National Bank Holdings Corp
Form 10-Q
November 03, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2017

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, Suite 300, Greenwood Village, Colorado 80111

(Address of principal executive offices) (Zip Code)

Registrant’s telephone, including area code: (720) 529-3336

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

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

As of November 1, 2017, the registrant had outstanding 26,848,151 shares of Class A voting common stock, each with $0.01 par value per share, excluding 166,186 shares of restricted Class A common stock issued but not yet vested.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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

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

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

changes in consumer spending, borrowings and savings habits;

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

our ability to integrate acquisitions 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;

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;

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

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

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

continued consolidation in the financial services industry;

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

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

technological changes;

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

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

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

regulatory limitations on dividends from our bank subsidiary;

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

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

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

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

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

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

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PART I: FINANCIAL INFORMATION

Item 1: FINANCIAL STATEMENTS

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Financial Condition (Unaudited)

(In thousands, except share and per share data)

	September 30, 2017	December 31, 2016
ASSETS		
Cash and due from banks	$ 221,160	$ 152,736
Interest bearing bank deposits	20,000	—
Cash and cash equivalents	241,160	152,736
Investment securities available-for-sale (at fair value)	812,051	884,232
Investment securities held-to-maturity (fair value of $275,608 and $332,573 at September 30, 2017 and December 31, 2016, respectively)	275,370	332,505
Non-marketable securities	15,537	14,949
Loans	3,120,543	2,860,921
Allowance for loan losses	(30,047)	(29,174)
Loans, net	3,090,496	2,831,747
Loans held for sale	12,212	24,187
Other real estate owned	12,330	15,662
Premises and equipment, net	91,654	95,671
Goodwill	59,630	59,630
Intangible assets, net	2,840	6,949
Other assets	155,692	154,778
Total assets	$ 4,768,972	$ 4,573,046
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing demand deposits	$ 910,675	$ 846,744
Interest bearing demand deposits	431,786	427,538
Savings and money market	1,470,714	1,422,321
Time deposits	1,133,167	1,172,046
Total deposits	3,946,342	3,868,649
Securities sold under agreements to repurchase	92,814	92,011
Federal Home Loan Bank advances	129,115	38,665
Other liabilities	50,457	37,532
Total liabilities	4,218,728	4,036,857
Shareholders' equity:		
Common stock, par value $0.01 per share: 400,000,000 shares authorized; 51,585,248 and 51,813,011 shares issued; 26,802,964 and	515	514

26,386,583 shares outstanding at September 30, 2017 and December 31, 2016, respectively		
Additional paid-in capital	972,027	984,087
Retained earnings	73,358	55,454
Treasury stock of 24,535,807 and 24,927,157 shares at September 30, 2017 and December 31, 2016, respectively, at cost	(494,321)	(502,104)
Accumulated other comprehensive loss, net of tax	(1,335)	(1,762)
Total shareholders’ equity	550,244	536,189
Total liabilities and shareholders’ equity	$ 4,768,972	$ 4,573,046

See accompanying notes to the consolidated interim financial statements.

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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations (Unaudited)

(In thousands, except share and per share data)

	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
Interest and dividend income:				
Interest and fees on loans	$ 36,064	$ 33,450	$ 102,238	$ 96,477
Interest and dividends on investment securities	6,005	7,094	19,108	23,088
Dividends on non-marketable securities	234	160	619	581
Interest on interest-bearing bank deposits	276	60	687	644
Total interest and dividend income	42,579	40,764	122,652	120,790
Interest expense:				
Interest on deposits	4,068	3,479	11,759	10,305
Interest on borrowings	613	221	1,380	630
Total interest expense	4,681	3,700	13,139	10,935
Net interest income before provision for loan losses	37,898	37,064	109,513	109,855
Provision for loan losses	3,880	5,293	9,700	22,369
Net interest income after provision for loan losses	34,018	31,771	99,813	87,486
Non-interest income:				
Service charges	3,585	3,662	10,458	10,387
Bank card fees	3,076	2,828	9,014	8,530
Gain on sale of mortgages, net	668	819	1,716	2,251
Bank-owned life insurance income	475	497	1,417	1,378
Other non-interest income	1,611	2,135	7,149	5,299
OREO related income	136	1,667	449	2,190
Total non-interest income	9,551	11,608	30,203	30,035
Non-interest expense:				
Salaries and benefits	19,363	20,091	59,662	60,315
Occupancy and equipment	5,208	5,666	15,887	17,440
Telecommunications and data processing	1,702	1,487	4,841	4,599
Marketing and business development	683	687	1,878	1,802
FDIC deposit insurance	715	734	2,106	2,719
Bank card expenses	971	1,133	2,751	3,009
Professional fees	754	909	2,441	2,343
Other non-interest expense	2,700	2,198	7,839	6,265
Problem asset workout	1,636	1,172	3,389	3,104
Gain on OREO sales, net	(497)	(2,077)	(2,254)	(4,120)
Intangible asset amortization	1,370	1,370	4,110	4,110

