National Bank Holdings Corp
Form 10-Q
November 12, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2013
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 ý 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 ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "accelerated filer." and "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
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 7, 2013, NBHC had outstanding 42,325,987 shares of Class A voting common stock and 3,127,774 shares of Class B non-voting common stock, each with $0.01 par value per share.

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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,” “anticipate,” “seek,” “potential,” “will,” “ “plan,” “project,” “continuing,” “ongoing,” “expect,” “intend” and similar words or phrases. These statements are only predicti and involve estimates, known and unknown risks, assumptions and uncertainties. We have based these statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, liquidity, results of operations, business strategy and growth prospects.

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

- our ability to execute our business strategy, as well as changes in our business strategy or development plans;
- business and economic conditions generally and in the financial services industry;
- economic, market, operational, liquidity, credit and interest rate risks associated with our business;
- effects of any changes in trade, monetary and fiscal policies and laws, including the interest rate policies of the Federal Reserve Board;
- changes imposed by regulatory agencies to increase our capital to a level greater than the current level required for well-capitalized financial institutions (including the impact of the recent joint final rules promulgated by the Federal Reserve Board, Office of the Comptroller of the Currency and the FDIC revising certain regulatory capital requirements to align with the Basel III capital standards and meet certain requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act);
- effects of inflation, as well as, interest rate, securities market and monetary supply fluctuations;
- changes in the economy or supply-demand imbalances affecting local real estate values;
- changes in consumer spending, borrowings and savings habits;
- our ability to identify potential candidates for, obtain regulatory approval, and consummate, acquisitions of financial institutions on attractive terms, or at all;
- our ability to integrate acquisitions and to achieve synergies, operating efficiencies and/or other expected benefits within expected time-frames, or at all, or within expected cost projections, and to preserve the goodwill of acquired financial institutions;
- our ability to 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 risk-adjusted returns;
- the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters;
- 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 inquires.
- 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;
- political instability, acts of war or terrorism and natural disasters;
- impact of reputational risk on such matters as business generation and retention; and
- our success at managing the risks involved in the foregoing items.

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

PART I: FINANCIAL INFORMATION
Item 1: FINANCIAL STATEMENTS
NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Financial Condition (Unaudited)
(In thousands, except share and per share data)

	September 30, 2013	December 31, 2012
ASSETS		
Cash and due from banks	$69,185	$90,505
Due from Federal Reserve Bank of Kansas City	254,456	579,267
Interest bearing bank deposits	25,603	99,408
Cash and cash equivalents	349,244	769,180
Securities purchased under agreements to resell	75,000	—
Investment securities available-for-sale (at fair value)	1,889,962	1,718,028
Investment securities held-to-maturity (fair value of $664,578 and $584,551 at September 30, 2013 and December 31, 2012, respectively)	664,717	577,486
Non-marketable securities	31,725	32,996
Loans (including covered loans of $366,346 and $608,222 at September 30, 2013 and December 31, 2012, respectively)	1,742,813	1,832,702
Allowance for loan losses	(11,419)	(15,380)
Loans, net	1,731,394	1,817,322
Loans held for sale	5,265	5,368
Federal Deposit Insurance Corporation ("FDIC") indemnification asset, net	58,086	86,923
Other real estate owned	70,753	94,808
Premises and equipment, net	117,285	121,436
Goodwill	59,630	59,630
Intangible assets, net	23,566	27,575
Other assets	85,342	100,023
Total assets	$5,161,969	$5,410,775
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing demand deposits	$689,405	$677,985
Interest bearing demand deposits	430,123	529,996
Savings and money market	1,297,585	1,240,020
Time deposits	1,534,390	1,752,718
Total deposits	3,951,503	4,200,719
Securities sold under agreements to repurchase	116,471	53,685
Due to FDIC	31,964	31,271
Other liabilities	30,781	34,541
Total liabilities	4,130,719	4,320,216
Stockholders' equity:		
Common stock, par value $0.01 per share: 400,000,000 shares authorized; 52,300,198 and 53,279,579 shares issued; 51,213,044 and 52,327,672 shares outstanding at September 30, 2013 and December 31, 2012, respectively	512	523
Additional paid in capital	989,614	1,006,194
Retained earnings	41,266	43,273
Treasury stock of 240 shares at December 31, 2012, at cost	—	(4)
Accumulated other comprehensive income (loss), net of tax	(142)	40,573

Total stockholders’ equity	1,031,250	1,090,559
Total liabilities and stockholders’ equity	$5,161,969	$5,410,775

See accompanying notes to the unaudited consolidated interim financial statements.

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,	
	2013	2012	2013	2012
Interest and dividend income:				
Interest and fees on loans	$35,328	$40,105	$105,783	$129,290
Interest and dividends on investment securities	13,539	15,190	40,383	46,750
Dividends on non-marketable securities	388	377	1,170	1,142
Interest on interest-bearing bank deposits	267	370	762	1,595
Total interest and dividend income	49,522	56,042	148,098	178,777
Interest expense:				
Interest on deposits	3,965	6,519	12,647	24,022
Interest on borrowings	42	27	80	88
Total interest expense	4,007	6,546	12,727	24,110
Net interest income before provision for loan losses	45,515	49,496	135,371	154,667
Provision for loan losses	437	5,263	3,524	25,325
Net interest income after provision for loan losses	45,078	44,233	131,847	129,342
Non-interest income:				
FDIC indemnification asset negative accretion	(4,208)	(2,832)	(11,843)	(9,165)
FDIC loss sharing income	(1,191)	1,503	3,278	9,278
Service charges	4,334	4,466	11,944	13,170
Bank card fees	2,482	2,484	7,509	7,168
Gain on sales of mortgages, net	345	283	1,125	886
Gain on sale of securities, net	—	—	—	674
Gain on previously charged-off acquired loans	224	837	1,118	2,627
Other non-interest income	1,352	1,322	4,682	3,744
Total non-interest income	3,338	8,063	17,813	28,382
Non-interest expense:				
Salaries and employee benefits	22,639	27,182	69,363	72,226
Occupancy and equipment	6,556	5,570	18,391	14,845
Professional fees	791	2,669	3,045	8,612
Telecommunications and data processing	3,050	4,475	9,805	11,694
Marketing and business development	1,408	1,760	3,519	4,290
Supplies and printing	326	1,288	1,180	2,495
Other real estate owned expenses	459	3,468	7,675	12,152
Problem loan expenses	1,134	2,267	4,361	6,704
Intangible asset amortization	1,336	1,353	4,009	4,020
FDIC deposit insurance	1,021	1,152	3,074	3,664
ATM/debit card expenses	1,179	1,102	3,291	3,100
Banking center closure related expenses	3,389	—	3,389	—
Initial public offering related expenses	—	7,566	—	7,974
Acquisition related costs	—	—	—	870
Loss (gain) from the change in fair value of warrant liability	441	(1,154)	138	(1,017)
Other non-interest expense	2,884	1,259	8,487	6,602
Total non-interest expense	46,613	59,957	139,727	158,231
Income (loss) before income taxes	1,803	(7,661)	9,933	(507)
Income tax expense	856	230	4,006	3,039
Net income (loss)	$947	$(7,891)	$5,927	$(3,546)

Income (loss) per share—basic	$0.02	$(0.15)	$0.11	$(0.07)
Income (loss) per share—diluted	$0.02	$(0.15)	$0.11	$(0.07)
Weighted average number of common shares outstanding:				
Basic	51,454,200	52,191,239	51,940,245	52,186,465
Diluted	51,501,980	52,191,239	51,973,161	52,186,465

See accompanying notes to the unaudited consolidated interim financial statements.

