption of Accounting Standards Update No. 2016-13, *Measurement of Credit Losses on Financial Instruments*. Refer to note 2 – Recent Accounting Pronouncements of our consolidated financial statements for further details.

	Year ended December 31, 2019				
	Commercial	Non-owner occupied commercial real estate	Residential real estate	Consumer	Total
Beginning balance	$ 27,137	$ 4,406	$ 3,800	$ 349	$ 35,692
Charge-offs	(7,422)	(116)	(124)	(937)	(8,599)
Recoveries	102	12	34	180	328
Provision	10,625	548	(242)	712	11,643
Ending balance	30,442	4,850	3,468	304	39,064

In evaluating the loan portfolio for an appropriate ACL level, excluding loans evaluated individually, loans were grouped into segments based on broad characteristics such as primary use and underlying collateral. Within the segments, the portfolio was further disaggregated into classes of loans with similar attributes and risk characteristics for purposes of developing the underlying data used within the discounted cash flow model including, but not limited to, prepayment and recovery rates as well as loss rates tied to macro-economic conditions within management's reasonable and supportable forecast. The ACL also includes subjective adjustments based upon qualitative risk factors including asset quality, loss trends, lending management, portfolio growth and loan review/internal audit results.

Net charge-offs on loans during 2020 were $2.7 million. Provision for loan losses of $17.6 million, including $0.1 million for unfunded loan commitment reserves, was recorded during the year ended December 31, 2020 to provide coverage for the impact of deteriorating economic conditions as a result of COVID-19.

Provision for loan losses totaled $11.6 million for the year ended December 31, 2019 to support originated loan growth.

The Company has elected to exclude AIR from the allowance for credit losses calculation. As of December 31, 2020 and December 31, 2019, AIR from loans totaled $16.7 million and $17.2 million, respectively.

Note 8 Leases

Right-of-use ("ROU") lease assets totaled $25.4 million and $29.2 million as of December 31, 2020 and 2019, respectively, and were included in other assets on the consolidated statements of financial condition. The related lease liabilities totaled $26.0 million and $29.5 million as of December 31, 2020 and 2019, respectively, and were included in other liabilities on the consolidated statements of financial condition.

The ROU assets represent the Company’s right to use, or control the use of, an underlying asset for the lease term and the lease liabilities represent the Company’s obligation to make lease payments arising from the lease terms. The updates did not significantly change lease accounting requirements applicable to lessors and did not significantly impact our financial statements in relation to contracts whereby we act as a lessor.

The Company has operating leases for banking centers, corporate offices and ATM locations, with remaining lease terms ranging from one year to ten years. The Company only included reasonably certain renewal options in the lease terms. The weighted-average remaining lease term for our operating leases was 5.4 years and 5.1 years at December 31, 2020 and 2019, respectively. As of December 31, 2020 and 2019, the weighted-average discount rate was 3.36% and 3.36%, respectively, utilizing the Company’s incremental FHLB borrowing rate for borrowings of a similar term at the date of lease commencement.

Rent expense totaled $5.7 million and $5.7 million for the years ended December 31, 2020 and 2019, respectively, and was recorded within occupancy and equipment on the consolidated statements of operations. Lease payments do not include non-lease components such as real estate taxes, insurance and common area maintenance.

Below is a summary of undiscounted future minimum lease payments as of December 31, 2020:

Years ending December 31,	**Amount**
2021	$ 5,276
2022	4,896
2023	4,529
2024	4,136
2025	3,539
Thereafter	12,294
Total lease payments	34,670
Less: Imputed interest	(8,678)
Present value of operating lease liabilities	$ 25,992

Note 9 Premises and Equipment

Premises and equipment consisted of the following at December 31, 2020 and 2019:

	December 31, 2020	**December 31, 2019**
Land	$ 33,149	$ 32,911
Buildings and improvements	92,463	94,260
Equipment	60,205	56,523
Total premises and equipment, at cost	185,817	183,694
Less: accumulated depreciation and amortization	(78,835)	(71,543)
Premises and equipment, net	$ 106,982	$ 112,151

The Company recorded $8.1 million, $8.2 million and $8.6 million of depreciation expense during 2020, 2019 and 2018, respectively, as a component of occupancy and equipment expense in the consolidated statements of operations. The Company disposed of $3.6 million, $0.0 million and $1.7 million of premises and equipment, net, during 2020, 2019 and 2018, respectively. During 2020, the Company recognized $1.6 million of impairments included in non-interest expense in its consolidated statements of operations from the consolidation of 12 banking centers classified as held-for-sale totaling $8.0 million. During 2019, the Company recognized $0.9 million of impairments in its consolidated statements of operations from the consolidation of four banking centers classified as held-for-sale totaling $3.4 million.

Note 10 Other Real Estate Owned

A summary of the activity in OREO during 2020 and 2019 is as follows:

	For the years ended December 31,	
	2020	2019
Beginning balance	$ 7,300	$ 10,596
Transfers from loan portfolio, at fair value	1,533	2,705
Impairments	(470)	(1,082)
Sales	(3,633)	(4,919)
Ending balance	$ 4,730	$ 7,300

During 2020, the Company sold OREO properties with net book balances of $3.6 million, compared to $4.9 million during 2019. Sales of OREO properties resulted in net OREO gains of $38 thousand and $7.2 million which were included within other non-interest expense in the consolidated statements of operations for the years ended December 31, 2020 and 2019, respectively.

Note 11 Goodwill and Intangible Assets

Goodwill and core deposit intangible

In connection with our acquisitions, the Company recorded goodwill of $115.0 million. Goodwill is measured as the excess of the fair value of consideration paid over the fair value of net assets acquired. No goodwill impairment was recorded during the years ended December 31, 2020 or December 31, 2019.

The gross carrying amount of the core deposit intangibles and the associated accumulated amortization at December 31, 2020 and December 31, 2019, are presented as follows:

	December 31, 2020			December 31, 2019		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Core deposit intangible	$ 48,834	$ (41,286)	$ 7,548	$ 48,834	$ (40,103)	$ 8,731

The Company is amortizing the core deposit intangibles from acquisitions on a straight line basis over 7-10 years from the date of the respective acquisition, which represents the expected useful life of the assets. The Company recognized core deposit intangible amortization expense of $1.2 million, $1.2 million and $2.2 million during 2020, 2019 and 2018, respectively.

The following table shows the estimated future amortization expense for the core deposit intangibles as of December 31, 2020:

Years ending December 31,	Amount
2021	$ 1,183
2022	1,127
2023	1,048
2024	1,048
2025	1,048

Mortgage servicing rights

MSRs represent rights to service loans originated by the Company and sold to government-sponsored enterprises including FHLMC, FNMA, GNMA and FHLB and are included in other assets in the consolidated statements of financial condition. Mortgage loans serviced for others were $1.4 billion at December 31, 2020 and $308.4 million at December 31, 2019.

Below are the changes in the MSRs for the years presented:

	For the years ended December 31,	
	2020	2019
Beginning balance	$ 2,630	$ 3,556
Originations	10,354	27
Impairment	(751)	(129)
Amortization	(1,853)	(824)
Ending balance	10,380	2,630
Fair value of mortgage servicing rights	$ 11,542	$ 2,630

The fair value of MSRs was determined based upon a discounted cash flow analysis. The cash flow analysis included assumptions for discount rates and prepayment speeds. Discount rates ranged from 9.5% to 10.5%, and the constant prepayment speed ranged from 15.4% to 21.3% for the December 31, 2020 valuation. Discount rates ranged from 9.5% to 10.5%, and the constant prepayment speed ranged from 14.8% to 22.0% for the December 31, 2019 valuation. Included in mortgage banking income in the consolidated statements of operations were service fees of $1.7 million and $1.0 million for the years ended December 31, 2020 and 2019, respectively.

MSRs are evaluated and impairment is recognized to the extent fair value is less than the carrying amount. The Company evaluates impairment by stratifying MSRs based on the predominant risk characteristics of the underlying loans, including loan type and loan term. The Company is amortizing the MSRs in proportion to and over the period of the estimated net servicing income of the underlying loans.

The following table shows the estimated future amortization expense for the MSRs as of December 31, 2020:

Years ending December 31,	Amount
2021	$ 1,971
2022	1,626
2023	1,342
2024	1,108
2025	914

Note 12 Deposits

Total deposits were $5.7 billion and $4.7 billion at December 31, 2020 and 2019, respectively. Time deposits were $1.0 billion and $1.1 billion at December 31, 2020 and 2019, respectively. The following table summarizes the Company’s time deposits by remaining contractual maturity:

Years ending December 31,	Amount
2021	$ 659,509
2022	246,835
2023	47,150
2024	21,717
2025	9,940
Thereafter	981
Total time deposits	$ 986,132

The Company incurred interest expense on deposits as follows during the years indicated:

	For the years ended December 31,		
	2020	2019	2018
Interest bearing demand deposits	$ 1,921	$ 1,514	$ 887
Money market accounts	5,342	9,046	5,622
Savings accounts	1,342	2,717	2,249
Time deposits	15,024	16,526	12,283
Total	$ 23,629	$ 29,803	$ 21,041

The Federal Reserve System requires cash balances to be maintained at the FRB based on certain deposit levels. There was no minimum reserve requirement for the Bank at December 31, 2020.