Total non-interest expense	34,605	33,370	102,650	101,586
Income before income taxes	8,964	10,009	27,366	15,935
Income tax expense	1,733	1,695	2,668	2,866
Net income	$ 7,231	$ 8,314	$ 24,698	$ 13,069
Income per share—basic	$ 0.27	$ 0.30	$ 0.92	$ 0.45
Income per share—diluted	$ 0.26	$ 0.30	$ 0.89	$ 0.45
Weighted average number of common shares outstanding:				
Basic	26,947,821	27,654,827	26,902,128	28,991,094
Diluted	27,628,734	27,898,756	27,636,675	29,111,322

See accompanying notes to the consolidated interim financial statements.

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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Unaudited)

(In thousands)

	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
Net income	$ 7,231	$ 8,314	$ 24,698	$ 13,069
Other comprehensive (loss) income, net of tax:				
Securities available-for-sale:				
Net unrealized gains (losses) arising during the period, net of tax (expense) benefit of ($121) and $1,376 for the three months ended September 30, 2017 and 2016, respectively; and net of tax expense of ($913) and ($6,111) for the nine months ended September 30, 2017 and 2016, respectively	197	(2,242)	1,473	9,956
Less: amortization of net unrealized holding gains to income, net of tax benefit of $207 and $300 for the three months ended September 30, 2017 and 2016, respectively; and net of tax benefit of $642 and $923 for the nine months ended September 30, 2017 and 2016, respectively	(336)	(489)	(1,046)	(1,504)
Other comprehensive (loss) income	(139)	(2,731)	427	8,452
Comprehensive income	$ 7,092	$ 5,583	$ 25,125	$ 21,521

See accompanying notes to the consolidated interim financial statements.

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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

Nine months ended September 30, 2017 and 2016

(In thousands, except share and per share data)

	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Accumulated other comprehensive income (loss), net	Total
Balance, December 31, 2015	$ 513	$ 997,926	$ 38,670	$ (419,660)	$ 95	$ 617,544
Net income	—	—	13,069	—	—	13,069
Stock-based compensation	—	2,692	—	—	—	2,692
Issuance of stock under equity compensation plans, including loss on reissuance of treasury stock of $5, net	1	(2,953)	—	2,669	—	(283)
Repurchase of 4,231,874 shares	—	—	—	(87,310)	—	(87,310)
Cash dividends declared ($0.15 per share)	—	—	(4,392)	—	—	(4,392)
Other comprehensive income	—	—	—	—	8,452	8,452
Balance, September 30, 2016	$ 514	$ 997,665	$ 47,347	$ (504,301)	$ 8,547	$ 549,772
Balance, December 31, 2016	$ 514	$ 984,087	$ 55,454	$ (502,104)	$ (1,762)	$ 536,189
Net income	—	—	24,698	—	—	24,698
Stock-based compensation	—	2,771	—	—	—	2,771
Issuance of stock under purchase and equity compensation plans, including gain on reissuance of treasury stock of $5,080, net	1	(12,898)	—	5,850	—	(7,047)
Cash dividends declared ($0.25 per share)	—	—	(6,794)	—	—	(6,794)
Warrant exercise	—	(1,933)	—	1,933	—	—
Other comprehensive income	—	—	—	—	427	427
	$ 515	$ 972,027	$ 73,358	$ (494,321)	$ (1,335)	$ 550,244

Balance,
September 30, 2017

See accompanying notes to the consolidated interim financial statements.