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Loss) (Unaudited)
(In thousands)

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Net income (loss)	$947	$(7,891)	$5,927	$(3,546)
Other comprehensive income (loss), net of tax:				
Securities available-for-sale:				
Net unrealized gains (losses) arising during the period, net of tax benefit (expense) of $5,141 and ($1,498) for the three months ended September 30, 2013 and 2012, respectively; and net of tax benefit (expense) of $22,852 and ($2,624) for the nine months ended September 30, 2013 and 2012, respectively	(8,214)	2,357	(36,015)	4,074
Reclassification adjustment for net securities gains included in net income, net of tax expense of $263 for the nine months ended September 30, 2012	—	—	—	(411)
Reclassification adjustment for net unrealized holding gains on securities transferred between available-for-sale and held-to-maturity, net of tax expense of $15,159 for the nine months ended September 30, 2012	—	—	—	(23,711)
	$(8,214)	$2,357	$(36,015)	$(20,048)
Net unrealized holding gains on securities transferred between available-for-sale to held-to-maturity:				
Net unrealized holding gains on securities transferred, net of tax expense of $15,159 for the nine months ended September 30, 2012	—	—	—	23,711
Less: amortization of net unrealized holding gains to income, net of tax benefit of $738 and $1,302 for the three months ended September 30, 2013 and 2012, respectively; and net of tax benefit of $2,943 and $2,215 for the nine months ended September 30, 2013 and 2012, respectively	(1,178)	(2,036)	(4,700)	(3,933)
	(1,178)	(2,036)	(4,700)	19,778
Other comprehensive income (loss)	(9,392)	321	(40,715)	(270)
Comprehensive loss	$(8,445)	$(7,570)	$(34,788)	$(3,816)

See accompanying notes to the unaudited consolidated interim financial statements.

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity (Unaudited)
Nine Months Ended September 30, 2013 and 2012
(In thousands, except share and per share data)

	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Accumulated other comprehensive income, net	Total
Balance, December 31, 2011	$522	$994,705	$46,480	$—	$ 47,022	$1,088,729
Net income	—	—	(3,546)	—	—	(3,546)
Stock-based compensation	—	10,922	—	—	—	10,922
Other comprehensive loss	—	—	—	—	(270)	(270)
Balance, September 30, 2012	522	1,005,627	42,934	—	46,752	1,095,835
Balance, December 31, 2012	523	1,006,194	43,273	(4)	40,573	1,090,559
Net income	—	—	5,927	—	—	5,927
Stock-based compensation	—	4,003	—	—	—	4,003
(Repurchase) /retirement of shares	(11)	(20,583)	—	4	—	(20,590)
Dividends paid ($0.15 per share)	—	—	(7,934)	—	—	(7,934)
Other comprehensive loss	—	—	—	—	(40,715)	(40,715)
Balance, September 30, 2013	$512	$989,614	$41,266	$—	$ (142)	$1,031,250

See accompanying notes to the unaudited consolidated interim financial statements.

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)
(In thousands)

	For the nine months ended September 30,	
	2013	2012
Cash flows from operating activities:		
Net income (loss)	$5,927	$(3,546)
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for loan losses	3,524	25,325
Depreciation and amortization	11,698	8,946
Gain on sale of securities, net	—	(674)
Current income tax receivable	(11,249)	(15,765)
Deferred income tax receivable	(10,848)	(10,421)
Discount accretion, net of premium amortization	6,692	13,110
Loan accretion	(66,906)	(93,497)
Net gain on sale of mortgage loans	(1,125)	(886)
Origination of loans held for sale	(47,754)	(42,678)
Proceeds from sales of loans held for sale	47,832	39,844
Amortization of indemnification asset	11,843	9,165
Gain on the sale of other real estate owned, net	(7,384)	(6,792)
Impairment on other real estate owned	9,142	8,638
Impairment on fixed assets related to banking center closures	2,531	—
Stock-based compensation	4,003	10,922
Increase (decrease) in due to FDIC, net	693	(35,470)
Decrease (increase) in other assets	1,739	(378)
Increase (decrease) in other liabilities	1,338	(15,805)
Net cash used in operating activities	(38,304)	(109,962)
Cash flows from investing activities:		
Purchase of FHLB of Des Moines stock	—	(4,018)
Sale of FHLB stock	1,271	89
Sales of investment securities available-for-sale	—	20,794
Maturities of investment securities held-to-maturity	149,991	113,590
Maturities of investment securities available-for-sale	456,122	352,137
Purchase of investment securities held-to-maturity	(244,502)	(2,234)
Purchase of investment securities available-for-sale	(693,977)	(1,003,593)
Increase in securities purchased under agreements to resell	(75,000)	—
Net decrease in loans	118,052	363,479
Purchase of premises and equipment	(6,069)	(35,994)
Proceeds from sales of other real estate owned	54,705	57,186
Decrease in FDIC indemnification asset	72,634	67,822
Net cash used in investing activities	(166,773)	(70,742)
Cash flows from financing activities:		
Net decrease in deposits	(249,216)	(781,329)
Increase (decrease) in repurchase agreements	62,786	(1,405)
Payment of dividends	(7,839)	—
Repurchase of shares	(20,590)	—
Net cash used in financing activities	(214,859)	(782,734)
Decrease in cash and cash equivalents	(419,936)	(963,438)
Cash and cash equivalents at beginning of the year	769,180	1,628,137

Cash and cash equivalents at end of period	$349,244	$664,699
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$13,741	$30,428
Cash paid during the period for taxes	$26,271	$29,228

Supplemental schedule of non-cash investing activities:		
Loans transferred to other real estate owned at fair value	$32,408	$67,741
FDIC indemnification asset claims transferred to other assets	$24,460	$109,142
Available-for-sale investment securities transferred to investment securities held-to-maturity	$—	$754,063

See accompanying notes to the unaudited consolidated interim financial statements.

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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
September 30, 2013

Note 1 Basis of Presentation
National Bank Holdings Corporation (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 community banking franchises and other complementary businesses in targeted markets. The accompanying unaudited consolidated interim financial statements include the accounts of the Company and its wholly owned subsidiary, NBH Bank, N.A. NBH Bank, N.A. is the resulting entity from the Company's acquisitions to date and it offers consumer and commercial banking through banking centers that are predominately located in the greater Kansas City area and Colorado.

These interim financial statements serve to update the National Bank Holdings Corporation Annual Report on Form 10-K for the year ended December 31, 2012. The accompanying unaudited 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 Form 10-K. The unaudited consolidated interim 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 periods are not necessarily indicative of the results that may be expected for the full year or any other interim period.

The Company's significant accounting policies followed in the preparation of the unaudited consolidated interim financial statements are disclosed in Note 2 of the audited financial statements and notes for the year ended December 31, 2012 are contained in the Company's Annual Report on Form 10-K, referenced above. During the nine months ended September 30, 2013, the Company began entering into agreements with certain financial institutions whereby the Company purchases securities under agreements to resell as of a specified future date at a specified price plus accrued interest. The securities purchased under agreements to resell are carried at the contractual amounts at which the securities will subsequently be resold, including accrued interest. The securities purchased under agreement to resell are subject to a master netting arrangement; however, the Company has not offset any of the amounts shown in the unaudited consolidated interim financial statements. The securities are pledged as collateral by the counterparties and are held by a third party custodian. The collateral is valued daily and additional collateral may be obtained or refunded as necessary to maintain full collateralization of these transactions. There have been no other significant changes to the application of significant accounting policies since December 31, 2012.

