National Bank Holdings Corp
Form 10-K
February 29, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2015

OR

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

For the transition period from to

Commission File Number: 001-35654

NATIONAL BANK HOLDINGS CORPORATION

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices) (Zip Code)

Registrant's telephone, including area code:

(720) 529-3336

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

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

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

None

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

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

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

Indicate by check mark whether the registrant has submitted electronically 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, 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 (do not check if a smaller reporting company)	Smaller Reporting Company

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

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

As of June 30, 2015, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately $724,000,000 based on the closing sale price as reported on the New York Stock Exchange.

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

As of February 25, 2016, NBHC had outstanding 29,463,715 shares of Class A voting common stock with $0.01 par value per share, excluding 834,664 shares of restricted Class A common stock issued but not yet vested.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for its 2016 Annual Meeting of Shareholders to be filed within 120 days of December 31, 2015 will be incorporated by reference into Part III of this form 10-K.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

· 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 joint final rules promulgated by the Federal Reserve Board, Office of the Comptroller of the Currency (the “OCC”) 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 for, 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 realize the anticipated benefits from converted core operating systems without significant change in our client service or risk to our control environment;
- 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;

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

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

- our ability to realize deferred tax assets or the need for a valuation allowance;

- 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.BUSINESS.

Summary

National Bank Holdings Corporation ("NBHC" or the "Company") is a bank holding company that was incorporated in the State of Delaware in June 2009 and is headquartered immediately south of Denver, in Greenwood Village, Colorado. Our primary operations are conducted through our wholly owned subsidiary, NBH Bank, referred to as the "Bank", or "NBH Bank", through which we provide a variety of banking products to both commercial and consumer clients. We service our clients through a network of 97 banking centers, with the majority of those banking centers located in the greater Kansas City area and Colorado, and through online and mobile banking products. As of December 31, 2015, we had $4.7 billion in assets, $2.6 billion in loans, $3.8 billion in deposits and $0.6 billion in shareholders’ equity.

The Company was formed through a private offering of our common stock in October 2009. As part of our goal of becoming a leading regional community bank holding company, we are pursuing a strategy of strong organic growth complemented by selective acquisitions of financial institutions and other complementary businesses. In October 2010, we acquired the failed Hillcrest Bank from the FDIC and began banking operations. To date, we have completed five acquisitions of banks, three of which were FDIC-assisted. During 2015, we completed the acquisition of Pine River Bank Corporation and its bank subsidiary, Pine River Valley Bank (“Pine River”). We have transformed these five banks into one collective banking operation with strong organic growth, prudent underwriting, and meaningful market share with continued opportunity for expansion. Our focus is on building organic growth through strong banking relationships with small- and medium-sized businesses and consumers in our markets. Our long-term business model utilizes our organic development infrastructure, low-risk balance sheet, continuous operational development and a disciplined acquisition strategy to create value and provide attractive returns.

We have a management team consisting of experienced banking executives led by Chairman, President and Chief Executive Officer G. Timothy Laney. Mr. Laney brings over 30 years of banking experience, 24 of which were at Bank of America in a wide range of executive management roles, including serving on Bank of America’s Management Operating Committee. In late 2007, Mr. Laney joined Regions Financial as Senior Executive Vice President and Head of Business Services. Mr. Laney leads our team of executives that have significant experience in operating banks and completing and integrating mergers and acquisitions. Additionally, our Board of Directors is highly accomplished in the banking industry and includes individuals with broad experience operating and working with financial institutions, regulators and governance considerations.

Our Acquisitions

Our banking operations commenced on October 22, 2010, when we acquired selected assets and assumed selected liabilities of Hillcrest Bank of Overland Park, Kansas from the FDIC. Through this transaction, we acquired nine banking centers, which were predominantly located in the greater Kansas City region but also included one banking center in Colorado and two banking centers in Texas. This transaction also included 32 retirement center locations that offered limited-service banking services to residents in retirement communities. On December 31, 2013, we closed all retirement center locations and integrated the servicing of these clients into our banking center network.

On December 10, 2010, we completed our acquisition, without FDIC assistance, of a portion of the franchise of Bank Midwest from Dickinson Financial Corporation, that consisted of select performing loans and client deposits, and included 39 banking centers, 25 of which are in the greater Kansas City region and 14 of which are located elsewhere in Missouri. During 2015, we consolidated three of those banking centers within our network.

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We expanded into the Colorado market through two complementary acquisitions, beginning with the purchase of selected assets and the assumption of selected liabilities of Bank of Choice, a state-chartered commercial bank based in Greeley, Colorado, from the FDIC on July 22, 2011. In connection with this acquisition, we acquired 16 banking centers. On October 21, 2011, we acquired selected assets and assumed selected liabilities of Community Banks of Colorado, a state-chartered bank based in Greenwood Village, Colorado, from the FDIC. In connection with this transaction, we acquired 36 banking centers in Colorado and four in California (and later exited the California banking centers on December 31, 2013). On August 1, 2015, we completed our acquisition of Pine River, a whole bank acquisition, adding 4 additional banking centers to our Community Banks of Colorado network. The Pine River acquisition continued to enhance our penetration into the Colorado market, giving us a combined network of 53 banking centers in that state. During the first quarter of 2016, we announced plans to consolidate seven banking centers in our Community Banks of Colorado footprint during the second quarter of 2016.

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

	Pine River	Community Banks of Colorado	Bank of Choice	Bank Midwest	Hillcrest Bank
Date acquired	August 1, 2015	October 21, 2011	July 22, 2011	December 10, 2010	October 22, 2010
FDIC-assisted	No	Yes	Yes	No	Yes
Loss share	No	Yes(1)	No	No	Yes(2)
Banking centers(3)	4	40	16	39	9 (and 32 retirement centers)
Deposits (millions)	$ 130	$ 1,195	$ 760	$ 2,386	$ 1,234
Assets (millions)	$ 142	$ 1,228	$ 950	$ 2,426	$ 1,377
Primary Market	Colorado	Colorado	Colorado	Greater Kansas City Region	Greater Kansas City Region

(1) Commercial loss-share agreement (terminated November 5, 2015).
(2) Single Family loss-share agreement and Commercial Shared-Loss Agreement (terminated November 5, 2015).
(3) During the fourth quarter of 2013, the four California banking centers acquired with the Community Banks of Colorado acquisition and 32 retirement centers acquired with the Hillcrest Bank acquisition were closed. During 2015, we consolidated three banking centers in our Bank Midwest network, and in the first quarter of 2016 we announced the consolidation of seven banking centers in our Community Banks of Colorado network during the second quarter of 2016.

We believe that we have established critical mass in our current markets and have structured acquisitions that limit our credit risk, which positions us for attractive returns.

Pine River Valley Bank

Through the Pine River acquisition, we acquired assets with a fair value of $142.1 million, including $64.3 million of loans, $64.4 million of cash and investments and $13.4 million of other assets. Liabilities with a fair value of $131.5 million were also assumed, including $130.1 million of deposits and $1.4 million of other liabilities.

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

Our Corporate Restructurings

In connection with the Hillcrest Bank and Bank Midwest acquisitions, we established two newly chartered banks, Hillcrest Bank, N.A. and Bank Midwest, N.A. Subsequently, Bank Midwest, N.A. acquired Bank of Choice and Community Banks of Colorado. In November 2011, we merged Hillcrest Bank, N.A. into Bank Midwest, N.A., consolidating our banking operations under a single charter. On March 26, 2012, we changed our legal name from NBH Holdings Corp. to National Bank Holdings Corporation. We changed the legal name of Bank Midwest, N.A. to NBH Bank, N.A. on May 20, 2012. On October 9, 2015, we announced the termination of the operating agreement between NBH Bank, N.A., and its primary regulator, the OCC. On December 31, 2015, NBH Bank, N.A. converted into a Colorado state-chartered bank while maintaining membership with the Federal Reserve Bank of Kansas City and we changed the legal name of NBH Bank, N.A. to NBH Bank, which we refer to as “NBH Bank” or the “Bank”. Through our subsidiary, NBH Bank, we operate under the following brand names: Bank Midwest in Kansas and Missouri, Community Banks of Colorado in Colorado and Hillcrest Bank in Texas. We believe that conducting our banking operations under a single state charter streamlines our operations and enables us to more effectively and efficiently execute our growth strategy.

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Our Market Area

Our core markets are broadly defined as Colorado and the greater Kansas City region. We are the fifth largest banking center network among Colorado-based banks ranked by deposits as of June 30, 2015 (the last date as of which data are available), according to SNL Financial. In the greater Kansas City MSA, we are the sixth largest banking center network. Other major MSAs in which we operate include Dallas-Fort Worth-Arlington, Texas and Austin-Round Rock, Texas.

The table below describes certain key statistics regarding our presence in these markets as of June 30, 2015 (the last date as of which data are available).

States	Deposit Market Share Rank(1)	Banking Centers(1)	Deposits (millions)(1)	Deposit Market Share(1)
Missouri	10	31	$ 1,768.5	1.3 %
Colorado	15	53	1,406.7	1.2
Kansas	22	11	579.2	1.0

MSAs	Deposit Market Share Rank(1)	Banking Centers(1)	Deposits (millions)(1)	Deposit Market Share(1)
Kansas City, MO-KS	6	26	$ 1,617.3	3.6 %
Denver-Aurora-Lakewood, CO	17	13	524.8	0.8
Saint Joseph, MO-KS	4	4	222.3	10.9
Greeley, CO	7	5	188.5	5.6
Maryville, MO	2	3	141.9	26.0
Kirksville, MO	2	2	127.6	20.2
Glenwood Springs, CO	7	3	107.5	4.4

(1) Note: Excludes our Texas operations and MSAs in which we have less than $100 million in deposits.

Source: SNL Financial as of June 30, 2015, except Banking Centers, which reflects the most recently available data.

We believe that our established presence positions us well for growth opportunities in our markets. We believe that these markets have highly attractive demographic, economic and competitive dynamics that are consistent with our objectives and favorable to executing our organic growth strategy and provide attractive acquisition opportunities. The table below describes certain key demographic statistics regarding our markets.