Note 13 Borrowings

The following table sets forth selected information regarding repurchase agreements during 2020, 2019 and 2018:

	As of and for the years ended December 31,		
	2020	2019	2018
Maximum amount of outstanding agreements at any month end during the period	$ 54,489	$ 68,600	$ 142,292
Average amount outstanding during the period	30,355	60,445	87,691
Weighted average interest rate for the period	0.45%	1.11%	0.34%

The Company enters into repurchase agreements to facilitate the needs of its clients. As of December 31, 2020, 2019 and 2018, the Company sold securities under agreements to repurchase totaling $22.9 million, $56.9 million and $66.0 million, respectively. The Company pledged mortgage-backed securities with a fair value of approximately $27.7 million, $65.6 million and $73.9 million, as of December 31, 2020, 2019 and 2018, respectively, for these agreements. The Company monitors collateral levels on a continuous basis and may be required to provide additional collateral based on the fair value of the underlying securities. As of December 31, 2020, 2019 and 2018, the Company had $2.1 million, $7.0 million and $5.9 million, respectively, of excess collateral pledged for repurchase agreements.

The vast majority of the Company's repurchase agreements are overnight transactions with clients that mature the day after the transaction. At December 31, 2020, 2019 and 2018, none of the Company's repurchase agreements were for periods longer than one day. The repurchase agreements are subject to a master netting arrangement; however, the Company has not offset any of the amounts shown in the consolidated financial statements.

As a member of the FHLB, the Bank has access to a line of credit and term financing from the FHLB with total available credit of $0.9 billion at December 31, 2020. At December 31, 2020, the Bank had no outstanding borrowings from the FHLB. At December 31, 2019 and 2018, the Bank had $192.7 million and $234.3 million, respectively, in line of credit advances from the FHLB that matured within a day. At December 31, 2019 and 2018, the Bank had $15.0 million and $67.3 million in term advances from the FHLB, respectively, with fixed interest rates between 1.55% - 2.33% and maturity dates of 2020 - 2021.

The Bank may have investment securities and loans pledged as collateral for FHLB advances. There were no investment securities pledged at December 31, 2020. At December 31, 2019 and 2018, investment securities pledged were $17.6 million and $16.0 million, respectively. Loans pledged were $1.2 billion, $1.5 billion and $1.6 billion at December 31, 2020, 2019 and 2018, respectively. Interest expense related to FHLB advances and other short-term borrowings totaled $1.3 million, $6.3 million and $2.6 million for the years ended December 31, 2020, 2019 and 2018, respectively.

Note 14 Regulatory Capital

As a bank holding company, the Company is subject to regulatory capital adequacy requirements implemented by the Federal Reserve. The federal banking agencies have risk-based capital adequacy regulations intended to provide a measure of capital adequacy that reflects the degree of risk associated with a banking organization's operations. Under these regulations, assets

are assigned to one of several risk categories, and nominal dollar amounts of assets and credit equivalent amounts of off-balance-sheet items are multiplied by a risk-adjustment percentage for the category.

Under the Basel III requirements, at December 31, 2020 and 2019, the Company and the Bank met all capital requirements including the capital conservation buffer of 2.5%. The Bank had regulatory capital ratios in excess of the levels established for well-capitalized institutions, as detailed in the tables below.

	December 31, 2020					
	Actual		Required to be well capitalized under prompt corrective action provisions		Required to be considered adequately capitalized	
	Ratio	Amount	Ratio	Amount	Ratio	Amount
Tier 1 leverage ratio:						
Consolidated	10.7%	$ 696,311	N/A	N/A	4.0%	$ 260,370
NBH Bank	9.2%	600,622	5.0%	$ 325,447	4.0%	260,358
Common equity tier 1 risk based capital:						
Consolidated	14.7%	$ 696,311	N/A	N/A	7.0%	$ 331,632
NBH Bank	12.7%	600,622	6.5%	$ 307,631	7.0%	331,295
Tier 1 risk based capital ratio:						
Consolidated	14.7%	$ 696,311	N/A	N/A	8.5%	$ 402,696
NBH Bank	12.7%	600,622	8.0%	$ 378,623	8.5%	402,287
Total risk based capital ratio:						
Consolidated	15.8%	$ 749,899	N/A	N/A	10.5%	$ 497,448
NBH Bank	13.8%	654,209	10.0%	$ 473,279	10.5%	496,943

	December 31, 2019					
	Actual		Required to be well capitalized under prompt corrective action provisions		Required to be considered adequately capitalized	
	Ratio	Amount	Ratio	Amount	Ratio	Amount
Tier 1 leverage ratio:						
Consolidated	11.0%	$ 640,440	N/A	N/A	4.0%	$ 231,950
NBH Bank	9.1%	528,028	5.0%	$ 289,926	4.0%	231,940
Common equity tier 1 risk based capital:						
Consolidated	13.2%	$ 640,440	N/A	N/A	7.0%	$ 405,912
NBH Bank	10.9%	528,028	6.5%	$ 376,903	7.0%	405,896
Tier 1 risk based capital ratio:						
Consolidated	13.2%	$ 640,440	N/A	N/A	8.5%	$ 412,620
NBH Bank	10.9%	528,028	8.0%	$ 387,701	8.5%	411,932
Total risk based capital ratio:						
Consolidated	14.1%	$ 682,645	N/A	N/A	10.5%	$ 509,707
NBH Bank	11.8%	570,233	10.0%	$ 484,626	10.5%	508,857

Note 15 Revenue from Contracts with Clients

Revenue is recognized when obligations under the terms of a contract with clients are satisfied. Below is the detail of the Company's revenue from contracts with clients.

Service charges and other fees

Service charge fees are primarily comprised of monthly service fees, check orders, and other deposit account related fees. Other fees include revenue from processing wire transfers, bill pay service, cashier's checks, and other services. The Company's performance obligation for account analysis fees and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account-related fees are largely transactional based, and therefore, the Company's performance obligation is satisfied, and related revenue recognized,

at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to clients' accounts.

Bank card fees

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

Gain on OREO sales, net

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

The following table presents non-interest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, and non-interest expense in-scope of Topic 606 for the years ended December 31, 2020, 2019 and 2018.

	For the years ended December 31,		
	2020	2019	2018
Non-interest income			
In-scope of Topic 606:			
Service charges and other fees	$ 16,913	$ 19,720	$ 20,408
Bank card fees	15,446	14,595	14,489
Non-interest income (in-scope of Topic 606)	32,359	34,315	34,897
Non-interest income (out-of-scope of Topic 606)	107,899	48,437	35,878
Total non-interest income	$ 140,258	$ 82,752	$ 70,775
Non-interest expense			
In-scope of Topic 606:			
Gain on OREO sales, net	$ 38	$ 7,193	488
Total revenue in-scope of Topic 606	$ 32,397	$ 41,508	$ 35,385

Contract acquisition costs

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

Note 16 Stock-based Compensation and Benefits

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

As of December 31, 2020, the aggregate number of Class A common stock available for issuance under the 2014 Plan is 4,314,726 shares. Any shares that are subject to stock options or stock appreciation rights under the 2014 Plan will be counted against the amount available for issuance as one share for every one share granted, and any shares that are subject to awards under the 2014 Plan other than stock options or stock appreciation rights will be counted against the amount available for issuance as 3.25 shares for every one share granted. The 2014 Plan provides for recycling of shares from both the Prior Plan and the 2014 Plan, the terms of which are further described in the Company's Proxy Statement for its 2014 Annual Meeting of Shareholders. Upon an option exercise, it is the Company's policy to issue shares from treasury stock.

To date, the Company has issued stock options, restricted stock and performance stock units under the plans. The Compensation Committee sets the option exercise price at the time of grant, but in no case is the exercise price less than the fair market value of a share of stock at the date of grant.

Stock options

The Company issues stock options, which are primarily time-vesting with 1/3 vesting on each of the first, second and third anniversary of the date of grant or date of hire. The expense associated with the awarded stock options was measured at fair value using a Black-Scholes option-pricing model. The outstanding option awards vest or have vested on a graded basis over 1-4 years of continuous service and have 10-year contractual terms.