GAAP requires management to make estimates that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. By their nature, estimates are based on judgment and available information. Management has made significant estimates in certain areas, such as the amount and timing of expected cash flows from assets, the valuation of the FDIC indemnification asset and clawback liability, the valuation of other real estate owned (“OREO”), the fair value adjustments on assets acquired and liabilities assumed, the valuation of core deposit intangible assets, the evaluation of investment securities for other-than-temporary impairment (“OTTI”), the 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.
Note 2 Recent Accounting Pronouncements

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income—In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-02, Comprehensive Income-Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This guidance requires entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component. Entities are also required to present significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required to be reclassified to net income in its entirety in the same accounting period. Other amounts that are not required to be reclassified to net income are to be cross-referenced to other disclosures that provide additional detail about those amounts. The Company was required to adopt this update in 2013 with retrospective application. Adoption of this update affects the presentation of the components of comprehensive income in the

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
September 30, 2013

Company's financial statements, but did not have an impact on the Company's consolidated statements of financial condition, results of operations or liquidity.

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 $2.6 billion at September 30, 2013, an increase from $2.3 billion at December 31, 2012. Included in the aforementioned $2.6 billion was $1.9 billion of available-for-sale securities and $0.7 billion of held-to-maturity securities.

Available-for-sale

Available-for-sale investment securities are summarized as follows as of the dates indicated (in thousands):

	September 30, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Asset backed securities	$20,091	$7	$—	$20,098
Mortgage-backed securities ("MBS"):				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	514,584	9,525	(926)	523,183
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	1,376,453	11,211	(41,402)	1,346,262
Other securities	419	—	—	419
Total	$1,911,547	$20,743	$(42,328)	$1,889,962

	December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$300	$—	$—	$300
Asset backed securities	89,881	122	—	90,003
Mortgage-backed securities ("MBS"):				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	658,169	19,849	(1)	678,017
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	931,979	17,630	(320)	949,289
Other securities	419	—	—	419
Total	$1,680,748	$37,601	$(321)	$1,718,028

At September 30, 2013 and December 31, 2012, mortgage-backed securities represented 98.9% and 94.7%, respectively, 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").

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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
September 30, 2013

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

	September 30, 2013					
	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	$212,138	$(925)	$14	$(1)	$212,152	$(926)
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	922,778	(40,928)	17,302	(474)	940,080	(41,402)
Total	$1,134,916	$(41,853)	$17,316	$(475)	$1,152,232	$(42,328)

	December 31, 2012					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities ("MBS"):						
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$17	$—	$8	$(1)	$25	$(1)
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	130,686	(320)	—	—	130,686	(320)
Total	$130,703	$(320)	$8	$(1)	$130,711	$(321)

Management evaluated all of the securities in an unrealized loss position and concluded that no other-than-temporary-impairment existed at September 30, 2013 or December 31, 2012. The Company had no intention to sell these securities before recovery of their amortized cost and believes it will not be required to sell the securities before the recovery of their amortized cost.

The Company pledges certain securities as collateral for public deposits, securities sold under agreements to repurchase and to secure borrowing capacity at the Federal Reserve Bank, if needed. The fair value of available-for-sale investment securities pledged as collateral totaled $188.6 million at September 30, 2013 and $89.2 million December 31, 2012. The increase of pledged available-for-sale investment securities was primarily attributable to the increase in securities sold under agreements to repurchase during the nine months ended September 30, 2013. Certain investment securities may also be pledged as collateral should the Company utilize its line of credit at the FHLB of Des Moines; however, no investment securities were pledged for this purpose at September 30, 2013 or December 31, 2012.

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The table below summarizes the contractual maturities, as of the last scheduled repayment date, of the available-for-sale investment portfolio as of September 30, 2013 (in thousands):

	Amortized Cost	Fair Value
Due in one year or less	$—	$—
Due after one year through five years	20,101	20,107
Due after five years through ten years	206,538	206,575
Due after ten years	1,684,489	1,662,861
Other securities	419	419
Total investment securities available-for-sale	$1,911,547	$1,889,962

Actual maturities of mortgage-backed securities may differ from contractual maturities depending on the repayment characteristics and experience of the underlying financial instruments. The estimated weighted average life of the available-for-sale mortgage-backed securities portfolio was 4.4 years as of September 30, 2013 and 3.4 years as of December 31, 2012. This estimate is based on assumptions and actual results may differ. Other securities of $0.4 million have no stated contractual maturity date as of September 30, 2013.

Held-to-maturity

At September 30, 2013 and December 31, 2012 the Company held $664.7 million and $577.5 million of held-to-maturity investment securities, respectively. During the first quarter of 2012 the Company transferred securities with a fair value of $754.1 million from an available-for-sale classification to the held-to-maturity classification. During the nine months ended September 30, 2013, the Company purchased $244.5 million of held-to-maturity investment securities. Held-to-maturity investment securities are summarized as follows as of the dates indicated (in thousands):

	September 30, 2013			
	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	$530,406	$3,613	$(555)	$533,464
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	134,311	142	(3,339)	131,114
Total investment securities held-to-maturity	$664,717	$3,755	$(3,894)	$664,578

	December 31, 2012			
	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	$577,486	$7,065	$—	$584,551
Total investment securities held-to-maturity	$577,486	$7,065	$—	$584,551

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The table below summarizes the contractual maturities, as of the last scheduled repayment date, of the held-to-maturity investment portfolio at September 30, 2013 (in thousands):

	Amortized Cost	Fair Value
Due in one year or less	$—	$—
Due after one year through five years	—	—
Due after five years through ten years	19,012	19,235
Due after ten years	645,705	645,343
Other securities	—	—
Total investment securities held-to-maturity	$664,717	$664,578

The carrying value of held-to-maturity investment securities pledged as collateral totaled $54.4 million and $127.9 million at September 30, 2013 and December 31, 2012, respectively. Actual maturities of mortgage-backed securities may differ from scheduled maturities depending on the repayment characteristics and experience of the underlying financial instruments. The estimated weighted average expected life of the held-to-maturity mortgage-backed securities portfolio as of September 30, 2013 and December 31, 2012 was 4.3 and 3.8 years, respectively. This estimate is based on assumptions and actual results may differ.

Note 4 Loans

The loan portfolio is comprised of new loans originated by the Company and loans that were acquired in connection with the Company's acquisitions of Bank of Choice and Community Banks of Colorado in 2011, and Hillcrest Bank and Bank Midwest in 2010. The majority of the loans acquired in the Hillcrest Bank and Community Banks of Colorado transactions are covered by loss sharing agreements with the FDIC, and covered loans are presented separately from non-covered loans due to the FDIC loss sharing agreements associated with these loans. Covered loans comprised 21.0% of the total loan portfolio at September 30, 2013, compared to 33.2% of the total loan portfolio at December 31, 2012.