	Deposits (billions)	# of Businesses (thousands)	Population (millions)	Unemployment Rate(1)	Population Growth(2)	Median Household Income	Top 3 Competitor Combined Deposit Market Share
Denver, CO	$ 67.5	115	2.8	3.2 %	11.3 %	$ 66,682	53 %
Front Range, CO(3)	93.3	183	4.5	3.3	10.8	65,747	53
Kansas City, MO-KS MSA	44.6	76	2.1	3.9	4.2	59,028	42
U.S.				4.8	4.4	55,551	55 (4)

(1) Unemployment data is as of November 30, 2015.
(2) For the period 2010 through 2015.
(3) CO Front Range is a population weighted average of the following Colorado MSAs: Denver, Boulder, Colorado Springs, Fort Collins and Greeley.
(4) Based on U.S. Top 20 MSAs (determined by population).

Source: SNL Financial as of December 31, 2015, except Deposits and Top 3 Competitor Combined Deposit Market Shares, which reflects data as of June 30, 2015.

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An integral component of our foundation and growth strategy has been to capitalize on market opportunities and acquire financial services franchises. Our primary focus has been on markets that we believe are characterized by some or all of the following: (i) attractive demographics with household income and population growth above the national average; (ii) concentration of business activity; (iii) high quality deposit bases; (iv) an advantageous competitive landscape that provides opportunity to achieve meaningful market presence; (v) a substantial number of financial institutions, including troubled financial institutions; (vi) lack of consolidation in the banking sector and corresponding opportunities for add-on transactions; and (vii) markets sizeable enough to support our long-term growth objectives. We structured our business strategy around these criteria because we believed they would provide the best long-term opportunities for growth.

We believe there are opportunities for us to continue to execute our acquisition strategy over the next several years. We also believe there are a number of banks and financial institutions in these markets and complementary markets that would complement our breadth of products and services and benefit from our leadership, operating infrastructure and scale while welcoming our approach to local branding and leadership. We believe private banks are more likely acquisition opportunities for us given the ability to structure a transaction that is aligned with the needs of a closely held company. The table below highlights potential in-footprint acquisition opportunities:

Asset Size Range	# of Banks	Assets ($ billion)	# of Private Banks	Private Assets ($ billion)
$1 billion - $5 billion	24	$ 50.3	15	$ 30.5
$500 million - $1 billion	33	23.6	32	22.7
$250 million - $500 million	88	30.4	88	30
Total opportunities	145	$ 104.3	135	$ 83.6

Source: SNL Financial based on financial information as of September 30, 2015. Includes opportunities in CO, KS and MO.

Our Business Strategy

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

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

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

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- Expansion through organic growth and enhanced product offerings. We believe that our focus on serving consumers and small- to medium-sized businesses, coupled with our enhanced product offerings, will provide an expanded revenue base and new sources of fee income. We conduct regular market and competitive analysis to determine which products and services are best suited for our clients. Our teams also continue to enhance cross-selling strategies in order to deepen client relationships, which we believe will further increase our organic loan origination volumes and attract new transaction accounts that offer lower cost of funds and higher fee generating activity.

- Continue to strengthen profitability through organic growth and operating efficiencies. We have consolidated our acquired banks under one charter and continue to utilize our comprehensive underwriting and risk management processes while maintaining local branding, leadership and decision making. We have integrated all of our acquired banks onto one operating platform that has allowed us to support growth and realize operating efficiencies throughout our enterprise. Our growth strategy is focused on organic initiatives in order to accelerate our growth in profitability. Key priorities to strengthen profitability include the continued ramp-up of loan production, lowering our cost of funds, implementing additional fee-based business initiatives and further enhancing operational efficiencies.

- Pursue disciplined acquisitions. We expect that acquisitions will continue to be a component of our growth strategy and we intend to carefully select acquisition opportunities that we believe have stable core franchises, have significant local market share or will add asset generation capabilities or fee income streams while structuring the transactions to limit risk. Further, we seek transactions that offer opportunities for clear financial benefits with valuations that have acceptable levels of earnings accretion, tangible book value dilution/earn-back, and internal rates of return. We believe that we are a skilled acquirer with a team of executives and board members that have significant experience completing and integrating mergers and acquisitions. We believe that we utilize a comprehensive and conservative due diligence process that is strongly focused on areas of risk and opportunity. We seek to acquire financial services franchises in markets that exhibit attractive demographic attributes and we believe that our focus on attractive markets will provide long-term opportunities for organic growth. Our focus is on our primary markets of Colorado, Missouri and Kansas, including whole banks and banking center divestitures. Additionally, we seek specialty businesses to complement our asset generation and fee income business while leveraging our risk management, operational and control infrastructure. We may utilize our stock in addition to cash as consideration in future acquisitions.

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

Products and Services

Through NBH Bank, our primary business is to offer a full range of traditional banking products and financial services to both our commercial and consumer clients, who are predominantly located in Colorado, Missouri, Kansas and

Texas. We conduct our banking business through 97 banking centers, with 53 of those located in Colorado, 42 in the greater Kansas City region and two in Texas. Our distribution network also includes 106 ATMs, fully integrated online banking and mobile banking services. We offer a full array of lending products to cater to our clients' needs, including, but not limited to, small business loans, equipment loans, term loans, asset-backed loans, letters of credit, commercial lines of credit, commercial real estate loans, small business loans, residential mortgage loans, home equity and consumer loans. We also offer traditional depository products, including commercial and consumer checking accounts, non-interest-bearing demand accounts, money market deposit accounts, savings accounts and time deposit accounts and treasury management services.

We offer a high level of personalized service to our clients through our relationship managers and banking center associates. We believe that a banking relationship that includes multiple services, such as loan and deposit services, online and mobile banking solutions and treasury management products and services, is the key to profitable and long-lasting client relationships and that our local focus and decision making provide us with a competitive advantage over banks that do not have these attributes.

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Lending Activities

Our primary strategic objective is to serve small- to medium-sized businesses in our markets with a variety of unique and useful services, including a full array of commercial, mortgage and non-mortgage loans, while maintaining a strong and disciplined credit culture. Our small business bankers and commercial bankers focus on small- and medium-sized businesses with an advisory approach that emphasizes understanding the client's business and offering a complete suite of loan, deposit and treasury management products and services. We have invested significantly in our small business and commercial banking capabilities, attracting experienced small business and commercial bankers from competing institutions in our markets, which have resulted in significant growth in our strategic loan portfolio. To complement these efforts, we created a focused specialty banking group, which includes NBH Capital Finance (providing structured and asset-based loans to middle market companies), energy, agriculture, treasury management, government and non-profit banking, and SBA lending. Our consumer bankers focus on knowing their individual clients in order to best meet their financial needs, offering a full complement of loan, deposit and online and mobile banking solutions. We strive to do business in the areas served by our banking centers, which is also where our marketing is focused, and the vast majority of our new loan clients are located in existing market areas.

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

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

Commercial and Industrial Loans—We originate commercial and industrial loans and leases, including working capital loans, equipment loans, structured and asset-based loans, government and non-profit loans, energy loans and other commercial loans and leases. The terms of these loans vary by purpose and by type of underlying collateral, if any.

Working capital loans generally have terms of up to one year, are usually secured by accounts receivable and inventory and carry the personal guarantees of the principals of the business. Equipment loans are generally secured by the financed equipment at advance rates that we believe are appropriate for the equipment type. As of December 31, 2015, substantially all of our commercial and industrial loans were secured.

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Real Estate Loans—Our real estate loans consist of commercial real estate loans and residential real estate loans. Commercial real estate loans, or CRE loans, consist of loans to finance the purchase of commercial real estate, loans to support working capital needs of businesses that are secured by commercial real estate and construction and development loans. Our CRE loans include loans on 1-4 family construction properties, commercial properties such as office buildings, retail centers, or free-standing commercial properties, multi-family and investor properties and raw land development loans.

CRE loans are typically secured by a first lien mortgage on multi-family, office, warehouse, hotel or retail property plus assignments of all leases related to the properties. These loans are generally divided into two categories: loans to commercial entities that will occupy most or all of the property (described as "owner-occupied") and non-owner occupied loans. In the case of owner-occupied loans, we are usually the primary provider of financial services for the company and/or the principals. Underwriting guidelines generally require borrowers to contribute cash equity that results in an 80% or less loan-to-value ratio on owner-occupied properties and a 75% or less loan-to-value ratio on non-owner occupied properties.

We seek to reduce the risks associated with commercial mortgage lending by focusing our lending in our primary markets. Outside of owner-occupied CRE loans that are repaid through the cash flows generated by the borrowers' business operations, commercial real estate is not a primary focus in our lending strategy. Although non-owner occupied commercial real estate is not a primary focus of our lending strategy, we have developed teams in each our markets of dedicated CRE bankers who possess the depth and breadth of both market knowledge and industry expertise, which serves to further mitigate risk of this product type.

Residential real estate loans consist of loans secured by the primary or secondary residence of the borrower. These loans consist of closed loans, which are typically amortizing over a 10 to 30 year term. We also offer open-ended home equity loans, which are loans secured by secondary financing on residential real estate. Our loan-to-value benchmark for these loans is below 80% at inception along with satisfactory debt-to-income ratios. We do not originate or purchase negatively amortizing or sub-prime residential loans.

Agricultural Loans—Agricultural loans consist of loans to farmers and other agricultural businesses to finance agricultural production. The principal source of repayment on these loans is the crops sold at the end of the harvest season. Agricultural loans include term loans to finance agricultural land and equipment, as well as short-term lines to support crop production. Loans to finance agricultural land are amortized over 15 to 25 years, typically with three to five year maturities. Loans to finance agricultural equipment are amortized over five to ten years, typically with three to five year maturities. Crop production loans are typically revolving lines of credit generally with maturities of one year. Pricing may be fixed rate or variable rate priced over LIBOR or the prime rate as published in the Wall Street Journal.