Below are the weighted average assumptions used in the Black-Scholes option pricing model to determine fair value of the Company's stock options granted in 2020, 2019 and 2018:

	2020	2019	2018
Weighted average fair value	$ 3.37	$ 6.31	$ 7.43
Weighted average risk-free interest rate (1)	0.44%	2.35%	2.69%
Expected volatility (2)	25.08%	20.56%	20.75%
Expected term (years) (3)	6.04	6.05	6.10
Dividend yield (4)	3.44%	2.00%	1.13%

(1) The risk-free rate for the expected term of the options was based on the U.S. Treasury yield curve at the date of grant and based on the expected term.
(2) Expected volatility was calculated using historical volatility of the Company's stock price for a period commensurate with the expected term of the options. For periods prior to the third quarter of 2018, expected volatility was calculated using a historical volatility of the Company's stock price coupled with those of a peer group of eight comparable publicly traded companies for a period commensurate with the expected term of the options.
(3) The expected term was estimated to be the average of the contractual vesting term and time to expiration.
(4) The dividend yield was calculated in accordance with the Company's dividend policy at the time of grant.

The Company issued stock options in accordance with the 2014 Plan during 2020. The following table summarizes stock option activity for 2020:

	Options	Weighted average exercise price	Weighted average remaining contractual term in years	Aggregate intrinsic value
Outstanding at December 31, 2019	657,114	$ 26.69	6.41	$ 5,626
Granted	230,261	23.25		
Exercised	(94,007)	19.95		
Forfeited	(25,239)	30.59		
Outstanding at December 31, 2020	768,129	$ 26.35	6.91	5,224
Options exercisable at December 31, 2020	412,940	25.64	5.32	3,101
Options vested and expected to vest	736,774	26.36	6.82	5,005

Stock option expense is a component of salaries and benefits in the consolidated statements of operations and totaled $1.0 million, $0.7 million and $0.8 million for 2020, 2019 and 2018, respectively. At December 31, 2020, there was $0.7 million of total unrecognized compensation cost related to non-vested stock options granted under the plans. The cost is expected to be recognized over a weighted average period of 1.2 years.

The following table summarizes the Company’s outstanding stock options:

	Options outstanding			Options exercisable	
Range of exercise price	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
$ 18.00 - 22.99	228,228	3.95	$ 19.25	228,228	$ 19.25
23.00 - 27.99	219,652	9.24	23.13	936	23.75
28.00 - 32.99	110,753	7.18	32.53	71,223	32.64
33.00 - 37.99	207,597	7.54	34.15	111,289	34.12
38.00 and above	1,899	7.63	40.36	1,264	40.36

Restricted stock awards

The Company issues primarily time-based restricted stock awards that vest over a range of a 1 – 3 year period. Restricted stock with time-based vesting was valued at the fair value of the shares on the date of grant as they are assumed to be held beyond the vesting period.

Performance stock units

During the years ended December 2020, 2019 and 2018, the Company granted 68,498, 60,781, and 77,125 performance stock units in accordance with the 2014 Plan, respectively. The Company grants performance stock units which represent initial target awards and do not reflect potential increases or decreases resulting from the final performance results, which are to be determined at the end of the three-year performance period (vesting date). The actual number of shares to be awarded at the end of the performance period will range from 0% - 150% of the initial target awards. Historically, 60% of the award is based on the Company’s cumulative earnings per share (EPS target) during the performance period, and 40% of the award is based on the Company’s cumulative total shareholder return (TSR target), or TSR, during the performance period. On the vesting date, the Company’s TSR will be compared to the respective TSRs of the companies comprising the KBW Regional Index at the grant date to determine the shares awarded. The fair value of the EPS target portion of the award was determined based on the closing stock price of the Company’s common stock on the grant date. The fair value of the TSR target portion of the award was determined using a Monte Carlo Simulation at the grant date.

In establishing the PSU components during 2020, the Compensation Committee determined the EPS target portion of the award would not be an effective metric in light of economic uncertainty surrounding COVID-19. Consequently, the Compensation Committee granted an award based upon a relative return on tangible assets (“ROTA”). Annually, the Company’s ROTA is compared to the respective ROTA of companies comprising the KBW Regional Index. At the end of the measurement period, the Company’s ranking will be averaged to determine the shares awarded. The fair value of the ROTA award was determined based on the closing stock price of the Company’s common stock on the grant date.

The weighted-average grant date fair value per unit for the ROTA target portion and the TSR target portion granted during 2020 was $28.43 and $24.58, respectively. The weighted-average grant date fair value per unit for awards granted during 2019 of the EPS target portion and the TSR target portion was $34.08 and $27.01, respectively. The initial weighted-average performance price for the TSR target portion granted during 2020 was $35.95. During 2020 and 2019, the Company awarded an additional 17,852 and 22,246 units due to final performance results related to performance stock units granted in 2017 and 2016, respectively.

The following table summarizes restricted stock and performance stock unit activity during 2020 and 2019:

	Restricted stock shares	Weighted average grant-date fair value	Performance stock units	Weighted average grant-date fair value
Unvested at December 31, 2018	146,494	$ 28.19	192,049	$ 26.40
Granted	86,689	35.05	60,781	30.85
Adjustment due to performance	—	—	22,246	17.36
Vested	(85,266)	25.21	(95,308)	18.02
Forfeited	(25,719)	32.68	(20,894)	31.48
Unvested at December 31, 2019	122,198	34.19	158,874	31.19
Granted	127,400	23.94	68,498	26.74
Adjustment due to performance	—	—	17,852	33.22
Vested	(69,444)	32.60	(53,540)	33.22
Forfeited	(13,524)	29.25	(6,847)	29.52
Unvested at December 31, 2020	166,630	$ 27.42	184,837	$ 29.21

As of December 31, 2020, the total unrecognized compensation cost related to the non-vested restricted stock awards and performance stock units totaled $2.1 million and $2.5 million, respectively, and is expected to be recognized over a weighted average period of approximately 2.0 years and 1.7 years, respectively. Expense related to non-vested restricted stock awards totaled $2.5 million, $2.2 million and $2.1 million during 2020, 2019 and 2018, respectively. Expense related to non-vested performance stock units totaled $1.8 million, $2.0 million and $1.5 million during 2020, 2019 and 2018, respectively. Expense related to non-vested restricted stock awards and units is a component of salaries and benefits in the Company's consolidated statements of operations.

Employee stock purchase plan

The 2014 Employee Stock Purchase Plan ("ESPP") is intended to be a qualified plan within the meaning of Section 423 of the Internal Revenue Code of 1986 and allows eligible employees to purchase shares of common stock through payroll deductions up to a limit of $25,000 per calendar year and 2,000 shares per offering period. The price an employee pays for shares is 90.0% of the fair market value of Company common stock on the last day of the offering period. The offering periods are the six-month periods commencing on March 1 and September 1 of each year and ending on August 31 and February 28 (or February 29 in the case of a leap year) of each year. There are no vesting or other restrictions on the stock purchased by employees under the ESPP. Under the ESPP, the total number of shares of common stock reserved for issuance totaled 400,000 shares, of which 302,876 was available for issuance at December 31, 2020.

Under the ESPP, employees purchased 23,212 shares and 16,556 shares during 2020 and 2019, respectively.

Note 17 Common Stock

The Company had 30,634,291 and 31,176,627 shares of Class A common stock outstanding at December 31, 2020 and 2019, respectively. Additionally, the Company had 166,630 and 122,198 shares outstanding at December 31, 2020 and 2019, respectively, of restricted Class A common stock issued but not yet vested under the 2014 Omnibus Incentive Plan that are not included in shares outstanding until such time that they are vested; however, these shares do have voting and certain dividend rights during the vesting period.

On February 26, 2020, the Board of Directors authorized a new share repurchase program for up to $50.0 million from time to time in either the open market or through privately negotiated transactions. During the first quarter of 2020, the Company repurchased 734,117 shares for $19.5 million. Of those repurchases, $12.6 million were part of the previous authorization from August 2016. That authorization has been completed. The remaining authorization under the new program as of December 31, 2020 was $43.1 million.

Note 18 Earnings Per Share

The Company calculates earnings per share under the two-class method, as certain non-vested share awards contain non-forfeitable rights to dividends. As such, these awards are considered securities that participate in the earnings of the Company. Non-vested shares are discussed further in note 16.

The Company had 30,634,291 and 31,176,627 shares of Class A common stock outstanding as of December 31, 2020 and 2019, respectively, exclusive of issued non-vested restricted shares. Certain stock options and non-vested restricted shares are potentially dilutive securities, but are not included in the calculation of diluted earnings per share because to do so would have been anti-dilutive for 2020, 2019 and 2018.