The table below shows the loan portfolio composition including carrying value by segment of loans accounted for under ASC Topic 310-30 Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality and loans not accounted for under this guidance, which includes our originated loans. The table also shows the amounts covered by the FDIC loss sharing agreements as of September 30, 2013 and December 31, 2012. The carrying value of loans are net of discounts on loans excluded from Accounting Standards Codification ("ASC") Topic 310-30 , and fees and costs of $15.0 million and $20.4 million as of September 30, 2013 and December 31, 2012, respectively (in thousands):

	September 30, 2013				
	ASC 310-30 Loans	Non 310-30 Loans	Total Loans	% of Total	
Commercial	$68,250	$272,114	$340,364	19.5	%
Commercial real estate	325,701	288,752	614,453	35.3	%
Agriculture	37,882	117,464	155,346	8.9	%
Residential real estate	72,409	523,160	595,569	34.2	%
Consumer	8,768	28,313	37,081	2.1	%
Total	$513,010	$1,229,803	$1,742,813	100.0	%
Covered	$309,380	$56,966	$366,346	21.0	%
Non-covered	203,630	1,172,837	1,376,467	79.0	%

Total	$513,010	$1,229,803	$1,742,813	100.0	%

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	December 31, 2012				
	ASC 310-30 Loans	Non 310-30 Loans	Total Loans	% of Total	
Commercial	$83,169	$187,419	$270,588	14.8	%
Commercial real estate	566,035	238,964	804,999	43.9	%
Agriculture	47,733	125,674	173,407	9.5	%
Residential real estate	106,100	427,277	533,377	29.1	%
Consumer	18,984	31,347	50,331	2.7	%
Total	$822,021	$1,010,681	$1,832,702	100.0	%
Covered	$527,948	$80,274	$608,222	33.2	%
Non-covered	294,073	930,407	1,224,480	66.8	%
Total	$822,021	$1,010,681	$1,832,702	100.0	%

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. All loans accounted for under ASC 310-30 were classified as performing assets at December 31, 2012, regardless of past due status, as the carrying value of all of the respective pools' cash flows were considered estimable. During the nine months ended September 30, 2013, the Company determined that the cash flows of one covered commercial and industrial loan pool, with a balance of $16.9 million at September 30, 2013, were no longer reasonably estimable, and in accordance with the guidance in ASC 310-30, this pool was put on non-accrual status. Interest income was recognized on all accruing loans accounted for under ASC 310-30 through accretion of the difference between the carrying value of the loans and the expected cash flows.

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Pooled loans accounted for under ASC 310-30 that are 90 days or more past due and still accreting are generally considered to be performing and are included in loans 90 days or more past due and still accruing. At September 30, 2013 and December 31, 2012, $14.0 million and $23.1 million, respectively, of loans excluded from the scope of ASC 310-30 were on non-accrual and $16.9 million of loans accounted for under ASC 310-30 were on non-accrual status at September 30, 2013. Loan delinquency for all loans is shown in the following tables at September 30, 2013 and December 31, 2012, respectively (in thousands):

	Total Loans September 30, 2013							
	30-59 days past due	60-89 days past due	Greater than 90 days past due	Total past due	Current	Total loans	Loans > 90 days past due and still accruing	Non-accrual
Loans excluded from ASC 310-30								
Commercial	$410	$57	$448	$915	$271,199	$272,114	$—	$1,288
Commercial real estate								
Construction	—	—	—	—	1,652	1,652	—	—
Acquisition/development	46	—	148	194	7,900	8,094	148	1
Multifamily	952	—	—	952	7,384	8,336	—	1,129
Owner-occupied	154	17	—	171	88,846	89,017	—	728
Non owner-occupied	116	—	4,643	4,759	176,894	181,653	—	4,643
Total commercial real estate	1,268	17	4,791	6,076	282,676	288,752	148	6,501
Agriculture	84	—	—	84	117,380	117,464	—	203
Residential real estate								
Senior lien	1,043	132	1,230	2,405	468,089	470,494	—	5,160
Junior lien	262	24	132	418	52,248	52,666	—	591
Total residential real estate	1,305	156	1,362	2,823	520,337	523,160	—	5,751
Consumer	427	8	24	459	27,854	28,313	21	251
Total loans excluded from ASC 310-30	3,494	238	6,625	10,357	1,219,446	1,229,803	169	13,994
Covered loans excluded from ASC 310-30	186	53	425	664	56,302	56,966	—	2,403
Non-covered loans excluded from ASC 310-30	3,308	185	6,200	9,693	1,163,144	1,172,837	169	11,591
Total loans excluded from ASC 310-30	3,494	238	6,625	10,357	1,219,446	1,229,803	169	13,994
Loans accounted for under ASC 310-30								
Commercial	325	564	5,000	5,889	62,361	68,250	4,964	16,857
Commercial real estate	12,943	8,731	52,773	74,447	251,254	325,701	52,773	—
Agriculture	3,289	—	2,669	5,958	31,924	37,882	2,669	—
Residential real estate	1,349	271	1,907	3,527	68,882	72,409	1,907	—
Consumer	585	6	11	602	8,166	8,768	11	—
Total loans accounted for under ASC 310-30	18,491	9,572	62,360	90,423	422,587	513,010	62,324	16,857

Covered loans accounted for under ASC 310-30	11,433	9,199	51,115	71,747	237,633	309,380	51,079	16,857
Non-covered loans accounted for under ASC 310-30	7,058	373	11,245	18,676	184,954	203,630	11,245	—
Total loans accounted for under ASC 310-30	18,491	9,572	62,360	90,423	422,587	513,010	62,324	16,857
Total loans	$21,985	$9,810	$68,985	$100,780	$1,642,033	$1,742,813	$62,493	$30,851
Covered loans	$11,619	$9,252	$51,540	$72,411	$293,935	$366,346	$51,079	$19,260
Non-covered loans	10,366	558	17,445	28,369	1,348,098	1,376,467	11,414	11,591
Total loans	$21,985	$9,810	$68,985	$100,780	$1,642,033	$1,742,813	$62,493	$30,851

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	Total Loans December 31, 2012							
	30-59 days past due	60-89 days past due	Greater than 90 days past due	Total past due	Current	Total loans	Loans > 90 days past due and still accruing	Non-accrual
Loans excluded from ASC 310-30								
Commercial	$846	$148	$1,122	$2,116	$185,303	$187,419	$—	$4,500
Commercial real estate								
Construction	—	—	—	—	3,915	3,915	—	—
Acquisition/development	1,948	—	—	1,948	8,485	10,433	—	75
Multifamily	—	—	34	34	13,387	13,421	—	237
Owner-occupied	97	106	1,074	1,277	56,490	57,767	—	3,365
Non owner-occupied	—	122	5,123	5,245	148,183	153,428	—	7,992
Total commercial real estate	2,045	228	6,231	8,504	230,460	238,964	—	11,669
Agriculture	33	40	11	84	125,590	125,674	—	251
Residential real estate								
Senior lien	1,261	119	1,825	3,205	373,243	376,448	22	5,815
Junior lien	181	—	110	291	50,538	50,829	—	593
Total residential real estate	1,442	119	1,935	3,496	423,781	427,277	22	6,408
Consumer	447	48	3	498	30,849	31,347	3	291
Total loans excluded from ASC 310-30	4,813	583	9,302	14,698	995,983	1,010,681	25	23,119
Covered loans excluded from ASC 310-30	75	51	2,062	2,188	78,086	80,274	—	6,045
Non-covered loans excluded from ASC 310-30	4,738	532	7,240	12,510	917,897	930,407	25	17,074
Total loans excluded from ASC 310-30	4,813	583	9,302	14,698	995,983	1,010,681	25	23,119
Loans accounted for under ASC 310-30								
Commercial	521	563	5,621	6,705	76,464	83,169	5,621	—
Commercial real estate	10,060	3,928	129,656	143,644	422,391	566,035	129,656	—
Agriculture	1,247	16	2,768	4,031	43,702	47,733	2,768	—
Residential real estate	1,247	207	5,463	6,917	99,183	106,100	5,463	—
Consumer	297	327	3,253	3,877	15,107	18,984	3,253	—
Total loans accounted for under ASC 310-30	13,372	5,041	146,761	165,174	656,847	822,021	146,761	—
Covered loans accounted for under ASC 310-30	9,855	3,613	116,883	130,351	397,597	527,948	116,883	—
Non-covered loans accounted for under ASC 310-30	3,517	1,428	29,878	34,823	259,250	294,073	29,878	—
	13,372	5,041	146,761	165,174	656,847	822,021	146,761	—