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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	For the nine months ended September 30,	
	2017	2016
Cash flows from operating activities:		
Net income	$ 24,698	$ 13,069
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	9,700	22,369
Depreciation and amortization	9,862	10,864
Current income tax receivable	570	3,310
Deferred income taxes	2,116	6,846
Net excess tax (benefit) deficit on stock-based compensation	(3,442)	86
Discount accretion, net of premium amortization on securities	1,953	2,352
Loan accretion	(18,936)	(27,939)
Gain on sale of mortgages, net	(1,716)	(2,251)
Origination of loans held for sale, net of repayments	(66,333)	(79,747)
Proceeds from sales of loans held for sale	75,619	71,756
Bank-owned life insurance income	(1,417)	(1,378)
Gain on the sale of other real estate owned, net	(2,254)	(4,120)
Impairment on other real estate owned	766	262
Loss (gain) on sale of fixed assets	33	(1,840)
Gain from banking center divestitures	(2,886)	—
Stock-based compensation	2,771	2,692
Increase in other assets	(2,299)	(6,892)
Increase in other liabilities	9,917	17,747
Net cash provided by operating activities	38,722	27,186
Cash flows from investing activities:		
Purchase of FHLB stock	(7,377)	(1,859)
Proceeds from redemption of FHLB stock	6,789	7,051
Proceeds from redemption of FRB stock	—	4,964
Proceeds from maturities of investment securities held-to-maturity	55,083	69,218
Proceeds from maturities of investment securities available-for-sale	171,326	207,413
Purchase of investment securities available-for-sale	(98,503)	(4,872)
Net increase in loans	(273,127)	(239,203)
(Purchases) sale of premises and equipment, net	(1,769)	1,328
Purchase of bank-owned life insurance	—	(10,344)
Proceeds from sales of loans	33,813	9,231
Proceeds from sales of other real estate owned	5,580	8,227
Net cash (used in) provided by investing activities	(108,185)	51,154
Cash flows from financing activities:		
Net increase (decrease) in deposits	80,579	(15,670)
Increase (decrease) in repurchase agreements	803	(23,216)
Advances from FHLB	263,129	71,359

FHLB payoffs	(172,679)	(60,000)
Issuance of stock under purchase and equity compensation plans	(7,125)	(322)
Proceeds from exercise of stock options	78	—
Payment of dividends	(6,898)	(4,296)
Repurchase of shares	—	(87,310)
Net cash provided by (used in) financing activities	157,887	(119,455)
Increase (decrease) in cash and cash equivalents	88,424	(41,115)
Cash and cash equivalents at beginning of the year	152,736	166,092
Cash and cash equivalents at end of period	$ 241,160	$ 124,977
Supplemental disclosure of cash flow information during the period:		
Cash paid for interest	$ 11,437	$ 9,336
Net tax payments (refunds)	$ 33	$ (2,152)
Supplemental schedule of non-cash investing activities:		
Loans transferred to other real estate owned at fair value	$ 760	$ 4,755
Loans purchased but not settled	$ 6,554	$ 11,537
Loans transferred from loans held for sale to loans	$ 4,406	$ —

See accompanying notes to the consolidated interim financial statements.

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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

September 30, 2017

Note 1 Basis of Presentation

National Bank Holdings Corporation ("NBHC" or the "Company") is a bank holding company that was incorporated in the State of Delaware in June 2009 with the intent to acquire and operate financial services franchises and other complementary businesses in targeted markets. The Company is headquartered immediately south of Denver, in Greenwood Village, Colorado, and its primary operations are conducted through its wholly owned subsidiary, NBH Bank, referred to as the Bank, or NBH 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 85 banking centers located in Colorado, the greater Kansas City area and Texas, and through online and mobile banking products.

The accompanying interim unaudited consolidated financial statements serve to update the National Bank Holdings Corporation Annual Report on Form 10-K for the year ended December 31, 2016 and include the accounts of the Company and its wholly owned subsidiary, NBH Bank. The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and where applicable, with general practices in the banking industry or guidelines prescribed by bank regulatory agencies. However, they may not include all information and notes necessary to constitute a complete set of financial statements under GAAP applicable to annual periods and accordingly should be read in conjunction with the financial information contained in the Company's most recent Form 10-K. The unaudited consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results presented. All such adjustments are of a normal recurring nature. All significant intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications of prior years' amounts are made whenever necessary to conform to current period presentation. The results of operations for the interim period is not necessarily indicative of the results that may be expected for the full year or any other interim period. All amounts are in thousands, except share data, or as otherwise noted.

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

The Company's significant accounting policies followed in the preparation of the unaudited consolidated financial statements are disclosed in note 2 of the audited financial statements and notes for the year ended December 31, 2016 and are contained in the Company's Annual Report on Form 10-K. There have not been any significant changes to the application of significant accounting policies since December 31, 2016.

Note 2 Recent Accounting Pronouncements

Revenue from Contracts with Customers—In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." This update supersedes revenue recognition requirements in ASC Topic 605, Revenue Recognition, including most industry-specific revenue recognition guidance in the FASB Accounting Standards Codification. The new guidance stipulates that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides specific steps that entities should apply in order to achieve this principle. The amendments are effective for interim and annual periods beginning after December 15, 2017, with early application permitted for interim and annual periods beginning after December 15, 2016. ASU No. 2014-09 allows for either full retrospective or modified retrospective adoption.