The following table illustrates the computation of basic and diluted earnings per share for 2020, 2019 and 2018:

	For the years ended December 31,		
	2020	2019	2018
Net income	$ 88,591	$ 80,365	$ 61,451
Less: income allocated to participating securities	(130)	(94)	(70)
Income allocated to common shareholders	$ 88,461	$ 80,271	$ 61,381
Weighted average shares outstanding for basic earnings per common share	30,857,086	31,175,825	30,748,234
Dilutive effect of equity awards	218,771	354,992	681,840
Weighted average shares outstanding for diluted earnings per common share	31,075,857	31,530,817	31,430,074
Basic earnings per share	$ 2.87	$ 2.57	$ 2.00
Diluted earnings per share	2.85	2.55	1.95

The Company had 768,129, 657,114 and 1,264,876 outstanding stock options to purchase common stock at weighted average exercise prices of $26.35, $26.69 and $22.33 per share at December 31, 2020, 2019 and 2018, respectively, which have time-vesting criteria, and as such, any dilution is derived only for the time frame in which the vesting criteria had been met and where the inclusion of those stock options is dilutive. The Company had 351,467, 281,072 and 338,543 unvested restricted shares and performance stock units issued as of December 31, 2020, 2019 and 2018, respectively, which have performance, market and/or time-vesting criteria, and as such, any dilution is derived only for the time frame in which the vesting criteria had been met and where the inclusion of those restricted shares and units is dilutive.

Note 19 Income Taxes

Income tax expense attributable to income before taxes was $20.8 million, $15.8 million and $12.2 million for 2020, 2019 and 2018, respectively. Included in income tax was $51 thousand of tax expense during 2020 and $2.2 million and $1.3 million of tax benefit from stock compensation activity during 2019 and 2018, respectively.

(a) Income taxes

Total income taxes for 2020, 2019 and 2018 were allocated as follows:

	For the years ended December 31,		
	2020	**2019**	**2018**
Current expense:			
U.S. federal	$ 16,460	$ 8,947	$ 427
State and local	3,255	2,280	1,530
Total current income tax expense	19,715	11,227	1,957
Deferred expense:			
U.S. federal	560	4,115	10,110
State and local	531	487	163
Total deferred income tax expense	1,091	4,602	10,273
Income tax expense	$ 20,806	$ 15,829	$ 12,230

(b) Tax Rate Reconciliation

The reconciliation between the income tax expenses and the amounts computed by applying the U.S. federal income tax rate to pretax income is as follows:

	For the years ended December 31,		
	2020	**2019**	**2018**
Income tax at federal statutory rates (21%)	$ 22,974	$ 20,201	$ 15,473
State income taxes, net of federal benefits	2,991	2,186	1,337
Tax-exempt loan interest income	(4,628)	(4,354)	(4,089)
Bank-owned life insurance income	(575)	(475)	136
Stock-based compensation	43	(1,925)	(1,207)
Other	1	196	580
Income tax expense	$ 20,806	$ 15,829	$ 12,230

(c) Significant Components of Deferred Taxes

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2020 and 2019 are presented below:

	December 31, 2020	December 31, 2019
Deferred tax assets:		
Excess tax basis of acquired loans over carrying value	$ 966	$ 2,053
Allowance for credit losses	14,154	9,414
Other real estate owned	634	810
Accrued stock-based compensation	2,070	1,945
Accrued compensation	3,674	3,425
Capitalized start-up costs	1,540	1,885
Accrued expenses	532	1,051
Net deferred loan fees	1,015	63
Net operating loss	641	707
Lease liability	6,154	7,113
Other	2,025	1,910
Total deferred tax assets	33,405	30,376
Deferred tax liabilities:		
Intangible assets	(2,563)	(327)
Net unrealized gains on investment securities	(3,033)	(647)
Premises and equipment	(1,599)	(1,852)
Right of use assets	(6,015)	(7,033)
Prepaid expenses	(229)	(209)
Mortgage servicing rights	(2,458)	(634)
Other	(44)	(196)
Total deferred tax liabilities	(15,941)	(10,898)
Net deferred tax asset	$ 17,464	$ 19,478

At December 31, 2020, the Company had federal and state net operating loss carryovers (NOLs) of $2.4 million and $3.5 million, respectively, which are available to offset future taxable income. The federal NOLs expire in varying amounts through 2034, and the state NOLs expire in varying amounts between 2026 and 2034. While these NOLs are subject to certain restrictions on the amount that can be utilized per year, the Company does not expect any tax attribute carryovers to expire before they are utilized.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, if any (including the impact of available carryforward periods), projected future taxable income, and tax-planning strategies in making this assessment. For the years ended December 31, 2020 and 2019, management believes a valuation allowance on the deferred tax asset is not necessary based on the current and future projected earnings of the Company. The Company has no ASC 740-10 unrecognized tax benefits recorded as of December 31, 2020 and 2019 and does not expect the total amount of unrecognized tax benefits to significantly increase within the next 12 months. The Company and its subsidiary bank are subject to income tax by federal, state and local government taxing authorities. The Company is not currently subject to any open income tax examinations; however, the Company's tax returns for the years ended December 31, 2017 through 2020 remain subject to examination by U.S. federal income tax authorities. The years open to examination by state and local government authorities vary by jurisdiction.

Note 20 Derivatives

Risk management objective of using derivatives

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

Fair values of derivative instruments on the balance sheet

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the consolidated statements of financial condition as of December 31, 2020 and 2019.

Information about the valuation methods used to measure fair value is provided in note 22.

		Asset derivatives fair value			Liability derivatives fair value	
	Balance Sheet location	**December 31, 2020**	**December 31, 2019**	**Balance Sheet Location**	**December 31, 2020**	**December 31, 2019**
Derivatives designated as hedging instruments:						
Interest rate products	Other assets	$ —	$ 1,171	Other liabilities	$ 38,884	$ 13,537
Total derivatives designated as hedging instruments		$ —	$ 1,171		$ 38,884	$ 13,537
Derivatives not designated as hedging instruments:						
Interest rate products	Other assets	$ 18,149	$ 9,004	Other liabilities	$ 18,176	$ 9,021
Interest rate lock commitments	Other assets	7,001	1,499	Other liabilities	298	141
Forward contracts	Other assets	—	16	Other liabilities	2,622	299
Total derivatives not designated as hedging instruments		$ 25,150	$ 10,519		$ 21,096	$ 9,461

Fair value hedges

Interest rate swaps designated as fair value hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without the exchange of the underlying notional amount. As of December 31, 2020, the Company had interest rate swaps with a notional amount of $387.1 million that were designated as fair value hedges. These interest rate swaps were associated with $389.9 million of the Company's fixed-rate loans included in loans receivable on the statements of financial condition as of December 31, 2020, before a gain of $40.1 million from the fair value hedge adjustment in the carrying amount.

As of December 31, 2019, the Company had interest rate swaps with a notional amount of $403.7 million that were designated as fair value hedges. These interest rate swaps were associated with $405.9 million of the Company's fixed-rate loans as of December 31, 2019, excluding a gain of $13.9 million from the fair value hedge adjustment in the carrying amount.

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

Non-designated hedges

Derivatives not designated as hedges are not speculative and consist of interest rate swaps with commercial banking clients that facilitate their respective risk management strategies. Interest rate swaps are simultaneously hedged by offsetting interest rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. As the interest rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the client swaps and the offsetting swaps are recognized directly in earnings. As of December 31, 2020, the Company had matched interest rate swap transactions with an aggregate notional amount of $456.0 million related to this program. As of December 31, 2019, the Company had matched interest rate swap transactions with an aggregate notional amount of $478.9 million.

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

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

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

The Company had interest rate lock commitments with a notional value of $258.8 million and forward contracts with a notional value of $375.3 million at December 31, 2020. At December 31, 2019, the Company had interest rate lock commitments with a notional value of $99.8 million and forward contracts with a notional value of $181.5 million.

Effect of derivative instruments on the consolidated statements of operations

The tables below present the effect of the Company’s derivative financial instruments on the consolidated statements of operations for 2020 and 2019:

Derivatives in fair value hedging relationships	Location of gain (loss) recognized in income on derivatives	Amount of gain (loss) recognized in income on derivatives For the years ended December 31, 2020	2019
Interest rate products	Interest and fees on loans	$ 4,405	$ 10,397
Total		$ 4,405	$ 10,397

Hedged items	Location of gain (loss) recognized in income on hedged items	Amount of gain (loss) recognized in income on hedged items For the years ended December 31, 2020	2019
Interest rate products	Interest and fees on loans	$ (6,376)	$ (9,603)
Total		$ (6,376)	$ (9,603)

Derivatives not designated as hedging instruments	Location of gain (loss) recognized in income on derivatives	Amount of gain (loss) recognized in income on derivatives For the years ended December 31, 2020	2019
Interest rate products	Other non-interest expense	$ (7)	$ 133
Interest rate lock commitments	Mortgage banking income	7,218	1,138
Forward contracts	Mortgage banking income	(2,339)	189
Total		$ 4,872	$ 1,460

Credit-risk-related contingent features

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

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

As of December 31, 2020, the termination value of derivatives in a net liability position related to these agreements was $59.0 million, which includes accrued interest but excludes any adjustment for nonperformance risk. The Company has minimum collateral posting thresholds with certain of its derivative counterparties and, as of December 31, 2020, the Company had posted $63.4 million in eligible collateral. If the Company had breached any of these provisions at December 31, 2020, it could have been required to settle its obligations under the agreements at the termination value.