Total loans accounted for under ASC 310-30								
Total loans	$18,185	$5,624	$156,063	$179,872	$1,652,830	$1,832,702	$146,786	$23,119
Covered loans	$9,930	$3,664	$118,945	$132,539	$475,683	$608,222	$116,883	$6,045
Non-covered loans	8,255	1,960	37,118	47,333	1,177,147	1,224,480	29,903	17,074
Total loans	$18,185	$5,624	$156,063	$179,872	$1,652,830	$1,832,702	$146,786	$23,119

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Credit exposure for all loans as determined by the Company's internal risk rating system was as follows as of September 30, 2013 and December 31, 2012, respectively (in thousands):

	Total Loans September 30, 2013				
	Pass	Special Mention	Substandard	Doubtful	Total
Loans excluded from ASC 310-30					
Commercial	$225,067	$8,353	$38,612	$82	$272,114
Commercial real estate					
Construction	1,652	—	—	—	1,652
Acquisition/development	1,593	2,646	3,855	—	8,094
Multifamily	7,207	—	1,097	32	8,336
Owner-occupied	83,532	1,998	3,487	—	89,017
Non owner-occupied	140,405	32,143	9,105	—	181,653
Total commercial real estate	234,389	36,787	17,544	32	288,752
Agriculture	115,618	1,084	762	—	117,464
Residential real estate					
Senior lien	461,003	1,547	7,467	477	470,494
Junior lien	50,113	203	2,350	—	52,666
Total residential real estate	511,116	1,750	9,817	477	523,160
Consumer	28,057	—	250	6	28,313
Total loans excluded from ASC 310-30	1,114,247	47,974	66,985	597	1,229,803
Covered loans excluded from ASC 310-30	27,826	3,557	25,133	450	56,966
Non-covered loans excluded from ASC 310-30	1,086,421	44,417	41,852	147	1,172,837
Total loans excluded from ASC 310-30	1,114,247	47,974	66,985	597	1,229,803
Loans accounted for under ASC 310-30					
Commercial	25,073	2,865	39,520	792	68,250
Commercial real estate	134,979	11,757	170,988	7,977	325,701
Agriculture	26,883	1,724	9,275	—	37,882
Residential real estate	49,444	1,610	21,355	—	72,409
Consumer	7,515	504	749	—	8,768
Total loans accounted for under ASC 310-30	243,894	18,460	241,887	8,769	513,010
Covered loans accounted for under ASC 310-30	128,530	8,146	166,859	5,845	309,380
Non-covered loans accounted for under ASC 310-30	115,364	10,314	75,028	2,924	203,630
Total loans accounted for under ASC 310-30	243,894	18,460	241,887	8,769	513,010
Total loans	$1,358,141	$66,434	$308,872	$9,366	$1,742,813
Total covered	$156,356	$11,703	$191,992	$6,295	$366,346
Total non-covered	1,201,785	54,731	116,880	3,071	1,376,467
Total loans	$1,358,141	$66,434	$308,872	$9,366	$1,742,813

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	Total Loans December 31, 2012				
	Pass	Special Mention	Substandard	Doubtful	Total
Loans excluded from ASC 310-30					
Commercial	$137,537	$9,776	$38,696	$1,410	$187,419
Commercial real estate					
Construction	3,915	—	—	—	3,915
Acquisition/development	6,727	—	3,706	—	10,433
Multifamily	8,409	3,798	1,201	13	13,421
Owner-occupied	44,129	4,006	9,632	—	57,767
Non owner-occupied	104,307	29,394	19,411	316	153,428
Total commercial real estate	167,487	37,198	33,950	329	238,964
Agriculture	120,471	1,359	3,844	—	125,674
Residential real estate					
Senior lien	365,571	2,240	8,106	531	376,448
Junior lien	48,359	251	2,214	5	50,829
Total residential real estate	413,930	2,491	10,320	536	427,277
Consumer	31,050	—	276	21	31,347
Total loans excluded from ASC 310-30	870,475	50,824	87,086	2,296	1,010,681
Covered loans excluded from ASC 310-30	32,117	9,974	36,427	1,756	80,274
Non-covered loans excluded from ASC 310-30	838,358	40,850	50,659	540	930,407
Total loans excluded from ASC 310-30	870,475	50,824	87,086	2,296	1,010,681
Loans accounted for under ASC 310-30					
Commercial	29,719	3,628	42,101	7,721	83,169
Commercial real estate	162,122	60,787	329,869	13,257	566,035
Agriculture	34,599	1,242	11,892	—	47,733
Residential real estate	57,697	6,614	41,789	—	106,100
Consumer	14,489	723	3,772	—	18,984
Total loans accounted for under ASC 310-30	298,626	72,994	429,423	20,978	822,021
Covered loans accounted for under ASC 310-30	159,430	57,056	292,174	19,288	527,948
Non-covered loans accounted for under ASC 310-30	139,196	15,938	137,249	1,690	294,073
Total loans accounted for under ASC 310-30	298,626	72,994	429,423	20,978	822,021
Total loans	$1,169,101	$123,818	$516,509	$23,274	$1,832,702
Total covered	$191,547	$67,030	$328,601	$21,044	$608,222
Total non-covered	977,554	56,788	187,908	2,230	1,224,480
Total loans	$1,169,101	$123,818	$516,509	$23,274	$1,832,702

Impaired Loans

Loans are considered to be impaired when it is probable that the Company will not be able to collect all amounts due in accordance with the contractual terms of the loan agreement. Included in impaired loans are loans excluded from ASC 310-30 on non-accrual status and troubled debt restructurings ("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 cash flows using the loan's initial contractual effective interest rate or the fair value of the collateral less selling costs for collateral dependent loans. At September 30, 2013, the Company measured $14.8 million of impaired loans using discounted cash flows and the loan's initial contractual effective interest rate and $4.7 million of impaired loans based on the fair value of the collateral less selling costs.

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$9.5 million of impaired loans that individually are less than $250 thousand each, are measured through our general ALL reserves due to their relatively small size.

At September 30, 2013, the Company’s recorded investment in impaired loans was $29.1 million, $8.4 million of which was covered by loss sharing agreements. Impaired loans had a collective related allowance for loan losses allocated to them of $0.7 million at September 30, 2013. Additional information regarding impaired loans at September 30, 2013 is set forth in the table below (in thousands):

	Impaired Loans September 30, 2013				
	Unpaid principal balance	Recorded investment	Allowance for loan losses allocated	Average recorded investment	Interest income recognized
With no related allowance recorded:					
Commercial	$5,114	$5,100	$—	$6,169	$276
Commercial real estate					
Construction	—	—	—	—	—
Acquisition/development	—	—	—	—	—
Multifamily	997	952	—	958	—
Owner-occupied	4,208	3,921	—	4,031	226
Non-owner occupied	6,262	4,941	—	5,188	8
Total commercial real estate	11,467	9,814	—	10,177	234
Agriculture	—	—	—	—	—
Residential real estate					
Senior lien	762	751	—	752	6
Junior lien	—	—	—	—	—
Total residential real estate	762	751	—	752	6
Consumer	—	—	—	—	—
Total impaired loans with no related allowance recorded	17,343	15,665	—	17,098	516
With a related allowance recorded:					
Commercial	2,712	2,570	92	2,744	53
Commercial real estate					
Construction	—	—	—	—	—
Acquisition/development	—	1	—	1	—
Multifamily	184	177	32	187	—
Owner-occupied	843	634	4	668	11
Non-owner occupied	644	632	4	636	14
Total commercial real estate	1,671	1,444	40	1,492	25
Agriculture	244	223	1	224	—
Residential real estate					
Senior lien	7,959	7,166	516	7,310	71
Junior lien	1,924	1,712	17	1,736	40
Total residential real estate	9,883	8,878	533	9,046	111
Consumer	319	295	7	313	3
Total impaired loans with a related allowance recorded	14,829	13,410	673	13,819	192