Consumer Loans—We offer a variety of consumer loans, including loans to banking center clients for consumer and business purposes, to meet client demand and to increase the yield on our loan portfolio. All of our newly originated loans are on a direct to consumer basis. Consumer loans are structured as small personal lines of credit and term loans, with the latter generally bearing interest at a higher rate and having a shorter term than residential mortgage loans. Consumer loans are both secured (for example by deposit accounts, brokerage accounts or automobiles) and unsecured and carry either a fixed rate or variable rate. Examples of our consumer loans include home improvement loans not secured by real estate, new and used automobile loans and personal lines of credit.

Deposit Products and Other Funding Sources

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

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Financial Products & Services

In addition to traditional banking activities, we provide a wide array of treasury management solutions to our clients, including: online and mobile banking, wire transfers, automated clearing house services, electronic bill payment, lock box services, remote deposit capture services, merchant processing services, cash vault, controlled disbursements, positive pay and other auxiliary services (including account reconciliation, collections, repurchase accounts, zero balance accounts and sweep accounts).

Competition

The banking landscape in our primary markets of Colorado, Kansas, Missouri and Texas is highly competitive and quite fragmented, with many small banks having limited market share while the large out-of-state national and super-regional banks control the majority of deposits and profitable banking relationships. We compete actively with national, regional and local financial services providers, including banks, thrifts, credit unions, mortgage bankers and finance companies. Our primary banking competitors in the Kansas City MSA are UMB Bank, Commerce Bank, Bank of America, U.S. Bank, Valley View, Capitol Federal, Central Bancompany, Country Club Bank, Wells Fargo, Lauritzen (First National Bank), NASB Financial Inc., and Enterprise Financial Services Corp., and our largest competitors in Colorado are Wells Fargo, FirstBank, U.S. Bank, JPMorgan Chase, BNP Paribas (Bank of the West), KeyBank, Zions Bank (Vectra Bank of Colorado), Lauritzen (First National Bank), Pinnacle Bancorp (Bank of Colorado), Alpine Bank, Compass Bank (BBVA Compass) and CoBiz Financial.

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

We recognize that there are banks with which we compete that have greater financial resources, access to more capital and higher lending capacity than we do and offer a wider range of deposit and lending instruments than we do. However, given our existing capital base, we expect to be able to meet the majority of small- to medium-sized business and consumer credit needs. As of December 31, 2015, our NBH Bank legal lending limit to any one client relationship was $82.2 million and our house limit to any one client relationship was $30.0 million.

Associates

At December 31, 2015, we had 956 full-time associates and 86 part-time associates.

SUPERVISION AND REGULATION

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

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

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Banking statutes and regulations are subject to continual review and revision by Congress, state legislatures and federal and state regulatory agencies. A change in such statutes or regulations, including changes in how they are interpreted or implemented, could have a material effect on our business.

In addition to laws and regulations, state and federal bank regulatory agencies may issue policy statements, interpretive letters and similar written guidance pursuant to such laws and regulations, which are binding on us and our subsidiaries. Banking statutes, regulations and policies could restrict our ability to diversify into other areas of financial services, acquire depository institutions and make distributions or pay dividends on our equity securities. They may also require us to provide financial support to any bank that we control, maintain capital balances in excess of those desired by management and pay higher deposit insurance premiums as a result of a general deterioration in the financial condition of NBH Bank, or other depository institutions we control.

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

National Bank Holdings Corporation as a Bank Holding Company

Any entity that acquires direct or indirect control of a bank must obtain prior approval of the Federal Reserve to become a bank holding company pursuant to the Bank Holding Company Act (“BHCA”). We became a bank holding company in 2010 in connection with the acquisition of the assets and assumption of selected liabilities of the former Hillcrest Bank from the FDIC by our then newly chartered bank subsidiary, Hillcrest Bank, N.A. (which is now a predecessor of NBH Bank). As a bank holding company, we are subject to regulation under the BHCA and to supervision, examination, and enforcement by the Federal Reserve. Federal Reserve jurisdiction also extends to any company that we may directly or indirectly control, such as non-bank subsidiaries and other companies in which we have a controlling interest. While subjecting us to supervision and regulation, we believe that our status as a bank holding company (as opposed to being a non-controlling investor) broadens the investment opportunities available to us among public and private financial institutions.

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

NBH Bank as a Colorado State-Chartered Bank

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

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

Broad Supervision, Examination and Enforcement Powers

A principal objective of the U.S. bank regulatory regime is to protect depositors by ensuring the financial safety and soundness of banks and other insured depository institutions. To that end, the Federal Reserve, the FDIC and state bank regulators have broad regulatory, examination and enforcement authority over bank holding companies and banks, as applicable. This authority serves to ensure compliance with banking statutes, regulations, and regulatory guidance, orders, and agreements and safe and sound operation, including the power to issue cease and desist orders, impose fines and other civil and criminal penalties, terminate deposit insurance and appoint a conservator or receiver. Bank regulators regularly examine the operations of banks and bank holding companies. In addition, banks and bank holding companies are subject to periodic reporting and filing requirements.

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

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

FDIC Statement of Policy on Qualifications for Failed Bank Acquisitions

As the agency responsible for resolving failed depository institutions, the FDIC has discretion to determine whether a party is qualified to bid on a failed institution. The FDIC Policy Statement imposes additional restrictions and requirements on certain “private investors” and institutions to the extent that those investors or institutions seek to acquire a failed insured depository institution from the FDIC. The FDIC adopted the FDIC Policy Statement on August 26, 2009, and issued guidance regarding the policy statement on January 6, 2010 and April 23, 2010.

The FDIC Policy Statement applies to private investors in a company (such as the Company) that proposes to assume deposit liabilities (or liabilities and assets) from the resolution of a failed insured depository institution, but does not apply to investors with 5% or less of the total voting power of an acquired depository institution or its bank holding company, provided there is no evidence of concerted action by such investors.

The FDIC Policy Statement imposes several requirements on those institutions and investors to which it applies. Many of these requirements sunset after a three year time period or do no present ongoing requirements. However, some are related to the continuing presence of certain investors. Institutions are required to maintain a capital level sufficient to be “well capitalized” under regulatory standards during the remaining period of ownership of the investors. Investors that collectively own 80% or more of two or more depository institutions are required to pledge to the FDIC their proportionate interests in each institution to indemnify the FDIC against any losses it incurs in connection with the failure of one of the institutions. Institutions are prohibited from extending credit to investors and to affiliates of investors.

Regulatory Capital Requirements

In General

Bank regulators view capital levels as important indicators of an institution's financial soundness. As a bank holding company, we are subject to regulatory capital adequacy requirements implemented by the Federal Reserve. The federal banking agencies have risk-based capital adequacy guidelines intended to provide a measure of capital adequacy that reflects the degree of risk associated with a banking organization's operations. Under these guidelines, assets are assigned to one of several risk categories, and nominal dollar amounts of assets and credit equivalent amounts of off-balance-sheet items are multiplied by a risk adjustment percentage for the category. NBH Bank also is, and other depository institution subsidiaries that we may acquire or control in the future will be, subject to capital adequacy guidelines as implemented by the relevant federal banking agency. In the case of the Company and NBH Bank, applicable capital guidelines can be found in the Federal Reserve's Regulations H and Q.

The federal banking agencies recently revised capital guidelines to reflect the requirements of the Dodd-Frank Act and to effect the implementation of Basel III Accords. The quantitative measures, established by the regulators to ensure capital adequacy, require that banking organizations maintain minimum ratios of capital to risk-weighted assets. There are three categories of capital under the guidelines. With the implementation of the Dodd-Frank Act, certain changes have been made as to the type of capital that falls under each of these categories. Common equity tier 1 capital, a new category, includes only common stock, related surplus, retained earnings and qualified minority investments. Additional tier 1 capital includes non-cumulative perpetual preferred stock, certain qualifying minority interests, and for bank holding companies with less than $15 billion in consolidated assets, cumulative perpetual preferred stock and grandfathered trust preferred securities. Tier 2 capital includes subordinated debt, certain qualifying minority investments, and for bank holding companies with less than $15 billion in consolidated assets, non-qualifying capital instruments issued before May 19, 2010 that exceed 25% of tier 1.

Under the guidelines, capital is compared with the relative risk related to the balance sheet. To derive the risk included in the balance sheet, a risk weighting is applied to each balance sheet asset and off-balance sheet item, primarily based on the relative credit risk of the asset or counterparty. The revised capital rules also modified the risk-weights applied to particular on and off balance sheet assets.

The revised capital rules require banks and bank holding companies to maintain a minimum common equity tier 1 capital ratio of 4.5%, a total tier 1 capital ratio of 6%, a total capital ratio of 8%, and a leverage ratio of 4%. Bank holding companies will ultimately be required to hold a capital conservation buffer of common equity tier 1 capital of 2.5% to avoid limitations on capital distributions and executive compensation payments. Most of these new capital ratios became effective as of January 1, 2015.

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

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

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Prompt Corrective Action

The FDI Act requires federal bank regulatory agencies to take “prompt corrective action” with respect to FDIC-insured depository institutions that do not meet minimum capital requirements. A depository institution’s treatment for purposes of the prompt corrective action provisions will depend upon how its capital levels compare to various capital measures and certain other factors, as established by regulation. Under this system, the federal banking regulators have established five capital categories, well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, in which all institutions are placed. The federal banking regulators have specified by regulation the relevant capital levels for each of the five categories. The revised capital rules require banks to maintain a common equity tier 1 capital ratio of 6.5%, a total tier 1 capital ratio of 8%, a total capital ratio of 10%, and a leverage ratio of 5% to be deemed “well capitalized.” Federal banking regulators are required to take various mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories. The severity of the action depends upon the capital category in which the institution is placed. Generally, subject to a narrow exception, the banking regulator must appoint a receiver or conservator for an institution that is critically undercapitalized. Our regulatory capital ratios and those of NBH Bank are in excess of the levels established for “well-capitalized” institutions.