Note 21 Commitments and Contingencies

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

Total unfunded commitments at December 31, 2020 and 2019 were as follows:

	December 31, 2020	December 31, 2019
Commitments to fund loans	$ 311,237	$ 249,914
Unfunded commitments under lines of credit	537,325	600,407
Commercial and standby letters of credit	7,320	11,929
Total unfunded commitments	$ 855,882	$ 862,250

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

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

Commercial and standby letters of credit—As a provider of financial services, the Company routinely issues commercial and standby letters of credit, which may be financial standby letters of credit or performance standby letters of credit. These are

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

Contingencies

Mortgage loans sold to investors may be subject to repurchase or indemnification in the event of specific default by the borrower or subsequent discovery that underwriting standards were not met. The Company established a reserve liability for expected losses related to these representations and warranties based upon management's evaluation of actual and historic loss history, delinquency trends in the portfolio and economic conditions. Charges against the reserve during the year ended December 31, 2020 and 2019 totaling $0.5 million and $0.3 million, respectively, were primarily driven by early payoffs. The Company recorded a repurchase reserve of $2.7 million and $2.6 million at December 31, 2020 and 2019, respectively, which is included in other liabilities on the consolidated statements of financial condition.

The following table summarizes mortgage repurchase reserve activity for the periods presented:

	For the years ended December 31,	
	2020	2019
Beginning balance	$ 2,589	$ 3,286
Provision charged to (released from) operating expense, net	662	(366)
Charge-offs	(510)	(331)
Ending balance	$ 2,741	$ 2,589

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

Note 22 Fair Value Measurements

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

- Level 1—Includes assets or liabilities in which the valuation methodologies are based on unadjusted quoted prices in active markets for identical assets or liabilities.

- Level 2—Includes assets or liabilities in which the inputs to the valuation methodologies are based on similar assets or liabilities in inactive markets, quoted prices for identical or similar assets or liabilities in inactive markets, and inputs other than quoted prices that are observable, such as interest rates, yield curves, volatilities, prepayment speeds, and other inputs obtained from observable market input.

- Level 3—Includes assets or liabilities in which the inputs to the valuation methodology are based on at least one significant assumption that is not observable in the marketplace. These valuations may rely on management's judgment and may include internally-developed model-based valuation techniques.

Level 1 inputs are considered to be the most transparent and reliable and level 3 inputs are considered to be the least transparent and reliable. The Company assumes the use of the principal market to conduct a transaction of each particular asset or liability being measured and then considers the assumptions that market participants would use when pricing the

asset or liability. Whenever possible, the Company first looks for quoted prices for identical assets or liabilities in active markets (level 1 inputs) to value each asset or liability. However, when inputs from identical assets or liabilities on active markets are not available, the Company utilizes market observable data for similar assets and liabilities. The Company maximizes the use of observable inputs and limits the use of unobservable inputs to occasions when observable inputs are not available. The need to use unobservable inputs generally results from the lack of market liquidity of the actual financial instrument or of the underlying collateral. While third party price indications may be available in those cases, limited trading activity can challenge the observability of those inputs.

Changes in the valuation inputs used for measuring the fair value of financial instruments may occur due to changes in current market conditions or other factors. Such changes may necessitate a transfer of the financial instruments to another level in the hierarchy based on the new inputs used. The Company recognizes these transfers at the end of the reporting period that the transfer occurs. During 2020 and 2019, there were no transfers of financial instruments between the hierarchy levels.

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

Fair Value of Financial Instruments Measured on a Recurring Basis

Investment securities available-for-sale—Investment securities available-for-sale are carried at fair value on a recurring basis. To the extent possible, observable quoted prices in an active market are used to determine fair value and, as such, these securities are classified as level 1. At December 31, 2020 and 2019, the Company did not hold any level 1 securities. When quoted market prices in active markets for identical assets or liabilities are not available, quoted prices of securities with similar characteristics, discounted cash flows or other pricing characteristics are used to estimate fair values and the securities are then classified as level 2.

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

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

Mortgage banking derivatives—The Company relies on a third-party pricing service to value its mortgage banking derivative financial assets and liabilities, which the Company classifies as a level 3 valuation. The external valuation model to estimate the fair value of its interest rate lock commitments to originate residential mortgage loans held for sale includes grouping the interest rate lock commitments by interest rate and terms, applying an average 86.1% estimated pull-through rate based on historical experience, and then multiplying by quoted investor prices determined to be reasonably applicable to the loan commitment groups based on interest rate, terms, and rate lock expiration dates of the loan commitment groups. The Company also relies on an external valuation model to estimate the fair value of its forward commitments to sell residential mortgage loans (i.e., an estimate of what the Company would receive or pay to terminate the forward delivery contract based

on market prices for similar financial instruments), which includes matching specific terms and maturities of the forward commitments against applicable investor pricing.

The tables below present the financial instruments measured at fair value on a recurring basis as of December 31, 2020 and 2019, on the consolidated statements of financial condition utilizing the hierarchy structure described above:

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Assets:				
Investment securities available-for-sale:				
Mortgage-backed securities:				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ —	$ 196,334	$ —	$ 196,334
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	—	462,779	—	462,779
Municipal securities	—	318	—	318
Corporate debt	—	1,998	—	1,998
Loans held for sale	—	247,813	—	247,813
Interest rate swap derivatives	—	18,149	—	18,149
Mortgage banking derivatives	—	—	7,001	7,001
Total assets at fair value	$ —	$ 927,391	$ 7,001	$ 934,392
Liabilities:				
Interest rate swap derivatives	$ —	$ 57,060	$ —	$ 57,060
Mortgage banking derivatives	—	—	2,920	2,920
Total liabilities at fair value	$ —	$ 57,060	$ 2,920	$ 59,980

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Assets:				
Investment securities available-for-sale:				
Mortgage-backed securities:				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ —	$ 95,256	$ —	$ 95,256
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	—	542,037	—	542,037
Municipal securities	—	372	—	372
Loans held for sale	—	117,444	—	117,444
Interest rate swap derivatives	—	10,175	—	10,175
Mortgage banking derivatives	—	—	1,515	1,515
Total assets at fair value	$ —	$ 765,284	$ 1,515	$ 766,799
Liabilities:				
Interest rate swap derivatives	$ —	$ 22,558	$ —	$ 22,558
Mortgage banking derivatives	—	—	440	440
Total liabilities at fair value	$ —	$ 22,558	$ 440	$ 22,998

The table below details the changes in level 3 financial instruments during 2020:

	Mortgage banking derivatives, net
Balance at December 31, 2019	$ 1,075
Gain included in earnings, net	4,879
Fees and costs included in earnings, net	(1,873)
Balance at December 31, 2020	$ 4,081

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

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

Individually evaluated loans—The Company records individually evaluated loans based on the fair value of the collateral when it is probable that the Company will be unable to collect all contractual amounts due in accordance with the terms of the loan agreement. The Company relies on third-party appraisals and internal assessments, utilizing a discount rate in the range of 3% - 26%, with a weighted average discount rate of 14.5%, in determining the estimated fair values of these loans. The inputs used to determine the fair values of loans are considered level 3 inputs in the fair value hierarchy. At December 31, 2020, the Company recorded a specific reserve of $1.9 million related to seven loans with a carrying balance of $7.5 million. At December 31, 2019, the Company recorded a specific reserve of $1.8 million related to seven loans with a carrying balance of $5.9 million.

OREO—OREO is recorded at the fair value of the collateral less estimated selling costs using a range of 6% - 10% with a weighted average discount rate of 9.7%. The estimated fair values of OREO are updated periodically and further write-downs may be taken to reflect a new basis. The Company recognized $0.5 million and $1.1 million of OREO impairments in its consolidated statements of operations during 2020 and 2019, respectively. The fair values of OREO are derived from third party price opinions or appraisals that generally use an income approach or a market value approach. If reasonable comparable appraisals are not available, then the Company may use internally developed models to determine fair values. The inputs used to determine the fair value of OREO properties are considered level 3 inputs in the fair value hierarchy.