Total impaired loans	$32,172	$29,075	$673	$30,917	$708

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At September 30, 2012, the Company's recorded investment in impaired loans was $37.6 million, $7.5 million of which was covered by loss sharing agreements. The impaired loans had a collective related allowance for loan losses allocated to them of $2.0 million at September 30, 2012. The table below shows additional information regarding impaired loans at September 30, 2012 (in thousands):

	Impaired Loans September 30, 2012				
	Unpaid principal balance	Recorded investment	Allowance for loan losses allocated	Average recorded investment	Interest income recognized
With no related allowance recorded:					
Commercial	$19,544	$9,521	$—	$13,038	$179
Commercial real estate					
Construction	—	—	—	—	—
Acquisition/development	6,904	799	—	830	27
Multifamily	198	191	—	191	—
Owner-occupied	5,814	5,450	—	5,455	118
Non owner-occupied	7,050	6,504	—	5,823	64
Total commercial real estate	19,966	12,944	—	12,299	209
Agriculture	185	178	—	181	1
Residential real estate					
Senior lien	6,616	6,169	—	6,241	94
Junior lien	996	671	—	675	4
Total residential real estate	7,612	6,840	—	6,916	98
Consumer	206	193	—	195	1
Total impaired loans with no related allowance recorded	47,513	29,676	—	32,629	488
With a related allowance recorded:					
Commercial	2,066	2,065	1,091	2,185	8
Commercial real estate					
Construction	—	—	—	—	—
Acquisition/development	—	—	—	—	—
Multifamily	—	—	—	—	—
Owner-occupied	—	—	—	—	—
Non owner-occupied	5,688	5,123	517	5,284	—
Total commercial real estate	5,688	5,123	517	5,284	—
Agriculture	—	—	—	—	—
Residential real estate					
Senior lien	445	421	421	440	—
Junior lien	271	271	3	271	—
Total residential real estate	716	692	424	711	—
Consumer	—	—	—	—	—
Total impaired loans with a related allowance recorded	8,470	7,880	2,032	8,180	8
Total impaired loans	$55,983	$37,556	$2,032	$40,809	$496

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Troubled debt restructurings

It is the Company's policy to review each prospective credit in order to determine the appropriateness and the adequacy of security or collateral prior to making a loan. In the event of borrower default, the Company seeks recovery in compliance with state 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 troubled debt restructuring ("TDR"). At September 30, 2013 and December 31, 2012, the Company had $14.3 million and $17.7 million, respectively, of accruing TDR's that had been restructured from the original terms in order to facilitate repayment. Of these, $6.0 million and $5.0 million, respectively, were covered by FDIC loss sharing agreements.

Non-accruing TDR's at September 30, 2013 and December 31, 2012 totaled $7.6 million and $12.9 million, respectively. Of these, $1.7 million were covered by the FDIC loss sharing agreements as of September 30, 2013 and $3.6 million were covered by the FDIC loss sharing agreements as of December 31, 2012.

During the nine months ended September 30, 2013, the Company restructured forty-three loans with a recorded investment of $5.5 million to facilitate repayment. Substantially all of the loan modifications were an extension of term and rate modifications. Loan modifications to loans accounted for under ASC 310-30 are not considered troubled debt restructurings. The table below provides additional information related to accruing TDR's at September 30, 2013 and December 31, 2012 (in thousands):

	Accruing TDR's September 30, 2013			
	Recorded investment	Average year-to-date recorded investment	Unpaid principal balance	Unfunded commitments to fund TDR's
Commercial	$10,210	$11,385	$10,475	$4,039
Commercial real estate	930	954	1,009	879
Agriculture	21	20	20	—
Residential real estate	3,085	3,131	3,096	20
Consumer	44	47	44	—
Total	$14,290	$15,537	$14,644	$4,938

	Accruing TDR's December 31, 2012			
	Recorded investment	Average year-to-date recorded investment	Unpaid principal balance	Unfunded commitments to fund TDR's
Commercial	$11,474	$13,171	$11,794	$6,908
Commercial real estate	3,597	3,708	3,734	—
Agriculture	—	—	—	—
Residential real estate	2,458	2,469	2,460	35
Consumer	191	195	191	—

Total	$17,720	$19,543	$18,179	$6,943

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The following table summarizes the Company’s carrying value of non-accrual TDR’s as of September 30, 2013 and December 31, 2012 (in thousands):

	Non - Accruing TDR’s			
	September 30, 2013		December 31, 2012	
	Covered	Non-covered	Covered	Non-covered
Commercial	$89	$655	$1,736	$1,215
Commercial real estate	178	4,439	313	6,823
Agriculture	—	—	—	21
Residential real estate	1,407	605	1,514	958
Consumer	—	248	—	291
Total	$1,674	$5,947	$3,563	$9,308

Accrual of interest is resumed on loans that were on non-accrual at the time of restructuring, only after the loan has performed sufficiently. The Company had two TDRs that had been modified within the past 12 months that defaulted on their restructured terms during the nine months ended September 30, 2013. For purposes of this disclosure, the Company considers “default” to mean 90 days or more past due on principal or interest. The defaulted TDRs were a commercial loan and a consumer loan totaling $328 thousand.

Loans accounted for under ASC Topic 310-30

Loan pools accounted for under ASC Topic 310-30 are periodically remeasured to determine expected future cash flows. In determining the expected cash flows, the timing of cash flows and prepayment assumptions for smaller homogeneous loans are based on statistical models that take into account factors such as the loan interest rate, credit profile of the borrowers, the years in which the loans were originated, and whether the loans are fixed or variable rate loans. Prepayments may be assumed on large loans if circumstances specific to that loan warrant a prepayment assumption. No prepayments were presumed for small homogeneous commercial loans; however, prepayment assumptions are made that consider similar prepayment factors listed above for smaller homogeneous loans. The re-measurement of loans accounted for under ASC 310-30 resulted in the following changes in the carrying amount of accretable yield during the nine months ended September 30, 2013 and 2012 (in thousands):

	September 30, 2013	September 30, 2012
Accretable yield beginning balance	$133,585	$186,494
Reclassification from non-accretable difference	55,351	46,974
Reclassification to non-accretable difference	(5,234)	(8,348)
Accretion	(59,616)	(76,252)
Accretable yield ending balance	$124,086	$148,868

The accretable yield of $124.1 million at September 30, 2013 includes $1.4 million of accretable yield related to the loan pool that was put on non-accrual status during the nine months ended September 30, 2013. This accretable yield is not being accreted to income and its recognition will be deferred until full recovery of the carrying value of this pool is realized.