Bank Holding Companies as a Source of Strength

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

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

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

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

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Dividend Restrictions

The Company is a legal entity separate and distinct from its subsidiaries. Because the Company's consolidated net income consists largely of the net income of NBH Bank, the Company's ability to pay dividends depends upon its receipt of dividends from its subsidiary. The ability of a bank to pay dividends and make other distributions is limited by federal and state law. The specific limits depend on a number of factors, including the bank's type of charter, recent earnings, recent dividends, level of capital and regulatory status. As a member of the Federal Reserve System, NBH Bank is subject to Regulation H, which, among other things, provides that a member bank may not declare or pay a dividend if the total of all dividends declared during the calendar year, including the proposed dividend, exceeds the sum of the bank's net income during the current calendar year and its retained net income for the prior two calendar years, without the prior approval of the Federal Reserve. Regulation H also states that a member bank may not declare or pay a dividend if the dividend would exceed the bank's undivided profits, unless approved by the Federal Reserve and holders of at least two-thirds of the outstanding shares of each class of the bank's stock. The regulators are authorized, and under certain circumstances are required, to determine that the payment of dividends or other distributions by a bank would be an unsafe or unsound practice and to prohibit that payment. For example, the FDI Act generally prohibits a depository institution from making any capital distribution (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be undercapitalized.

As a Colorado state-chartered bank, NBH Bank is subject to limitations under Colorado law with respect to the payment of dividends. The Colorado Banking Code states that a bank may declare dividends from retained earnings and other components of capital specifically approved by the Banking Board so long as the declaration is make in compliance with established rules. Non-bank subsidiaries are also limited by certain federal and state statutory provisions and regulations covering the amount of dividends that may be paid in any given year.

The ability of a bank holding company to pay dividends and make other distributions can also be limited. The Federal Reserve has authority to prohibit a bank holding company from paying dividends or making other distributions. The Federal Reserve has issued a policy statement that provides that a bank holding company should not pay dividends unless: (a) its net income over the last four quarters (net of dividends paid) has been sufficient to fully fund the dividends; (b) the prospective rate of earnings retention appears to be consistent with the capital needs, asset quality and overall financial condition of the bank holding company and its subsidiaries; and (c) the bank holding company will continue to meet minimum required capital adequacy ratios. Accordingly, a bank holding company should not pay cash dividends that exceed its net income or that can only be funded in ways that weaken the bank holding company's financial health, such as by borrowing.

Depositor Preference

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

Liability of Commonly Controlled Institutions

FDIC-insured depository institutions can be held liable for any loss incurred, or reasonably expected to be incurred, by the FDIC due to the default of an FDIC-insured depository institution controlled by the same bank holding company and for any assistance provided by the FDIC to an FDIC-insured depository institution that is in danger of default and that is controlled by the same bank holding company. “Default” means generally the appointment of a conservator or receiver for the institution. “In danger of default” means generally the existence of certain conditions indicating that a default is likely to occur in the absence of regulatory assistance. The cross-guarantee liability for a loss at a commonly controlled institution would be subordinated in right of payment to deposit liabilities, secured obligations, any other general or senior liability and any obligation subordinated to depositors or general creditors, other than obligations owed to any affiliate of the depository institution (with certain exceptions).

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Limits on Transactions with Affiliates

Federal law restricts the amount and the terms of both credit and non-credit transactions (generally referred to as "Covered Transactions") between a bank and its non-bank affiliates. Covered Transactions with any single affiliate may not exceed 10% of the capital stock and surplus of the bank, and Covered Transactions with all affiliates may not exceed, in the aggregate, 20% of the bank's capital and surplus. For a bank, capital stock and surplus refers to the bank's tier 1 and tier 2 capital, as calculated under the risk-based capital guidelines (which were revised in 2013), plus the balance of the allowance for credit losses excluded from tier 2 capital. The bank's transactions with all of its affiliates in the aggregate are limited to 20% of the foregoing capital. In addition, in connection with Covered Transactions that are extensions of credit, the bank may be required to hold collateral to provide added security to the bank, and the types of permissible collateral may be limited. The Dodd-Frank Act generally enhances the restrictions on transactions with affiliates, including an expansion of what types of transactions are Covered Transactions to include credit exposures related to derivatives, repurchase agreements and securities lending arrangements and an increase in the amount of time for which collateral requirements regarding Covered Transactions must be satisfied. As of December 31, 2015, the Company did not have any outstanding Covered Transactions.

Regulatory Notice and Approval Requirements for Acquisitions of Control

We must generally receive federal bank regulatory approval before we can acquire an institution or business. Specifically, as a bank holding company, we must obtain prior approval of the Federal Reserve in connection with any acquisition that would result in the Company owning or controlling 5% or more of any class of voting securities of a bank or another bank holding company. In acting on such applications, the Federal Reserve considers, among other factors: the effect of the acquisition on competition; the financial condition and future prospects of the applicant and the banks involved; the managerial resources of the applicant and the banks involved; the convenience and needs of the community, including the record of performance under the CRA; the effectiveness of the applicant in combating money laundering activities; and the extent to which the proposal would result in greater or more concentrated risks to the stability of the United States banking or financial system. Our ability to make investments in depository institutions will depend on our ability to obtain approval for such investments from the Federal Reserve. The Federal Reserve could deny our application based on the above criteria or other considerations. For example, we could be required to sell banking centers as a condition to receiving regulatory approval, which condition may not be acceptable to us or, if acceptable to us, may reduce the benefit of any acquisition.

Federal and state laws, including the BHCA and the Change in Bank Control Act, impose additional prior notice or approval requirements and ongoing regulatory requirements on any investor that seeks to acquire direct or indirect "control" of an FDIC-insured depository institution or bank holding company. Whether an investor "controls" a depository institution is based on all of the facts and circumstances surrounding the investment. As a general matter, an investor is deemed to control a depository institution or other company if the investor owns or controls 25% or more of any class of voting securities. Subject to rebuttal, an investor is presumed to control a depository institution or other company if the investor owns or controls 10% or more of any class of voting securities and either the depository institution or company is a public company or no other person will hold a greater percentage of that class of voting securities after the acquisition. If an investor's ownership of our voting securities were to exceed certain thresholds, the investor could be deemed to "control" us for regulatory purposes. This could subject the investor to regulatory filings or other regulatory consequences.

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Anti-Money Laundering Requirements

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

Consumer Laws and Regulations

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

Many states and local jurisdictions have consumer protection laws analogous, and in addition, to those listed above. These state and local laws regulate the manner in which financial institutions deal with clients when taking deposits, making loans or conducting other types of transactions. Failure to comply with these laws and regulations could give rise to regulatory sanctions, client rescission rights, action by state and local attorneys general and civil or criminal liability.

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

Much of the CFPB’s rulemaking has focused on mortgage lending and servicing, including an important rule requiring lenders to ensure that prospective buyers have the ability to repay their mortgages. Other areas of current CFPB focus include consumer protections for prepaid cards, payday lending, debt collection, overdraft services and privacy notices. The CFPB has been particularly active in issuing rules and guidelines concerning residential mortgage lending and servicing, issuing numerous rules and guidance related to residential mortgages. Perhaps the most significant of these guidelines is the “Ability-to-Repay and Qualified Mortgage Standards under the Truth in Lending Act” portions of Regulation Z. Under the Dodd-Frank Act, creditors must make a reasonable and good faith determination, based on verified and documented information, that the consumer has a reasonable “ability to repay” a residential mortgage according to its terms. There is a statutory presumption of compliance with this requirement for mortgages that meet the requirements to be deemed “qualified mortgages.” The CFPB rule defines the key threshold terms “ability to repay” and “qualified mortgage.”

The CFPB has actively issued enforcement actions against both large and small entities and to entities across the entire financial service industry. The CFPB has relied upon “unfair, deceptive, or abusive acts” prohibitions as its primary enforcement tool. However, the CFPB and DOJ continue to be focused on fair lending in taking enforcement actions again banks with renewed emphasis on alleged redlining practices.

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The Community Reinvestment Act

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

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

Reserve Requirements

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

Deposit Insurance Assessments

FDIC-insured banks are required to pay deposit insurance premiums to the FDIC. The FDIC has adopted a risk-based assessment system whereby FDIC-insured depository institutions pay insurance premiums at rates based on their risk classification. An institution's risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to the regulators.

The Dodd-Frank Act made permanent the general $250,000 deposit insurance limit for insured deposits. As of January 1, 2013, all of a depositor's accounts at an insured bank, including all non-interest bearing transaction accounts, are insured by the FDIC up to $250,000.

The Dodd-Frank Act changed the deposit insurance assessment framework, primarily by basing assessments on an institution's average total consolidated assets less average tangible equity (subject to risk-based adjustments that would further reduce the assessment base for custodial banks) rather than domestic deposits, shifting a greater portion of the aggregate assessments to large banks, as described in detail below. The Dodd-Frank Act also eliminated the upper limit for the reserve ratio designated by the FDIC each year, increased the minimum designated reserve ratio of the DIF from 1.15% to 1.35% of the estimated amount of total insured deposits by September 30, 2020, and eliminated the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds.

The Dodd-Frank Act requires the DIF to reach the reserve ratio of 1.35% of insured deposits by September 30, 2020. On December 20, 2010, the FDIC raised the minimum designated reserve ratio of DIF to 2%. The ratio is higher than the minimum reserve ratio of 1.35% as set by the Dodd-Frank Act. Under the Dodd-Frank Act, the FDIC is required to offset the effect of the higher reserve ratio on small insured depository institutions, those with consolidated assets of less than $10 billion.

Continued action by the FDIC to replenish the DIF, as well as changes contained in the Dodd-Frank Act, may result in higher assessment rates. NBH Bank may be able to pass part or all of this cost on to its clients, including in the form of lower interest rates on deposits, or fees to some depositors, depending on market conditions.

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

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Interstate Banking

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

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

Changes in Laws, Regulations or Policies

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

More Information

Our website is www.nationalbankholdings.com. We make available free of charge, through our website, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the SEC. In addition, the public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference

Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov.

Item 1A.RISK FACTORS.