Mortgage servicing rights—MSRs represent the value associated with servicing residential real estate loans that have been sold to outside investors with servicing retained. The fair value for servicing assets is determined through discounted cash flow analysis and utilizes discount rates ranging from 9.5% to 10.5% with a weighted average discount rate of 9.5% at December 31, 2020 and a prepayment speed assumption range from 15.4% to 21.3% with a weighted average rate of 15.8% at December 31, 2020 as inputs. At December 31, 2019, discount rates ranged from 9.5% to 10.5% with a weighted average discount rate of 9.6% and prepayment speed assumption range from 14.8% to 22.0% with a weighted average rate of 15.7%. The weighted average MSRs are subject to impairment testing. The carrying values of these MSRs are reviewed quarterly for impairment based upon the calculation of fair value. For purposes of measuring impairment, the MSRs are stratified into certain risk characteristics including note type and note term. If the valuation model reflects a value less than the carrying value, MSRs are adjusted to fair value through a valuation allowance and the adjustment is included in mortgage banking income on the consolidated statements of operations. The inputs used to determine the fair values of MSRs are considered level 3 inputs in the fair value hierarchy.

Premises and equipment—During 2020, the Company announced plans to consolidate 12 banking centers, which were substantially complete by December 31, 2020. Premises and equipment held-for-sale are written down to estimated fair value less costs to sell in the period in which the held-for-sale criteria are met. Fair value is estimated in a process which considers current local commercial real estate market conditions and the judgment of the sales agent and often involves obtaining third party appraisals from certified real estate appraisers. These fair value measurements are classified as Level 3. Unobservable inputs to these measurements, which include estimates and judgments often used in conjunction with appraisals, are not readily quantifiable. The Company recognized $1.6 million of impairments in its consolidated statements of operations related to premises and equipment classified as held-for-sale totaling $8.0 million during the year ended December 31, 2020. During 2019, the Company recognized $0.9 million of impairments in its consolidated statements of operations related to premises and equipment classified as held-for-sale totaling $3.4 million.

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

The tables below provide information regarding the assets recorded at fair value on a non-recurring basis at December 31, 2020 and 2019.

	December 31, 2020	
	Total	Losses from fair value changes
Individually evaluated loans	$ 25,480	$ 3,228
Other real estate owned	4,730	470
Premises and equipment	8,024	1,631
Mortgage servicing rights	10,380	751
Total	$ 48,614	$ 6,080

	December 31, 2019	
	Total	Losses from fair value changes
Individually evaluated loans	$ 32,763	$ 8,271
Other real estate owned	7,300	1,082
Premises and equipment	3,385	898
Mortgage servicing rights	2,630	129
Total	$ 46,078	$ 10,380

The Company did not record any liabilities measured at fair value on a non-recurring basis during 2020 and 2019.

Note 23 Fair Value of Financial Instruments

The fair value of a financial instrument is the amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is determined based upon quoted market prices to the extent possible; however, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques that may be significantly impacted by the assumptions used, including the discount rate and estimates of future cash flows. Changes in any of these assumptions could significantly affect the fair value estimates. The fair value of the financial instruments listed below does not reflect a premium or discount that could result from offering all of the Company's holdings of financial instruments at one time, nor does it reflect the underlying value of the Company, as ASC Topic 825 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies and are based on the exit price concept within ASC Topic 825 and applied to this disclosure on a prospective basis. Considerable judgment is required to interpret market data in order to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange.

The fair value of financial instruments at December 31, 2020 and 2019 are set forth below:

	Level in fair value measurement hierarchy	December 31, 2020		December 31, 2019	
		Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
ASSETS					
Cash and cash equivalents	Level 1	$ 605,565	$ 605,565	$ 110,190	$ 110,190
Mortgage-backed securities—residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises available-for-sale	Level 2	196,334	196,334	95,256	95,256
Mortgage-backed securities—other residential mortgage-backed securities issued or guaranteed by U.S. Government agencies or sponsored enterprises available-for-sale	Level 2	462,779	462,779	542,037	542,037
Municipal securities available-for-sale	Level 2	318	318	372	372
Municipal securities available-for-sale	Level 3	57	57	115	115
Corporate debt	Level 2	1,998	1,998	—	—
Other available-for-sale securities	Level 3	469	469	469	469
Mortgage-backed securities—residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises held-to-maturity	Level 2	306,187	310,930	127,560	128,770
Mortgage-backed securities—other residential mortgage-backed securities issued or guaranteed by U.S. Government agencies or sponsored enterprises held-to-maturity	Level 2	70,428	70,761	55,324	54,971
Non-marketable securities	Level 2	16,493	16,493	29,751	29,751
Loans receivable	Level 3	4,353,726	4,511,357	4,415,406	4,481,209
Loans held for sale	Level 2	247,813	247,813	117,444	117,444
Accrued interest receivable	Level 2	18,795	18,795	19,157	19,157
Interest rate swap derivatives	Level 2	18,149	18,149	10,175	10,175
Mortgage banking derivatives	Level 3	7,001	7,001	1,515	1,515
LIABILITIES					
Deposit transaction accounts	Level 2	4,690,100	4,690,100	3,678,979	3,678,979
Time deposits	Level 2	986,132	993,070	1,058,153	1,058,354
Securities sold under agreements to repurchase	Level 2	22,897	22,897	56,935	56,935
Federal Home Loan Bank advances	Level 2	—	—	207,675	207,890
Accrued interest payable	Level 2	6,762	6,762	9,328	9,328
Interest rate swap derivatives	Level 2	57,060	57,060	22,558	22,558
Mortgage banking derivatives	Level 3	2,920	2,920	440	440

Note 24 Parent Company Only Financial Statements

Parent company only financial information for National Bank Holdings Corporation is summarized as follows:

Condensed Statements of Financial Condition

	December 31, 2020	December 31, 2019
ASSETS		
Cash and cash equivalents	$ 91,402	$ 105,012
Investment in subsidiaries	725,002	654,508
Other assets	14,809	18,095
Total assets	$ 831,213	$ 777,615
LIABILITIES AND STOCKHOLDERS' EQUITY		
Other liabilities	$ 10,522	$ 10,695
Total liabilities	10,522	10,695
Shareholders' equity	820,691	766,920
Total liabilities and shareholders' equity	$ 831,213	$ 777,615

Condensed Statements of Operations

	For the years ended December 31,		
	2020	2019	2018
Income			
Interest income	$ —	$ —	$ 112
Equity in undistributed earnings of subsidiaries	67,416	28,133	19,682
Distributions from subsidiaries	27,200	55,725	47,338
Total income	94,616	83,858	67,132
Expenses			
Salaries and benefits	5,136	4,925	4,455
Other expenses	2,621	2,463	4,467
Total expenses	7,757	7,388	8,922
Income before income taxes	86,859	76,470	58,210
Income tax benefit	(1,732)	(3,895)	(3,241)
Net income	$ 88,591	$ 80,365	$ 61,451

Condensed Statements of Cash Flows

	For the years ended December 31,		
	2020	2019	2018
Cash flows from operating activities:			
Net income	$ 88,591	$ 80,365	$ 61,451
Equity in undistributed earnings of subsidiaries	(67,416)	(28,133)	(19,682)
Stock-based compensation expense	5,299	4,869	4,420
Net excess tax benefit on stock-based compensation	51	(2,160)	(1,286)
Other	3,074	5,045	9,230
Net cash provided by operating activities	29,599	59,986	54,133
Cash flows from investing activities:			
Outlay for business combinations	—	—	(36,189)
Net cash used in investing activities	—	—	(36,189)
Cash flows from financing activities:			
Issuance of stock under purchase and equity compensation plans	(749)	(6,229)	(772)
Proceeds from exercise of stock options	1,832	2,788	7,576
Payment of dividends	(24,816)	(23,530)	(16,624)
Repurchase of shares	(19,476)	—	—
Net cash used in financing activities	(43,209)	(26,971)	(9,820)
Net increase in cash, cash equivalents and restricted cash	(13,610)	33,015	8,124
Cash, cash equivalents and restricted cash at beginning of the year	115,012	81,997	73,873
Cash, cash equivalents and restricted cash at end of the year	$ 101,402	$ 115,012	$ 81,997

Note 25 Quarterly Results of Operations (unaudited)

The following is a summary of quarterly results:

	December 31, 2020				
	Fourth quarter	Third quarter	Second quarter	First quarter	Total
Interest and dividend income	$ 53,288	$ 52,302	$ 53,744	$ 58,668	$ 218,002
Interest expense	4,732	5,587	6,416	8,321	25,056
Net interest income before provision for loan losses	48,556	46,715	47,328	50,347	192,946
Provision for loan losses	—	1,200	10,271	6,159	17,630
Net interest income after provision for loan losses	48,556	45,515	37,057	44,188	175,316
Non-interest income	33,357	44,532	38,837	23,532	140,258
Non-interest expense	48,425	55,321	53,760	48,671	206,177
Income before income taxes	33,488	34,726	22,134	19,049	109,397
Income tax expense	6,319	6,833	4,429	3,225	20,806
Net income	$ 27,169	$ 27,893	$ 17,705	$ 15,824	$ 88,591
Earnings per share-basic	$ 0.88	$ 0.91	$ 0.57	$ 0.51	$ 2.87
Earnings per share-diluted	0.87	0.90	0.57	0.50	2.85

	December 31, 2019				
	Fourth quarter	Third quarter	Second quarter	First quarter	Total
Interest and dividend income	$ 59,616	$ 61,372	$ 62,193	$ 59,420	$ 242,601
Interest expense	9,228	9,587	9,702	8,254	36,771
Net interest income before provision for loan losses	50,388	51,785	52,491	51,166	205,830
Provision for loan losses	1,180	5,690	3,239	1,534	11,643
Net interest income after provision for loan losses	49,208	46,095	49,252	49,632	194,187
Non-interest income	20,282	24,759	20,660	17,051	82,752
Non-interest expense	46,107	43,793	46,451	44,394	180,745
Income before income taxes	23,383	27,061	23,461	22,289	96,194
Income tax expense	3,864	5,419	3,179	3,367	15,829
Net income	$ 19,519	$ 21,642	$ 20,282	$ 18,922	$ 80,365
Earnings per share-basic	$ 0.62	$ 0.69	$ 0.65	$ 0.61	$ 2.57
Earnings per share-diluted	0.62	0.69	0.64	0.60	2.55

	December 31, 2018				
	Fourth quarter	Third quarter	Second quarter	First quarter	Total
Interest and dividend income	$ 57,780	$ 55,909	$ 54,911	$ 52,791	$ 221,391
Interest expense	7,148	6,137	5,525	5,144	23,954
Net interest income before provision for loan losses	50,632	49,772	49,386	47,647	197,437
Provision for loan losses	2,476	807	1,873	41	5,197
Net interest income after provision for loan losses	48,156	48,965	47,513	47,606	192,240
Non-interest income	15,317	18,061	19,562	17,835	70,775
Non-interest expense	42,857	44,432	46,763	55,282	189,334
Income before income taxes	20,616	22,594	20,312	10,159	73,681
Income tax expense (benefit)	3,381	4,354	2,800	1,695	12,230
Net income	$ 17,235	$ 18,240	$ 17,512	$ 8,464	$ 61,451
Earnings per share-basic	$ 0.56	$ 0.59	$ 0.57	$ 0.28	$ 2.00
Earnings per share-diluted	0.55	0.58	0.56	0.27	1.95

Note 26 Acquisition Activities

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. Immediately following the completion of the acquisition, Peoples National Bank and Peoples Bank merged into NBH Bank. Pursuant to the merger agreement executed in June 2017, the Company paid $36.2 million of cash consideration and 3,398,477 shares of the Company’s Class A common stock in exchange for all of the outstanding common stock of Peoples. Included in other assets is $10.0 million of restricted cash placed in escrow for certain potential liabilities for which the Company is indemnified pursuant to the merger agreement. The transaction was valued at $146.4 million in the aggregate, based on the Company’s closing price of $32.43 on the acquisition date. Acquisition-related costs of $8.0 million on a pre-tax basis were included in the Company’s consolidated statements of operations for the year ended December 31, 2018. The results of Peoples are included in the results of the Company subsequent to the acquisition date.

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

		January 1, 2018
Assets:		
Cash and due from banks	$	105,173
Investment securities available-for-sale		118,512
Non-marketable securities		4,796
Loans		542,707
Loans held for sale		54,260
Other real estate owned		1,253
Premises and equipment		18,584
Core deposit intangible asset		10,477
Mortgage servicing rights		4,301
Other assets		15,361
Total assets acquired		875,424
Liabilities:		
Total deposits		729,911
FHLB borrowings		33,825
Other liabilities		20,683
Total liabilities assumed		784,419
Identifiable net assets acquired	$	91,005
Consideration:		
NBHC common stock paid at January 1, 2018, closing price of $32.43	$	110,213
Cash		36,189
Total		146,402
Goodwill	$	55,397

In connection with the Peoples acquisition, the Company recorded $55.4 million of goodwill, a $10.5 million core deposit intangible asset, a $4.3 million MSRs intangible asset and a $4.0 million mortgage repurchase reserve, included in other liabilities. The core deposit intangible is being amortized straight-line over ten years and the MSRs intangible is amortized in proportion to and over the period of the estimated net servicing income. The FHLB borrowings of $33.8 million were paid off during the first quarter of 2018. The goodwill associated with this transaction is not tax deductible.

At the date of acquisition, the gross contractual amounts receivable, inclusive of all principal and interest, was $713.6 million. The Company's best estimate of the contractual principal cash flows for loans not expected to be collected was $2.1 million.

Note 27 Subsequent Event

On February 24, 2021, the Company's Board of Directors authorized a new program to repurchase up to $75.0 million of the Company's common stock from time to time either in the open market or in privately negotiated transactions in accordance with applicable regulations of the Securities and Exchange Commission. To date, the Company has repurchased $6.9 million of its previously authorized $50.0 million stock repurchase program announced in February 2020. The new program of $75.0 million replaces this previously authorized program in its entirety.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES.

There were no changes in or disagreements with accountants on accounting and financial disclosures.

Item 9A. CONTROLS AND PROCEDURES.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as of December 31, 2020. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2020.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our management, with the participation of our principal executive officer and principal financial officer, conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2020 based on the framework in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2020. KPMG LLP, the independent registered public accounting firm that audited our consolidated financial statements included in this Annual Report on Form 10-K, has issued a report on our internal control over financial reporting as of December 31, 2020, which report is included in this Item 9A below.

Changes in Internal Control Over Financial Reporting

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

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
National Bank Holdings Corporation:

Opinion on Internal Control Over Financial Reporting

We have audited National Bank Holdings Corporation and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of financial condition of the Company as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes (collectively, the consolidated financial statements), and our report dated February 24, 2021 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

KPMG LLP

Kansas City, Missouri
February 24, 2021

Item 9B. OTHER INFORMATION.

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The Information required by this Item is incorporated herein by reference to our Proxy Statement (Schedule 14A) for our 2021 Annual Meeting of Shareholders to be filed with the SEC within 120 days of our fiscal year-end.

The Company's Supplemental Code of Ethics for CEO and Senior Financial Officers, which applies to the CEO, Chief Financial Officer and Principal Accounting Officer, is available at www.nationalbankholdings.com. Amendments to, and waivers of, the code of ethics are publicly disclosed as required by applicable law, regulation or rule.

Item 11. EXECUTIVE COMPENSATION.

The Information required by this Item is incorporated herein by reference to our Proxy Statement (Schedule 14A) for our 2021 Annual Meeting of Shareholders to be filed with the SEC within 120 days of our fiscal year-end.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS.

The Information required by this Item is incorporated herein by reference to our Proxy Statement (Schedule 14A) for our 2021 Annual Meeting of Shareholders to be filed with the SEC within 120 days of our fiscal year-end.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The Information required by this Item is incorporated herein by reference to our Proxy Statement (Schedule 14A) for our 2021 Annual Meeting of Shareholders to be filed with the SEC within 120 days of our fiscal year-end.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The Information required by this Item is incorporated herein by reference to our Proxy Statement (Schedule 14A) for our 2021 Annual Meeting of Shareholders to be filed with the SEC within 120 days of our fiscal year-end.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

(a) The following documents are filed as a part of this report:

(1) Financial Statements:

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Consolidated Statements of Financial Condition	75
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Consolidated Statements of Comprehensive Income	77
Consolidated Statements of Changes in Shareholders' Equity	78
Consolidated Statements of Cash Flows	79
Notes to Consolidated Financial Statements	80

(2) Financial Statement Schedules:

All schedules are omitted as such information is inapplicable or is included in the financial statements.