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Below is the composition of the net book value for loans accounted for under ASC 310-30 at September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013	December 31, 2012
Contractual cash flows	$1,075,652	$1,444,279
Non-accretable difference	(426,101)	(488,673)
Non-accretable difference on retired pools	(12,455)	—
Accretable yield	(124,086)	(133,585)
Loans accounted for under ASC 310-30	$513,010	$822,021

Note 5 Allowance for Loan Losses

The tables below detail the Company's allowance for loan losses ("ALL") and recorded investment in loans as of and for the three and nine months ended September 30, 2013 and 2012 (in thousands):

	Three months ended September 30, 2013					
	Commercial	Commercial real estate	Agriculture	Residential real estate	Consumer	Total
Beginning balance	$2,286	$2,419	$764	$5,907	$471	$11,847
Non 310-30 beginning balance	2,240	2,113	495	4,333	471	9,652
Charge-offs	(401)	—	—	(117)	(276)	(794)
Recoveries	92	17	—	23	75	207
Provision	715	(205)	27	27	186	750
Non 310-30 ending balance	2,646	1,925	522	4,266	456	9,815
ASC 310-30 beginning balance	46	306	269	1,574	—	2,195
Charge-offs	—	—	(221)	(57)	—	(278)
Recoveries	—	—	—	—	—	—
Provision	43	(8)	537	(885)	—	(313)
ASC 310-30 ending balance	89	298	585	632	—	1,604
Ending balance	$2,735	$2,223	$1,107	$4,898	$456	$11,419

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	Nine months ended September 30, 2013					
	Commercial	Commercial real estate	Agriculture	Residential real estate	Consumer	Total
Beginning balance	$2,798	$7,396	$592	$4,011	$583	$15,380
Non 310-30 beginning balance	2,798	3,056	323	4,011	540	10,728
Charge-offs	(1,654)	(943)	—	(741)	(717)	(4,055)
Recoveries	187	129	13	64	224	617
Provision	1,315	(317)	186	932	409	2,525
Non 310-30 ending balance	2,646	1,925	522	4,266	456	9,815
ASC 310-30 beginning balance	—	4,340	269	—	43	4,652
Charge-offs	(407)	(2,796)	(221)	(623)	—	(4,047)
Recoveries	—	—	—	—	—	—
Provision	496	(1,246)	537	1,255	(43)	999
ASC 310-30 ending balance	89	298	585	632	—	1,604
Ending balance	$2,735	$2,223	$1,107	$4,898	$456	$11,419
Ending allowance balance attributable to:						
Non 310-30 loans individually evaluated for impairment	$92	$40	$1	$533	$7	$673
Non 310-30 loans collectively evaluated for impairment	2,554	1,885	521	3,733	449	9,142
ASC 310-30 loans	89	298	585	632	—	1,604
Total ending allowance balance	$2,735	$2,223	$1,107	$4,898	$456	$11,419
Loans:						
Non 310-30 individually evaluated for impairment	$7,670	$11,258	$223	$9,629	$295	$29,075
Non 310-30 collectively evaluated for impairment	264,444	277,494	117,241	513,531	28,018	1,200,728
ASC 310-30 loans	68,250	325,701	37,882	72,409	8,768	513,010
Total loans	$340,364	$614,453	$155,346	$595,569	$37,081	$1,742,813

	Three months ended September 30, 2012					
	Commercial	Commercial real estate	Agriculture	Residential real estate	Consumer	Total
Beginning balance	$3,318	$7,797	$660	$4,872	$647	$17,294
Non 310-30 beginning balance	1,725	3,578	284	3,813	635	10,035
Charge-offs	(297)	(35)	—	(351)	(566)	(1,249)
Recoveries	279	(195)	4	(47)	(41)	—
Provision	842	(15)	(22)	274	521	1,600
Non 310-30 ending balance	2,549	3,333	266	3,689	549	10,386
ASC 310-30 beginning balance	1,593	4,219	376	1,059	12	7,259
Charge-offs	(1)	(3,500)	(144)	(169)	—	(3,814)
Recoveries	—	2	—	—	—	2
Provision	(1,592)	6,012	—	(747)	(10)	3,663
ASC 310-30 ending balance	—	6,733	232	143	2	7,110
Ending balance	$2,549	$10,066	$498	$3,832	$551	$17,496

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	Nine months ended September 30, 2012					
	Commercial	Commercial real estate	Agriculture	Residential real estate	Consumer	Total
Beginning balance	$2,959	$3,389	$282	$4,121	$776	$11,527
Non 310-30 beginning balance	1,597	3,389	154	3,423	776	9,339
Charge-offs	(3,056)	(2,448)	(8)	(815)	(1,161)	(7,488)
Recoveries	279	24	4	49	252	608
Provision	3,729	2,368	116	1,032	682	7,927
Non 310-30 ending balance	2,549	3,333	266	3,689	549	10,386
ASC 310-30 beginning balance	1,362	—	128	698	—	2,188
Charge-offs	(216)	(11,643)	(144)	(729)	(19)	(12,751)
Recoveries	—	275	—	—	—	275
Provision	(1,146)	18,101	248	174	21	17,398
ASC 310-30 ending balance	—	6,733	232	143	2	7,110
Ending balance	$2,549	$10,066	$498	$3,832	$551	$17,496
Ending allowance balance attributable to:						
Non 310-30 loans individually evaluated for impairment	$1,091	$517	$—	$424	$—	$2,032
Non 310-30 loans collectively evaluated for impairment	1,458	2,816	266	3,265	549	8,354
ASC 310-30 loans	—	6,733	232	143	2	7,110
Total ending allowance balance	$2,549	$10,066	$498	$3,832	$551	$17,496
Loans:						
Non 310-30 individually evaluated for impairment	$11,586	$18,067	$178	$7,532	$193	$37,556
Non 310-30 collectively evaluated for impairment	156,977	229,786	105,134	398,888	30,149	920,934
ASC 310-30 loans	97,664	664,771	55,944	126,294	26,363	971,036
Total loans	$266,227	$912,624	$161,256	$532,714	$56,705	$1,929,526

In evaluating the loan portfolio for an appropriate ALL level, non-impaired loans that were not accounted for under ASC 310-30 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 applying loss ratios and determining applicable subjective adjustments to the ALL. The application of subjective adjustments was based upon qualitative risk factors, including economic trends and conditions, industry conditions, asset quality, loss trends, lending management, portfolio growth and loan review/internal audit results.

The Company charged-off $0.6 million and $3.4 million, net of recoveries, of non 310-30 loans during the three and nine months ended September 30, 2013, respectively. The Company had previously provided specific reserves for $0.4 million and $1.7 million of the net charge-offs realized during the three and nine months ended September 30, 2013. Improvements in credit quality trends of the non 310-30 loan portfolio were seen in both past due and non-performing loans during the three and nine months ended September 30, 2013, and, through management's evaluation discussed above, resulted in a provision for loan losses on the non 310-30 loans of $0.8 million and $2.5 million, respectively.

During the nine months ended September 30, 2013, the Company re-estimated the expected cash flows of the loan pools accounted for under ASC 310-30 utilizing the same cash flow methodology used at the time of acquisition. The re-measurement resulted in a net reversal of impairment of $0.3 million and a net impairment of $1.0 million for the three and nine months ended September 30, 2013, respectively. During the three months ended September 30, 2013, the re-measurements resulted in a reversal of $0.9 million of impairment expense in the residential real estate segment and net impairments of $0.5 million in the agriculture segment. During the nine months ended September 30, 2013, the re-measurements resulted in a reversal of previous

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valuation allowances of $1.2 million in the commercial real estate segment and net impairments of $1.3 million, $0.5 million and $0.5 million in the residential real estate, agriculture, and commercial segments, respectively.

During the three and nine months ended September 30, 2012, the Company's re-measurement of expected future cash flows of ASC 310-30 loans resulted in impairments of $3.7 million and $17.4 million, respectively. The commercial real estate pool was the primary contributor to the total impairment with impairments of $6.0 million and $18.1 million for the three and nine months ended September 30, 2012, respectively. As a result of gross cash flow improvements during the three and nine months ended September 30, 2012, the re-measurements resulted in a reversal of $1.6 million and $1.1 million, respectively, of impairment expense in the commercial segment.