Risks Relating to Our Banking Operations

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

We were organized in June 2009 and acquired selected assets and assumed selected liabilities of Hillcrest Bank, Bank Midwest, Bank of Choice and Community Banks of Colorado in October 2010, December 2010, July 2011 and October 2011, respectively, and acquired Pine River Valley Bank by merger in August 2015. Because our banking operations began in late 2010, and because our acquisitions in 2010 and 2011 were of failed or troubled banks, we have a limited operating history upon which investors can evaluate our operational performance or compare our recent performance to historical performance. The business models and experiences of the depository institutions we have acquired to date and may acquire in the future may not be reflective of our plans. More importantly, because a portion of our loans and OREO were covered by loss sharing agreements with the FDIC and all of the loans and OREO we acquired were marked to fair value at the time of our acquisitions, we believe that the historical financial results of the acquisitions are less useful to an evaluation of our future prospects and financial and operating performance.

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

- our current asset mix, loan quality and allowance for loan losses are not fully representative of our anticipated future asset mix, loan quality and allowance for loan losses, which may change materially as we continue to undertake organic loan origination and banking activities and pursue future acquisitions;
- a portion of our loans and OREO have been covered by loss sharing agreements with the FDIC, which reimbursed a variable percentage of losses experienced on these assets; since our FDIC loss-share arrangements were terminated in the fourth quarter 2015, we may face higher losses, which losses may exceed the discounts we received;
- the income we report from certain acquired assets due to loan discounts and accretable yield may be higher than the returns available in the current market and, if we are unable to make new performing loans and acquire other performing assets in sufficient volume, we may be unable to generate the earnings necessary to implement our growth strategy;
- our excess cash reserves and liquid investment securities portfolio, may not be representative of our future cash position;
- our historical cost structure and capital expenditure requirements are not necessarily reflective of our anticipated cost structure and capital spending as we continue to identify efficiencies and operate our organic banking platform; and
- our regulatory capital ratios, which currently exceed regulatory minimum requirements by a substantial margin, are not necessarily representative of our future regulatory capital ratios.

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

Our business and operations are sensitive to general business and economic conditions in the United States and in our two core markets in Colorado and the greater Kansas City region. If the economies in our core markets, or the U.S. economy more generally, are unable to continue to steadily emerge from the recession that began in 2007 or we experience worsening economic conditions, including industry-specific conditions, we could be materially and adversely affected. Weak economic conditions may be characterized by deflation, fluctuations in debt and equity capital markets, including a lack of liquidity and/or depressed prices in the secondary market for mortgage loans, increased delinquencies on loans, residential and commercial real estate price declines and lower home sales and commercial activity, and further or prolonged pressure on energy prices. All of these factors would be detrimental to our business. Our business is significantly affected by monetary and related policies of the U.S. federal government, its agencies and government-sponsored entities. Changes in any of these policies are influenced by macroeconomic conditions and other factors that are beyond our control and could have a material adverse effect on us.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our business is highly dependent on the successful and uninterrupted functioning of our information technology and telecommunications systems and third-party providers. We outsource many of our major systems, such as data processing, loan servicing systems and deposit processing systems. The failure of these systems, or the termination of a third-party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such services exceeds capacity or such third-party systems fail or experience interruptions. If significant, sustained or repeated, a system failure or service denial could compromise our ability to operate effectively, damage our reputation, result in a loss of client business, and/or subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on us.

A failure in or breach of our security systems or infrastructure, or those of our third-party providers, could result in financial losses to us or in the disclosure or misuse of confidential or proprietary information, including client information.

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

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

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

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

We are required to evaluate our internal control over financial reporting under Section 404 of the Sarbanes Oxley Act of 2002, and any adverse results from such evaluation could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock price.

As a publicly traded company, we are required to file periodic reports containing our consolidated financial statements with the SEC within a specified time following the completion of quarterly and annual periods. We also are required to comply with Section 404 of the Sarbanes-Oxley Act of 2002 concerning internal control over financial reporting. We may experience difficulty in meeting the SEC's reporting requirements. Any failure by us to file our periodic reports with the SEC in a timely manner could harm our reputation and cause investors and potential investors to lose confidence in us and reduce the market price of our common stock.

During the course of our testing, we may identify deficiencies that would have to be remediated to satisfy the SEC rules for certification of our internal control over financial reporting. A material weakness is defined by the standards issued by the Public Company Accounting Oversight Board as a deficiency, or combination of deficiencies, in internal control over financial reporting that results in a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. As a consequence, we would have to disclose in periodic reports we file with the SEC any material weakness in our internal control over financial reporting. The existence of a material weakness would preclude management from concluding that our internal control over financial reporting is effective and would preclude our independent auditors from attesting to our assessment of the effectiveness of our internal control over financial reporting is effective. In addition, disclosures of this type in our SEC reports could cause investors to lose confidence in our financial reporting and may negatively affect the market price of our common stock. Moreover, effective internal controls are necessary to produce reliable financial reports and to prevent fraud. If we have deficiencies in our disclosure controls and procedures or internal control over financial reporting, it may materially and adversely affect us.

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Risks Relating to our Growth Strategy

We may not be able to effectively manage our growth.

Our future operating results depend to a large extent on our ability to successfully manage our growth. Our growth has placed, and it may continue to place, significant demands on our operations and management. Whether through additional acquisitions or organic growth, our current plan to expand our business is dependent upon our ability to:

- continue to implement and improve our operational, credit, financial, legal, management and other internal risk controls and processes and our reporting systems and procedures in order to manage a growing number of client relationships;
- scale our technology platform;
- integrate our acquisitions and develop consistent policies throughout the various lines of businesses; and
- attract and retain management talent.

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

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

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

- the effect of the acquisition on competition;
-

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

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

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

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

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

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

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

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

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

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Risks Relating to the Regulation of Our Industry

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

In 2010, the President signed into law the Dodd-Frank Act, which imposes significant regulatory and compliance changes. The key effects of the Dodd-Frank Act on our business are:

- changes to regulatory capital requirements;
- creation of new government regulatory agencies (such as the Financial Stability Oversight Council, which oversees systemic risk, and the Consumer Bureau, which develops and enforces rules for bank and non-bank providers of consumer financial products);
- potential limitations on federal preemption;
- changes to deposit insurance assessments;
- regulation of debit interchange fees we earn;
- changes in retail banking regulations, including potential limitations on certain fees we may charge; and
- changes in regulation of consumer mortgage loan origination and risk retention.

Some provisions of the Dodd-Frank Act became effective immediately upon its enactment, while many others have come into effect over the last few years and now have finalized implementing regulations. Many provisions, however, still require regulations to be promulgated by various federal agencies in order to be implemented, some of which have been proposed by the applicable federal agencies. The provisions of the Dodd-Frank Act may have unintended effects, which will not be clear until several supervisory cycles are complete. The changes resulting from the Dodd-Frank Act have limited our business activities, required changes to certain of our business practices, imposed upon us more stringent capital, liquidity and leverage requirements or otherwise materially and may continue to adversely affect us. These changes may also require us to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements. Failure to comply with the new requirements could also materially and adversely affect us. Any changes in the laws or regulations or their interpretations could be materially adverse to investors in our common stock

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

We are subject to extensive regulation, supervision, and legislation by federal and state regulators and bodies that govern almost all aspects of our operations. Intended to protect clients, depositors and the DIF, these laws and regulations, among other matters, prescribe minimum capital requirements, impose limitations on the business activities in which we can engage (including foreclosure and collection practices), limit the dividends or distributions that we can pay, restrict the ability of institutions to guarantee our debt, and impose certain specific accounting requirements on us that may be more restrictive and may result in greater or earlier charges to earnings or reductions in our capital than GAAP. On December 31, 2015, NBH Bank, formerly a national association chartered under federal law and supervised and regulated by the OCC, converted to a Colorado state-chartered bank. As such, following the conversion, NBH Bank became subject to examination, supervision and regulation by the Colorado Division of Banking and the Federal Reserve. Compliance with laws and regulations can be difficult and costly, and changes to laws and regulations often impose additional compliance costs. Our failure to comply with these laws and regulations, even if the failure follows good faith effort or reflects a difference in interpretation, could subject us to restrictions on our business activities, fines and other penalties, any of which could materially and adversely affect us. Further, any new laws, rules and regulations could make compliance more difficult or expensive and also materially and adversely affect us.

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The FDIC's restoration plan and the related increased assessment rate could materially and adversely affect us.

The FDIC insures deposits at FDIC-insured depository institutions, such as our subsidiary bank, up to applicable limits. The amount of a particular institution's deposit insurance assessment is based on that institution's risk classification under an FDIC risk-based assessment system. An institution's risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to its regulators. As a result of recent economic conditions and the enactment of the Dodd-Frank Act, the FDIC has increased the deposit insurance assessment rates and thus raised deposit insurance premiums for insured depository institutions. If these increases are insufficient for the DIF to meet its funding requirements, there may need to be further special assessments or increases in deposit insurance premiums. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional bank or financial institution failures, we may be required to pay even higher FDIC premiums than the recently increased levels. Any future additional assessments, increases or required prepayments in FDIC insurance premiums may materially and adversely affect us, including by reducing our profitability or limiting our ability to pursue certain business opportunities.

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

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

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

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

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

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

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

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

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

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

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

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

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

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Item 1B.UNRESOLVED STAFF COMMENTS.

None

Item 2.PROPERTIES.

Our principal executive offices are located in the Denver Tech Center area immediately south of Denver, Colorado. We also have approximately 70,000 square feet of office and operations space in Kansas City, Missouri. At December 31, 2015, we operated 53 banking centers in Colorado, 42 in Kansas and Missouri, and 2 in Texas. Of these banking centers, 20 locations were leased and 77 were owned. Prior to their closure at the conclusion of business on December 31, 2013, we also operated four banking centers in California and 32 limited-service retirement center locations in Colorado, Kansas, Missouri and Texas. During 2015, we consolidated three banking centers in our Bank Midwest network, and in the first quarter of 2016 we announced the consolidation of seven banking centers in our Community Banks of Colorado network during the second quarter of 2016.

Item 3.LEGAL PROCEEDINGS.

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

Item 4.MINE SAFETY DISCLOSURES.

None.