(b) The exhibits filed as part of this report and exhibits incorporated herein by reference to other documents are listed below:

Exhibit No	Description
2.1*	Agreement and Plan Merger, dated as of June 23, 2017, by and among Peoples, Inc., National Bank Holdings Corporation, the Significant Stockholders (as defined herein) and Winton A. Winter, Jr., solely in his capacity as the Holders' Representative (incorporated herein by reference to Exhibit 2.1 to our Form 8-K dated June 23, 2017 and filed on June 27, 2017)
3.1	Second Amended and Restated Certificate of Incorporation (incorporated herein by reference to Exhibit 3.1 to our Form S-1 Registration Statement (Registration No. 333-177971), filed on August 22, 2012)
3.2	Second Amended and Restated By-Laws (incorporated herein by reference to Exhibit 3.2 to our Form 10-Q, filed on November 7, 2014)
4.1	Specimen common stock certificate (incorporated herein by reference to Exhibit 4.1 to our Form S-1 Registration Statement (Registration No. 333-177971), filed on August 22, 2012)
4.2	Description of Capital Stock (incorporated herein by reference to Exhibit 4.2 to our Form 10-K, filed on February 26, 2020)
10.1	Form of Indemnification Agreement by and between NBH Holdings Corp. and each of its directors and executive officers (incorporated herein by reference to Exhibit 10.6 to our Form S-1 Registration Statement (Registration Statement No. 333-177971), filed on September 10, 2012)^
10.2	Employment Agreement, dated May 22, 2010, by and between G. Timothy Laney and NBH Holdings Corp. (incorporated herein by reference to Exhibit 10.1 to our Form S-1 Registration Statement (Registration Statement No. 333-177971), filed on September 10, 2012)^
10.3	First Amendment to Employment Agreement, dated November 17, 2015, by and between G. Timothy Laney and National Bank Holdings Corporation (incorporated herein by reference to Exhibit 10.2 to our Form 8-K, filed on November 20, 2015)^

10.4	Amended and Restated Employment Agreement, dated November 17, 2015, by and between Richard U. Newfield, Jr. and National Bank Holdings Corporation (incorporated herein by reference to Exhibit 10.4 to our Form 8-K, filed on November 20, 2015)^
10.5	Employment Agreement, dated November 17, 2015, by and between Zsolt K. Besskó and National Bank Holdings Corporation (incorporated herein by reference to Exhibit 10.5 to our Form 8-K, filed on November 20, 2015)^
10.6	Employment Agreement, dated May 2, 2018, by and between Aldis Birkans and National Bank Holdings Corporation (incorporated herein by reference to Exhibit 10.2 to our Form 8-K, filed on May 2, 2018)^
10.7	Transition Agreement, dated May 5, 2020, by and between National Bank Holdings Corporation and Zsolt K. Besskó (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on May 5, 2020) ^
10.8	Employment Agreement, dated May 5, 2020, by and between National Bank Holdings Corporation and Angela N. Petrucci (incorporated herein by reference to Exhibit 10.2 to our Form 10-Q, filed on August 5, 2020) ^
10.9	Change of Control Agreement applicable to executive officers not party to an employee agreement (incorporated herein by reference to Exhibit 10.17 to our form 10-K, filed on February 28, 2018)^
10.10	Support Agreement, dated as of June 23, 2017, by and among Peoples, Inc., National Bank Holdings Corporation and the undersigned stockholders of Peoples, Inc. (incorporated herein by reference to Exhibit 10.1 to our Form 8-K dated June 23, 2017 and filed on June 27, 2017)
10.11	NBH Holdings Corp. 2009 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.2 to our Form S-1 Registration Statement (Registration No. 333-177971), filed on November 14, 2011)^
10.12	Amendment to the NBH Holdings Corp. 2009 Equity Incentive Plan dated February 22, 2017 (incorporated herein by reference to Exhibit 10.10 to our form 10-K, filed on February 24, 2017)^
10.13	National Bank Holdings Corporation Employee Stock Purchase Plan (incorporated herein by reference to Annex A to the Company's Definitive Proxy Statement on Schedule 14A, filed on March 30, 2015)^
10.14	National Bank Holdings Corporation 2014 Omnibus Incentive Plan (incorporated herein by reference to Annex A to the Company's Definitive Proxy Statement on Schedule 14A, filed on March 31, 2014)^
10.15	Form of National Bank Holdings Corporation 2014 Omnibus Incentive Plan Performance Stock Unit Award Agreement (For Management) (incorporated herein by reference to Exhibit 10.13 to our Form 10-K, filed on March 1, 2019)^
10.16	Form of National Bank Holdings Corporation 2014 Omnibus Incentive Plan Restricted Stock Award Agreement (For Management) (incorporated herein by reference to Exhibit 10.14 to our Form 10-K, filed on March 1, 2019)^
10.17	Form of National Bank Holdings Corporation 2014 Omnibus Incentive Plan Nonqualified Stock Option Agreement (For Management) (incorporated herein by reference to Exhibit 10.15 to our Form 10-K, filed on March 1, 2019)^

10.18	Form of National Bank Holdings Corporation 2014 Omnibus Incentive Plan Restricted Stock Award Agreement (For Non-Employee Directors) (incorporated herein by reference to Exhibit 10.4 to our Form 10-Q, filed on May 9, 2014)^
10.19	Form of National Bank Holdings Corporation 2014 Omnibus Incentive Plan Performance Stock Unit Award Agreement (TSR) (For Management) (incorporated herein by reference to Exhibit 10.3 to our Form 10-Q, filed on August 5, 2020)^
10.20	Form of National Bank Holdings Corporation 2014 Omnibus Incentive Plan Performance Stock Unit Award Agreement (ROTA) (For Management) (incorporated herein by reference to Exhibit 10.4 to our Form 10-Q, filed on August 5, 2020)^
21.1	Subsidiaries of National Bank Holdings Corporation
23.1	Consent of KPMG LLP
31.1	Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certifications of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation
101.DEF	XBRL Taxonomy Extension Definition
101.LAB	XBRL Taxonomy Extension Labels
101.PRE	XBRL Taxonomy Extension Presentation
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

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* Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished supplementally to the Securities and Exchange Commission upon request.

^ Indicates a management contract or compensatory plan.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on February 24, 2021, on its behalf by the undersigned, thereunto duly authorized.

National Bank Holdings Corporation

By /s/ G. Timothy Laney

G. Timothy Laney
Chairman, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on February 24, 2021, by the following persons on behalf of the registrant and in the capacities indicated.

/s/ G. TIMOTHY LANEY

G. Timothy Laney
Chairman, President and Chief Executive Officer
(principal executive officer)

/s/ ALDIS BIRKANS

Aldis Birkans
Chief Financial Officer
(principal financial officer)

/s/ NICOLE VAN DENABEELE

Nicole Van Denabeele
Chief Accounting Officer
(principal accounting officer)

/s/ RALPH W. CLERMONT

Ralph W. Clermont, Lead Director

/s/ ROBERT E. DEAN

Robert E. Dean, Director

/s/ FRED J. JOSEPH

Fred J. Joseph, Director

/s/ MICHO F. SPRING

Micho F. Spring, Director

/s/ BURNEY S. WARREN, III

Burney S. Warren, III, Director

/s/ ART ZEILE

Art Zeile, Director

Exhibit 21.1

Subsidiary	Jurisdiction of Organization	Trade Names
NBH Bank	Colorado	Bank Midwest; Community Banks of Colorado; Hillcrest Bank; NBH Capital Finance; Bank Midwest Mortgage; Community Banks Mortgage, a Division of NBH Bank; and Hillcrest Bank Mortgage
NBH Realty I, LLC	Missouri	
NBH Realty II, LLC	Missouri	

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors
National Bank Holdings Corporation:

We consent to the incorporation by reference in the registration statement No. 333-238066, No. 333-184054, and No. 333-222792 on Form S-3 and No. 333-204071 and No. 333-195785 on Form S-8 of National Bank Holdings Corporation and subsidiaries (the Company) of our reports dated February 24, 2021, with respect to the consolidated statements of financial condition of the Company as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes, and the effectiveness of internal control over financial reporting as of December 31, 2020, which reports appear in the December 31, 2020 annual report on Form 10-K of National Bank Holdings Corporation.

As discussed in Note 3 to the financial statements, the Company has changed its method of accounting for the recognition and measurement of credit losses as of January 1, 2020 due to the adoption of ASC Topic 326, Financial Instruments – Credit Losses.

KPMG LLP

Kansas City, Missouri
February 24, 2021

Exhibit 31.1

Certifications of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, G. Timothy Laney, Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K of National Bank Holdings Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2021

/s/ G. Timothy Laney
G. Timothy Laney
Chairman, President and Chief Executive Officer

Exhibit 31.2

Certifications of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Aldis Birkans, Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K of National Bank Holdings Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2021

/s/ Aldis Birkans

Aldis Birkans
Chief Financial Officer

Exhibit 32

Certifications of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the annual report of National Bank Holdings Corporation (the "Company") on Form 10-K for the year ended December 31, 2020, as filed with the Securities and Exchange Commission (the "Report"), each of the undersigned officers certifies pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge: (1) this Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: February 24, 2021

/s/ G. Timothy Laney
G. Timothy Laney
Chairman, President and Chief Executive Officer

Date: February 24, 2021

/s/ Aldis Birkans
Aldis Birkans
Chief Financial Officer