The new guidance does not apply to revenue associated with financial assets and liabilities including loans, leases, securities, and derivatives that are accounted for under other GAAP. Accordingly, the majority of the Company’s revenues will not be affected. The Company has completed its review of revenue streams and contracts with customers and has determined deposit service charges and bank card fees are within the scope of the ASU, but has not identified changes to the timing or amount of revenue recognition.

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Accounting policies and procedures are not expected to change materially since the principals of revenue recognition from the ASU are largely consistent with existing guidance and current practices applied by the Company. The Company continues to assess the expanded revenue disclosure requirements under the new standard. The Company will adopt ASU No. 2014-09 on January 1, 2018 utilizing the modified retrospective approach.

Leases—In February 2016, the FASB issued ASU 2016-02, Leases. The guidance in ASU 2016-02 supersedes the lease recognition requirements in ASC Topic 840, Leases. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statements. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Early adoption of the amendments in the update is permitted. The Company will adopt ASU 2016-02 in the first quarter of 2019 and is currently in the process of evaluating the impact of the ASU's adoption on the Company's consolidated financial statements.

Financial Instruments - Credit Losses—In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments. This update replaces the current incurred loss methodology for recognizing credit losses with a current expected credit loss model, which requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This amendment broadens the information that an entity must consider in developing its expected credit loss estimates. Additionally, the update amends the accounting for credit losses for available-for-sale debt securities and purchased financial assets with a more-than-insignificant amount of credit deterioration since origination. This update requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of a company’s loan portfolio. The amendments in this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption in fiscal years beginning after December 15, 2018 is permitted. The amendment requires the use of the modified retrospective approach for adoption. The Company is in the process of evaluating the impact of the ASU’s adoption on the Company’s consolidated financial statements.

Derivatives and Hedging - Targeted Improvements to Accounting for Hedging Activities—In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities (ASU 2017-12). 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 fiscal years beginning after December 15, 2018, with early adoption, including adoption in an interim period, permitted. ASU 2017-12 requires a modified retrospective transition method in which the Company will recognize the cumulative effect of the change on the opening balance of each affected component of equity in the consolidated statements of financial condition as of the date of adoption. While the Company continues to assess all potential impacts of the standard, we currently expect adoption to have an immaterial impact on our consolidated financial statements.

The Company reviewed 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 Payments, ASU 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment and ASU 2017-05, Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20) and does not expect the adoption of these pronouncements to have a material impact on its financial statements.

Note 3 Investment Securities

The Company's investment securities portfolio is comprised of available-for-sale and held-to-maturity investment securities. These investment securities totaled $1.1 billion at September 30, 2017 and included $0.8 billion of available-for-sale securities and $0.3 billion of held-to-maturity securities. At December 31, 2016, investment securities totaled $1.2 billion and included $0.9 billion of available-for-sale securities and $0.3 billion of held-to-maturity securities.

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Available-for-sale

At September 30, 2017 and December 31, 2016, the Company held $0.8 billion and $0.9 billion of available-for-sale investment securities, respectively. Available-for-sale securities are summarized as follows as of the dates indicated:

	September 30, 2017			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities ("MBS"):				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ 178,649	$ 3,127	$ (387)	$ 181,389
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	639,456	1,321	(12,298)	628,479
Municipal securities	1,646	118	—	1,764
Other securities	419	—	—	419
Total	$ 820,170	$ 4,566	$ (12,685)	$ 812,051

	December 31, 2016			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities ("MBS"):				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ 223,781	$ 3,909	$ (530)	$ 227,160
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	666,616	2,124	(16,001)	652,739
Municipal securities	3,921	—	(7)	3,914
Other securities	419	—	—	419
Total	$ 894,737	$ 6,033	$ (16,538)	$ 884,232

At September 30, 2017 and December 31, 2016, mortgage-backed securities represented primarily all of the Company's available-for-sale investment portfolio and all mortgage-backed securities were backed by government sponsored enterprises ("GSE") collateral such as Federal Home Loan Mortgage Corporation ("FHLMC") and Federal National Mortgage Association ("FNMA"), and the government sponsored agency Government National Mortgage Association ("GNMA").

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

	September 30, 2017					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Mortgage-backed securities (“MBS”):						
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ 54,344	$ (387)	$ —			