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PART II

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

Market for Registrant's Common Equity

Shares of the Company's common stock began trading on the New York Stock Exchange ("NYSE") under the symbol "NBHC" on September 20, 2012. Prior to September 20, 2012, there was no established public trading market for the Company's stock. The following table presents the high and low prices of actual transactions in the Company's common stock and cash dividends paid for the periods indicated:

Year	Quarter	High	Low	Cash Dividends
2015	First	$ 19.53	$ 17.69	$ 0.05
	Second	$ 21.30	$ 18.35	$ 0.05
	Third	$ 22.04	$ 19.20	$ 0.05
	Fourth	$ 23.55	$ 19.47	$ 0.05
2014	First	$ 21.48	$ 18.77	$ 0.05
	Second	$ 20.61	$ 18.50	$ 0.05
	Third	$ 20.89	$ 18.94	$ 0.05
	Fourth	$ 19.95	$ 18.11	$ 0.05

The last sale price of our common stock on the NYSE was $19.50 per share on February 25, 2016. The Company had 182 shareholders of record as of February 25, 2016. Management estimates that the number of beneficial owners is significantly greater.

In October 2012, we commenced the payment of a $0.05 per share quarterly dividend to holders of our common stock.

As a bank holding company, any dividends paid to us by our bank subsidiary are subject to various federal and state regulatory limitations and also subject to the ability of our bank subsidiary to pay dividends to us. Other than (1) dividends from the Bank paid as noted above, (2) the cash held by the Company and (3) any future financing at the holding company level, we do not expect to have other liquidity sources at the holding company level. In addition, in the future, we and our bank subsidiary may enter into credit agreements or other financing arrangements that prohibit or otherwise restrict our ability to declare or pay cash dividends. Any determination to pay cash dividends in the future will be at the discretion of our Board of Directors and will depend on a variety of considerations, including, without limitation, our historical and projected financial condition, liquidity and results of operations, capital levels, tax considerations, statutory and regulatory prohibitions and other limitations, general economic conditions and other factors deemed relevant by our Board of Directors. See “Risk Factors—Our ability to pay dividends is subject to regulatory limitations and our bank subsidiary’s ability to pay dividends to us is also subject to regulatory limitations.” We may also execute permanent capital reductions at the Bank level in accordance with federal and state regulatory guidelines as a source of liquidity for the holding company. See note 28 for discussion of a permanent capital reduction of $140.0 million approved in February 2016.

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Performance Graph

The following graph presents a comparison of the Company's performance to the indices named below. It assumes $100 invested on September 19, 2012, with dividends invested on a total return basis.

		Period Ending			
Index	09/19/12	12/31/12	12/31/13	12/31/14	12/31/15
NBH	100.00	98.92	112.63	103.18	114.75
KBW Regional Banking Index	100.00	95.19	139.76	143.16	151.74
Russell 2000 Index	100.00	99.74	138.46	145.24	138.83

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The following table sets forth information about our repurchases of our common stock during the fourth quarter of 2015:

Period	Total Number of Shares (or Units) Purchased	Average Price Paid Per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (2)(3)
October 1 - October 31, 2015 (1)	472	$ 22.06	-	$ 6,093,512
November 1 - November 30, 2015 (1)	431,306	23.04	-	6,093,512
December 1 - December 31, 2015 (1)	94	20.91	-	6,093,512
Total	431,872	$ 23.04	-	$ 6,093,512

(1) These shares represent shares purchased other than through publicly announced plans and were purchased pursuant to the Company's 2014 Omnibus Incentive Plan (the "2014 Plan"). Under the 2014 Plan, shares were purchased from plan participants at the then current market value in satisfaction of stock option exercise prices, settlements of restricted stock, and tax withholdings.
(2) On February 11, 2015, the Company announced that the Board of Directors authorized the repurchase of up to an additional $50.0 million of common stock. Under this authorization, $6,093,512 remained available for purchase at December 31, 2015.
(3) On January 21, 2016, the Board of Directors approved a $50.0 million stock repurchase program.

Securities Authorized for Issuance under Equity Compensation Plans

During the second quarter of 2014, shareholders approved the 2014 Omnibus Incentive Plan. Under the 2014 Plan, the Compensation Committee of the Board of Directors has the authority to grant, from time to time, awards of options, stock appreciation rights, restricted stock, restricted stock units, performance units, other stock-based awards, or any combination thereof to eligible persons. As of December 31, 2015, the aggregate number of Company common stock available for issuance under the 2014 Plan was 5,707,826 shares.

During the second quarter of 2015, shareholders approved the Company's 2014 Employee Stock Purchase Plan ("ESPP"). The ESPP allows employees to purchase shares of common stock through payroll deductions up to a limit of $25,000 per calendar year or 2,000 shares per offering period. The price an employee pays for shares is 90.0% of the fair market value of Company common stock on the last day of the offering period. As of December 31, 2015, the aggregate number of Company common stock available for issuance under the ESPP was 385,515 shares.

See note 17 to the consolidated financial statements for further detail related to these equity compensation plans.

Plan Category	Number of securities to be issued upon exercise of oustanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity plans approved by security holders	2,596,251	$ 19.84	6,093,341
Equity plans not approved by security holders	-	-	-
Total	2,596,251	$ 19.84	6,093,341

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Item 6.SELECTED FINANCIAL DATA.

The following table sets forth summary selected historical financial information as of and for the five years ended December 31, 2015. The summary selected historical consolidated financial information set forth below is derived from our audited consolidated financial statements.

During the five years ended December 31, 2015, we consummated the Bank of Choice acquisition on July 22, 2011, the Community Banks of Colorado acquisition on October 21, 2011 and the Pine River acquisition on August 1, 2015. All acquisitions were accounted for using the acquisition method of accounting. Due to the timing of the acquisitions and the acquisition method of accounting, comparability may be limited. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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

Summary of Selected Historical Consolidated Financial Data

	December 31, 2015	December 31, 2014	December 31, 2013	December 31, 2012	December 31, 2011
Consolidated Balance Sheet Information (unaudited):					
Cash and cash equivalents	$ 166,092	$ 256,979	$ 189,460	$ 769,180	$ 1,628,137
Investment securities available-for-sale (at fair value)	1,157,246	1,479,214	1,785,528	1,718,028	1,862,699
Investment securities held-to-maturity	427,503	530,590	641,907	577,486	6,801
Non-marketable securities	22,529	27,045	31,663	32,996	29,117
Loans (1)	2,587,673	2,162,409	1,854,094	1,832,702	2,268,435
Allowance for loan losses	(27,119)	(17,613)	(12,521)	(15,380)	(11,527)
Loans, net	2,560,554	2,144,796	1,841,573	1,817,322	2,256,908
Loans held for sale	13,292	5,146	5,787	5,368	5,616
FDIC indemnification asset, net	—	39,082	64,447	86,923	223,402
Other real estate owned	20,814	29,120	70,125	94,808	120,636

Premises and equipment, net	103,103	106,341	115,219	121,436	87,315
Goodwill and other intangible assets, net	72,059	76,513	81,859	87,205	92,553
Other assets	140,716	124,820	86,547	100,023	38,842
Total assets	$ 4,683,908	$ 4,819,646	$ 4,914,115	$ 5,410,775	$ 6,352,026
Deposits	$ 3,840,677	$ 3,766,188	$ 3,838,309	$ 4,200,719	$ 5,063,053
Other liabilities	225,687	258,883	178,014	119,497	200,244
Total liabilities	4,066,364	4,025,071	4,016,323	4,320,216	5,263,297
Total shareholders' equity	617,544	794,575	897,792	1,090,559	1,088,729
Total liabilities and shareholders' equity	$ 4,683,908	$ 4,819,646	$ 4,914,115	$ 5,410,775	$ 6,352,026

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	As of and for the years ended December 31, 2015	December 31, 2014	December 31, 2013	December 31, 2012	December 31, 2011
Consolidated Statement of Operations Data:					
Interest income	$ 171,407	$ 184,662	$ 195,475	$ 233,485	$ 197,159
Interest expense	14,462	14,413	16,514	29,234	41,696
Net interest income	156,945	170,249	178,961	204,251	155,463
Provision for loan losses	12,444	6,209	4,296	27,995	20,002
Net interest income after provision for loan losses	144,501	164,040	174,665	176,256	135,461
Bargain purchase gain	1,048	—	—	—	60,520
Non-interest income	21,448	(1,696)	20,177	37,379	28,966
Non-interest expense	158,024	150,003	183,965	209,598	155,538
Income before income taxes	7,925	12,341	10,877	4,037	69,409
Provision for income before taxes	3,044	3,165	3,950	4,580	27,446
Net income (loss)	$ 4,881	$ 9,176	$ 6,927	$ (543)	$ 41,963
Share Information(2):					
Earnings (loss) per share, basic	$ 0.14	$ 0.22	$ 0.14	$ (0.01)	$ 0.81
Earnings (loss) per share, diluted	$ 0.14	$ 0.22	$ 0.14	$ (0.01)	$ 0.81
Dividends paid	$ 0.20	$ 0.20	$ 0.20	$ 0.05	$ —
Book value per share	$ 20.34	$ 20.43	$ 19.99	$ 20.84	$ 20.87
Tangible book value per share(3)	$ 18.22	$ 18.63	$ 18.27	$ 19.23	$ 19.13
Tangible common equity to tangible assets(3)	11.98 %	15.25 %	16.97 %	18.89 %	15.94 %
Weighted average common shares outstanding, basic	34,349,996	42,404,609	50,790,410	52,214,175	51,978,744
Weighted average common shares outstanding, diluted	34,363,487	42,421,014	50,824,422	52,214,175	52,104,021
Common shares outstanding	30,358,509	38,884,953	44,918,336	52,327,672	52,157,697

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

(2) Per share information is calculated based on the aggregate number of our shares of Class A common stock and Class B non-voting common stock outstanding.

(3) Tangible book value per share and tangible common equity to tangible assets are non-GAAP financial measures. Tangible book value per share is computed as total shareholders' equity less goodwill (adjusted for deferred taxes) and other intangible assets, net, divided by common shares outstanding at the balance sheet date. For purposes of computing tangible common equity to tangible assets, tangible common equity is calculated as common shareholders' equity less goodwill (adjusted for deferred taxes) and other intangible assets, net, and tangible assets is calculated as total assets less goodwill (adjusted for deferred taxes) and other intangible assets, net. We believe that the most directly comparable GAAP financial measures are book value per share and total shareholders' equity to total assets. See the reconciliation under "About Non-GAAP Financial Measures."