During the three and nine months ended September 30, 2012, the Company recorded $1.6 million and $7.9 million, respectively, of provision for loan losses for loans not accounted for under ASC 310-30 primarily to provide for changes in credit risk inherent in new loan originations and provide for charge-offs. The Company charged off $6.9 million, net of recoveries, of non 310-30 loans during the nine months ended September 30, 2012, $2.4 million of which was the result of a large commercial and industrial loan that was not considered indicative of future charge-offs in the commercial and industrial loan category. The Company also charged off $2.4 million of commercial real estate loans, primarily the result of three commercial real estate loans outside of the core market areas totaling $2.1 million.

Note 6 FDIC Indemnification Asset

Under the terms of the purchase and assumption agreement with the FDIC with regard to the Hillcrest Bank and Community Banks of Colorado acquisitions, the Company is reimbursed for a portion of the losses incurred on covered assets. As covered assets are resolved, whether it be through repayment, short sale of the underlying collateral, the foreclosure on and sale of collateral, or the sale or charge-off of loans or OREO, any differences between the carrying value of the covered assets versus the payments received during the resolution process, that are reimbursable by the FDIC, are recognized in the consolidated statements of operations as FDIC loss sharing income. Any gains or losses realized from the resolution of covered assets reduce or increase, respectively, the amount recoverable from the FDIC.

Below is a summary of the activity related to the FDIC indemnification asset during the nine months ended September 30, 2013 and 2012 (in thousands):

	For the nine months ended	
	September 30, 2013	September 30, 2012
Balance at beginning of period	$86,923	$223,402
Accretion	(11,843)	(9,165)
FDIC portion of charge-offs exceeding fair value marks	7,466	8,100
Reduction for claims filed	(24,460)	(109,142)
Balance at end of period	$58,086	$113,195

During the nine months ended September 30, 2013, the Company recognized $11.8 million of negative accretion on the FDIC indemnification asset, and reduced the carrying value of the FDIC indemnification asset by $24.5 million as a result of claims filed with the FDIC. The negative accretion resulted from an overall increase in actual and expected cash flows on the underlying covered assets, resulting in lower expected reimbursements from the FDIC. The increase in overall expected cash flows from these underlying assets is reflected in increased accretion rates on covered loans and is being recognized over the expected remaining lives of the underlying covered loans as an adjustment to yield. The loss claims filed are subject to review and approval, including extensive audits, by the FDIC or its assigned agents for compliance with the terms in the loss sharing agreements. During the nine months ended September 30, 2013, the Company received $77.0 million in payments from the FDIC.

During the nine months ended September 30, 2012, the Company recognized $9.2 million of negative accretion on the FDIC indemnification asset, and reduced the carrying value of the FDIC indemnification asset by $109.1 million as a result of claims filed with the FDIC.

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Note 7 Other Real Estate Owned

A summary of the activity in the OREO balances during the nine months ended September 30, 2013 and 2012 is as follows (in thousands):

	For the nine months ended September 30,	
	2013	2012
Beginning balance	$94,808	$120,636
Transfers from loan portfolio, at fair value	32,408	67,741
Impairments	(9,142)	(8,638)
Sales	(54,705)	(57,186)
Gain on sale of OREO, net	7,384	6,792
Ending balance	$70,753	$129,345

The OREO balances include the interests of several outside participating banks totaling $3.8 million at September 30, 2013 and $5.3 million at December 31, 2012, for which an offsetting liability is recorded in other liabilities. It excludes $10.6 million, for both of the respective periods, of the Company’s minority interests in OREO which are held by outside banks where the Company was not the lead bank and does not have a controlling interest, for which the Company maintains a receivable in other assets.

Of the $70.8 million of OREO at September 30, 2013, $44.1 million, or 62.3%, was covered by loss sharing agreements with the FDIC. Any losses on these assets are substantially offset by a corresponding change in the FDIC indemnification asset. During the nine months ended September 30, 2013, the Company sold $54.7 million of OREO and realized net gains on these sales of $7.4 million.

Of the $129.3 million of OREO at September 30, 2012, $64.5 million, or 49.9%, was covered by the loss sharing agreements with the FDIC. During the nine months ended September 30, 2012, the Company sold $57.2 million of OREO and realized net gains on these sales of $6.8 million.

Note 8 Deposits

As of September 30, 2013 and December 31, 2012, deposits totaled $4.0 billion and $4.2 billion, respectively. Time deposits decreased from $1.8 billion at December 31, 2012 to $1.5 billion at September 30, 2013. The following table summarizes the Company’s time deposits, based upon contractual maturity, at September 30, 2013 and December 31, 2012, by remaining maturity (in thousands):

	September 30, 2013		December 31, 2012	
	Balance	Weighted Average Rate	Balance	Weighted Average Rate
Three months or less	$341,794	0.58%	$356,446	0.78%
Over 3 months through 6 months	343,463	0.58%	259,097	0.68%
Over 6 months through 12 months	438,725	0.57%	583,209	0.67%
Over 12 months through 24 months	289,159	0.95%	373,283	0.88%
Over 24 months through 36 months	72,360	1.66%	111,599	1.77%
Over 36 months through 48 months	27,653	1.51%	43,967	1.83%
Over 48 months through 60 months	16,275	1.33%	19,278	1.44%
Thereafter	4,961	1.69%	5,839	2.32%
Total time deposits	$1,534,390	0.72%	$1,752,718	0.85%

In connection with the Company’s FDIC-assisted transactions, the FDIC provided Hillcrest Bank, Bank of Choice and Community Banks of Colorado depositors with the right to redeem their time deposits at any time during the life of the time

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deposit, without penalty, unless the depositor accepts new terms. At September 30, 2013 and December 31, 2012, the Company had approximately $82.6 million and $164.3 million, respectively, of time deposits that were subject to penalty-free withdrawals.

The Company incurred interest expense on deposits as follows during the periods indicated (in thousands):

	For the three months ended		For the nine months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Interest bearing demand deposits	$157	$271	$536	$1,007
Money market accounts	872	1,005	2,534	3,076
Savings accounts	56	65	170	226
Time deposits	2,880	5,178	9,407	19,713
Total	$3,965	$6,519	$12,647	$24,022

Note 9 Regulatory Capital

At September 30, 2013 and December 31, 2012, as applicable, NBH Bank, N.A. and the consolidated holding company exceeded all capital ratio requirements under prompt corrective action or other regulatory requirements, as is detailed in the table below (in thousands):

	September 30, 2013								
	Actual			Required to be considered well capitalized (1)			Required to be considered adequately capitalized		
	Ratio		Amount	Ratio		Amount	Ratio		Amount
Tier 1 leverage ratio									
Consolidated	18.5	%	$948,196	N/A		N/A	4	%	$205,349
NBH Bank, N.A.	17.1	%	865,682	10	%	$507,279	4	%	202,912
Tier 1 risk-based capital ratio (2)									
Consolidated	48.0	%	$948,196	6	%	$118,619	4	%	$79,079
NBH Bank, N.A.	44.3	%	865,682	11	%	214,800	4	%	78,109
Total risk-based capital ratio (2)									
Consolidated	48.6	%	$960,415	10	%	$197,698	8	%	$158,158
NBH Bank, N.A.	45.0	%	877,901	12	%	234,328	8	%	156,218

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	December 31, 2012	
	Actual	Required to be