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	As of and for the years ended December 31, 2015		December 31, 2014		December 31, 2013		December 31, 2012		December 31, 2011	
Key Ratios										
Return on average assets	0.10	%	0.19	%	0.13	%	(0.01)	%	0.81	%
Return on average tangible assets (1)	0.17	%	0.26	%	0.20	%	0.05	%	0.88	%
Return on average equity	0.70	%	1.07	%	0.67	%	(0.05)	%	4.01	%
Return on average tangible common equity (1)	1.29	%	1.58	%	1.06	%	0.27	%	4.62	%
Interest-earning assets to interest-bearing liabilities (end of period)(2)	133.71	%	137.36	%	137.05	%	134.44	%	127.91	%
Loans to deposits ratio (end of period)	67.72	%	57.55	%	48.46	%	43.76	%	44.91	%
Average equity to average assets	14.52	%	17.68	%	20.07	%	18.91	%	20.26	%
Non-interest bearing deposits to total deposits (end of period)	21.22	%	19.45	%	17.59	%	16.14	%	13.41	%
Net interest margin (3)	3.54	%	3.83	%	3.81	%	3.98	%	3.40	%
Net interest margin(fully taxable equivalent)(1)(3)	3.60	%	3.85	%	3.81	%	3.98	%	3.40	%
Interest rate spread (4)	3.48	%	3.72	%	3.68	%	3.81	%	3.17	%
Yield on earning assets(2)	3.86	%	4.15	%	4.16	%	4.55	%	4.31	%
Yield on earning assets (fully taxable equivalent) (1)(2)	3.92	%	4.17	%	4.16	%	4.55	%	4.31	%
Cost of interest bearing liabilities (2)	0.44	%	0.45	%	0.48	%	0.74	%	1.15	%
Cost of deposits	0.36	%	0.37	%	0.41	%	0.64	%	1.05	%
	3.27	%	3.08	%	3.55	%	3.62	%	3.01	%

Non-interest expense to average assets										
Efficiency ratio	85.55	%	85.82	%	89.70	%	84.53	%	61.72	%
Dividend Payout Ratio	142.86	%	90.91	%	142.86	%	NM		0.00	%
Asset Quality Data(5)(6)(7)										
Non-performing loans to total loans	0.99	%	0.50	%	1.31	%	1.26	%	1.66	%
Non-performing non 310-30 assets to total non 310-30 loans and OREO	1.81	%	1.86	%	5.00	%	6.19	%	6.71	%
Allowance for loan losses to total loans	1.05	%	0.81	%	0.68	%	0.84	%	0.51	%
Allowance for loan losses to non-performing loans	105.74	%	162.89	%	51.43	%	66.53	%	30.52	%
Net charge-offs to average loans	0.12	%	0.05	%	0.41	%	1.20	%	0.51	%

(1) Ratio represents non-GAAP financial measure. See non-GAAP reconciliation below.
(2) Interest earning assets include assets that earn interest/accretion or dividends, which is not part of interest earning assets. Any market value adjustments on investment securities are excluded from interest-earning assets. Interest bearing liabilities include liabilities that must be paid interest.
(3) Net interest margin represents net interest income, including accretion income on interest earning assets, as a percentage of average interest earning assets.
(4) Interest rate spread represents the difference between the weighted average yield on interest earning assets and the weighted average cost of interest bearing liabilities.
(5) Non-performing loans were redefined during the third quarter of 2014 to only include non-accrual loans and restructured loans on non-accrual, and exclude any loans accounted for under ASC 310-30 in which the pool is still performing. All previous periods have been restated.
(6) Non-performing assets include non-performing loans, other real estate owned and other repossessed assets.
(7) Total loans are net of unearned discounts and fees.
NM – Not Meaningful

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About Non-GAAP Financial Measures

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

These non-GAAP financial measures are presented for supplemental informational purposes only and should not be considered a substitute for financial information presented in accordance with GAAP. The non-GAAP financial measures we present may differ from non-GAAP financial measures used by our peers or other companies. In particular, the items that we exclude in our adjustments are not necessarily consistent with the items that our peers may exclude from their results of operations and key financial measures and therefore may limit the comparability of similarly named financial measures and ratios. We compensate for these limitations by providing the equivalent GAAP measures whenever we present the non-GAAP financial measures and by including a reconciliation of the impact of the components adjusted for in the non-GAAP financial measure so that both measures and the individual components may be considered when analyzing our performance.

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

	As of and for the years ended December 31, 2015	December 31, 2014	December 31, 2013	December 31, 2012	December 31, 2011
Total shareholders’ equity	$ 617,544	$ 794,575	$ 897,792	$ 1,090,559	$ 1,088,729
Less: goodwill and intangible assets, net	(72,060)	(76,513)	(81,859)	(87,205)	(92,553)
Add: deferred tax liability related to goodwill	7,772	6,222	4,671	3,121	1,571
Tangible common equity (non-GAAP)	$ 553,256	$ 724,284	$ 820,604	$ 1,006,475	$ 997,747
Total assets	$ 4,683,908	$ 4,819,646	$ 4,914,115	$ 5,410,775	$ 6,352,026
Less: goodwill and intangible assets, net	(72,060)	(76,513)	(81,859)	(87,205)	(92,553)
Add: deferred tax liability related to goodwill	7,772	6,222	4,671	3,121	1,571
Tangible assets (non-GAAP)	$ 4,619,620	$ 4,749,355	$ 4,836,927	$ 5,326,691	$ 6,261,044
Tangible common equity to tangible assets calculations:					
Total shareholders’ equity to total assets	13.18 %	16.49 %	18.27 %	20.16 %	17.14 %
Less: impact of goodwill and intangible assets, net	(1.20) %	(1.24) %	(1.30) %	(1.27) %	(1.20) %
Tangible common equity to tangible assets (non-GAAP)	11.98 %	15.25 %	16.97 %	18.89 %	15.94 %
Common book value per share calculations:					
Total shareholders' equity	$ 617,544	$ 794,575	$ 897,792	$ 1,090,559	$ 1,088,729
Divided by: ending shares outstanding	30,358,509	38,884,953	44,918,336	52,327,672	52,157,697
Common book value per share	$ 20.34	$ 20.43	$ 19.99	$ 20.84	$ 20.87

Tangible common book value per share calculations:					
Tangible common equity (non-GAAP)	$ 553,256	$ 724,284	$ 820,604	$ 1,006,475	$ 997,747
Divided by: ending shares outstanding	30,358,509	38,884,953	44,918,336	52,327,672	52,157,697
Tangible common book value per share (non-GAAP)	$ 18.22	$ 18.63	$ 18.27	$ 19.23	$ 19.13
Tangible common book value per share, excluding accumulated other comprehensive income calculations:					
Tangible common equity (non-GAAP)	$ 553,256	$ 724,284	$ 820,604	$ 1,006,475	$ 997,747
Less: accumulated other comprehensive income, net of tax	(95)	(5,839)	6,756	(40,573)	(47,022)
Tangible common book value, excluding accumulated other comprehensive income, net of tax (non-GAAP)	553,161	718,445	827,360	965,902	950,725
Divided by: ending shares outstanding	30,358,509	38,884,953	44,918,336	52,327,672	52,157,697
Tangible common book value per share, excluding accumulated other comprehensive income, net of tax (non-GAAP)	$ 18.22	$ 18.48	$ 18.42	$ 18.46	$ 18.23

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Return on Average Tangible Assets and Return on Average Tangible Equity

	As of and for the years ended December 31, 2015	December 31, 2014	December 31, 2013	December 31, 2012	December 31, 2011
Net income	$ 4,881	$ 9,176	$ 6,927	$ (543)	$ 41,963
Add: impact of core deposit intangible amortization expense, after tax	3,295	3,260	3,235	3,233	2,635
Net income adjusted for impact of core deposit intangible amortization expense, after tax	$ 8,176	$ 12,436	$ 10,162	$ 2,690	$ 44,598
Average assets	$ 4,831,070	$ 4,867,929	$ 5,175,210	$ 5,786,762	$ 5,166,172
Less: average goodwill and intangible assets, net of deferred tax asset related to goodwill	(66,549)	(73,074)	(79,964)	(86,841)	(80,248)
Average tangible assets (non- GAAP)	$ 4,764,521	$ 4,794,855	$ 5,095,246	$ 5,699,921	$ 5,085,924
Average shareholder's equity	$ 701,476	$ 860,691	$ 1,038,753	$ 1,093,998	$ 1,045,459
Less: average goodwill and intangible assets, net of deferred tax asset related to goodwill	(66,549)	(73,074)	(79,964)	(86,841)	(80,248)
Average tangible common equity (non-GAAP)	$ 634,927	$ 787,617	$ 958,789	$ 1,007,157	$ 965,211
Return on average assets	0.10 %	0.19 %	0.13 %	(0.01) %	0.81 %
Return on average tangible assets (non-GAAP)	0.17 %	0.26 %	0.20 %	0.05 %	0.88 %
Return on average equity	0.70 %	1.07 %	0.67 %	(0.05) %	4.01 %
Return on average tangible common equity (non-GAAP)	1.29 %	1.58 %	1.06 %	0.27 %	4.62 %

Fully Taxable Equivalent Yield on Earning Assets and Net Interest Margin

	As of and for the years ended				
	December 31, 2015	December 31, 2014	December 31, 2013	December 31, 2012	December 31, 2011
Interest income	$ 171,407	$ 184,662	$ 195,475	$ 233,485	$ 197,159
Add: impact of taxable equivalent adjustment	2,695	930	—	—	—
Interest income, fully taxable equivalent (non-GAAP)	$ 174,102	$ 185,592	$ 195,475	$ 233,485	$ 197,159
Net interest income	$ 156,945	$ 170,249	$ 178,961	$ 204,251	$ 155,463
Add: impact of taxable equivalent adjustment	2,695	930	—	—	—
Net interest income, fully taxable equivalent (non-GAAP)	$ 159,640	$ 171,179	$ 178,961	$ 204,251	$ 155,463
Average earning assets	$ 4,439,139	$ 4,446,903	$ 4,698,552	$ 5,130,836	$ 4,571,331
Yield on earning assets	3.86 %	4.15 %	4.16 %	4.55 %	4.31 %
Yield on earning assets, fully taxable equivalent (non-GAAP)	3.92 %	4.17 %	4.16 %	4.55 %	4.31 %
Net interest margin	3.54 %	3.83 %	3.81 %	3.98 %	3.40 %
Net interest margin, fully taxable equivalent (non-GAAP)	3.60 %	3.85 %	3.81 %	3.98 %	3.40 %

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Item 7:MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following management's discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes as of and for the years ended December 31, 2015, 2014, and 2013, and with the other financial and statistical data presented in this annual report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions that may cause actual results to differ materially from management's expectations. Factors that could cause such differences are discussed in the section entitled “Cautionary Note Regarding Forward-Looking Statements” and “Risk Factors” and should be read herewith.

On December 31, 2015, our bank subsidiary converted to a Colorado state-charted bank and changed its name from NBH Bank, N.A. to NBH Bank. All references to NBH Bank should be considered synonymous with references to NBH Bank, N.A. prior to the name change.

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

Overview

National Bank Holdings Corporation is a bank holding company formed in 2009, with banking operations beginning in October 2010. We completed an initial public offering of our stock on September 20, 2012, when we began trading on the NYSE under the ticker symbol “NBHC.” Through our subsidiary, NBH Bank, we provide a variety of banking products to both commercial and consumer clients through a network of 97 banking centers, located in Colorado, the greater Kansas City area and Texas, and through online and mobile banking products. We operate under the following brand names: Community Banks of Colorado in Colorado, Bank Midwest in Kansas and Missouri, and Hillcrest Bank in Texas.

In 2010 and 2011, we completed the acquisition and integration of four problem or failed banks, three of which were FDIC-assisted. During the third quarter of 2015, we completed the acquisition of Pine River, which is included in our Community Banks of Colorado brand. We have transformed these five banks into one collective banking operation with steadily increasing organic growth, prudent underwriting, and meaningful market share with continued opportunity for expansion. Our long-term business model utilizes our organic development infrastructure, low-risk balance sheet, continuous operational development and a disciplined acquisition strategy to create value and provide opportunities for growth.

As of December 31, 2015, we had $4.7 billion in assets, $2.6 billion in loans, $3.8 billion in deposits and $0.6 billion in equity. We believe that our established presence positions us well for growth opportunities. Our focus is on building strong banking relationships with small to medium-sized businesses and consumers, while maintaining a low risk profile designed to generate reliable income streams and attractive returns. Through our acquisitions, we have established a solid financial services franchise with a sizable presence for deposit gathering and client relationship building necessary for growth.

Operating Highlights and Key Challenges

Our operations resulted in the following highlights as of and for the year ended December 31, 2015 (except as noted):

Strategic execution

· Originated $966.9 million in loans, driving total loan growth of 19.7%, and 32.5% originated loan growth, with net charge-offs of only 12 basis points for 2015.
· Maintained a conservatively structured loan portfolio represented by diverse industries and conservative concentrations.
· Opportunistic capital management – repurchased 8.6 million shares, or 22.2%, at a weighted average price of $20.16. Since early 2013, we have repurchased 42.3% of our shares outstanding, at a weighted average price of $19.88.
· Maintained focus on expenses and enhancing operational efficiencies – 2015 operating expenses, net of Pine River operating expenses, decreased 3.2% from the prior year.

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- Converted core operating systems during 2015, resulting in expected annual savings of approximately $4.0 million per year.
- Completed the acquisition of Pine River on August 1, 2015 for $9.5 million cash. The acquisition resulted in a $1.0 million bargain purchase gain. Assets and liabilities recorded at fair value included cash and investments of $64.4 million; loans of $64.3 million; and deposits of $130.1 million.
- Completed regulatory initiatives, including the termination of operating agreement with the OCC, the termination of the loss-share agreements with the FDIC with a $4.9 million gain, and the Bank's charter conversion from a national association to a Colorado state-chartered bank.

Loan portfolio

- Total loans ended 2015 at $2.6 billion, a 19.7% increase from the prior year.
- Organic loan originations totaled $966.9 million, an 11.2% increase from the prior year.
- Strategic loans at December 31, 2015 increased a strong $507.2 million, or 25.9% from the prior year.
- Successfully exited $81.9 million, or 40.6%, of the remaining acquired non-strategic loan portfolio during 2015.
- Maintained a diverse loan portfolio with no single industry sector comprised more than 15% of total loan exposure.

Credit quality

Non 310-30 loans

- Net charge-offs in the non 310-30 portfolio remained low at just 0.12% during 2015.
- Credit quality remained strong, as 90 days past due and non-accruing loans were just 1.08% of total loans at December 31, 2015. Non performing non 310-30 assets to total non 310-30 loans and OREO declined to 1.81% from 1.86% in the prior year.

ASC 310-30 loans

- Added a net $18.0 million to accretable yield for the acquired loans accounted for under ASC 310-30.
- Realized 19.9% yield on ASC 310-30 loans during 2015.
- 310-30 loans represented 7.8% of total loans at December 31, 2015, compared to 12.9% in the prior year.

Client deposit funded balance sheet

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Average transaction deposits and client repurchase agreements increased $237.9 million, or 9.5%, from the prior year.

- Relationship banking model drove solid growth in average demand deposits, adding $81.6 million, or 11.6%, from prior year.
- Total deposits increased $74.5 million, or 2.0%, from 2014, driven by growth of $240.6 million, or 9.5%, in transaction deposits and client repurchase agreements, offset by a decrease in higher-cost average time deposits $140.6 million, or 9.9%.
- Strongly client-funded balance sheet, with total deposits and client repurchase agreements comprising 97.8% of total liabilities as of December 31, 2015.

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Revenues and expenses

- Net interest income totaled $156.9 million and decreased $13.3 million, or 7.8%, from 2014, primarily driven by lower levels of higher-yielding acquired loans.
- The continued resolution of the higher-yielding acquired non-strategic loan portfolio and higher levels of lower-yielding short-term investments led to a 25 basis point narrowing of the fully taxable equivalent net interest margin to 3.60% from 3.85%.
- Banking related non-interest income totaled $33.0 million during 2015, an increase of $2.6 million, or 8.6%, compared to 2014, as a result of increases in bank card fees, gain on sales of mortgages, mark-to-market adjustments related to fair value interest rate swaps on fixed-rate term loans, and bank-owned life insurance income.
- Total non-interest income for 2015 was $21.4 million compared to a negative $1.7 million in 2014, an increase of $23.1 million. The increase was largely due to $21.1 million higher FDIC related income driven by $7.0 million less indemnification amortization, $9.2 million increase in other FDIC loss-share income, and a $4.9 million gain on the termination of the FDIC loss-share agreements.
- Non-interest expense totaled $158.0 million in 2015, an increase of $8.0 million from 2014. The increase was driven by lower year-over-year OREO gains of $7.0 million, one-time core system conversion-related expenses of $3.0 million, efficiency initiative expenses related to severance accruals and banking center consolidation expense accruals of $2.4 million, the change in warrant liability fair value adjustments of $3.1 million, and $2.1 million related to the addition of Pine River.
- Our non-GAAP measure of operating expenses (excludes OREO expenses, problem loan expense, and one-time expenses related to the impact from the change in the warrant liability, contract termination expenses, banking center consolidation expense accruals, severance expense accruals, core system conversion-related expenses, acquisition-related expenses) totaled $145.9 million and decreased a net $4.8 million, or 3.2%, from 2014, as a result of management expense initiatives, led by banking center consolidations and successful vendor contract negotiations, while covering $1.4 million of additional Pine River Valley Bank operating expenses.
- Problem loan/OREO workout expenses totaled $4.5 million for 2015, increasing $6.4 million from the prior year. The increase was driven by lower year-over-year OREO gains of $7.0 million.

Strong capital position

- Capital ratios are strong as our capital position remains well in excess of federal bank regulatory thresholds. As of December 31, 2015, our consolidated tier 1 leverage ratio was 11.75% and our consolidated tier 1 risk-based capital and common equity tier 1 risk-based capital ratios were both 17.48%.
- The excess accretable yield on ASC 310-30 loans above a 4.0% yield (an approximate yield on new loan originations), and discounted at 5%, adds $1.21 after-tax to our tangible book value per share as of December 31, 2015, resulting in a tangible common book value per share of $19.43.
- During 2015, we repurchased 8.6 million shares, or 22.2% of outstanding shares, at a weighted average price of $20.16 per share. Since early 2013, we have repurchased 22.1 million shares, or 42.3% of then outstanding shares, at an attractive weighted average price of $19.88 per share.
- In January 2016, we authorized a new program to repurchase up to $50.0 million of the Company’s common stock.

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Key Challenges

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

General economic conditions continued to modestly improve in 2015, but continue to be somewhat dampened by the uncertainty about the strength of the recovery, both nationally and in our markets. Residential real estate values have largely recovered from their lows and commercial real estate property fundamentals continued to improve in our markets and nationally across all property types and classes. We consider this with guarded optimism. A significant portion of our loan portfolio is secured by real estate and any deterioration in real estate values or credit quality or elevated levels of non-performing assets would ultimately have a negative impact on the quality of our loan portfolio.

Oil and gas prices declined significantly during 2014 and remained depressed throughout 2015. The full impact to the broad economy, to banks in general, and to us, is yet to be determined. Energy loans comprise only 5.7% of our total loans; however, prolonged or further pricing pressure on oil and gas could lead to increased credit stress in our energy portfolio. Suppressed energy prices may lead to an increase in consumer spending in the short term, but the decline could have unpredictable secondary impacts such as job losses in industries tied to energy, lower borrowing needs, higher transaction deposit balances or a number of other effects that are difficult to isolate or quantify.

Our total loan balances increased $425.3 million during 2015, or 19.7%, on the strength of $966.9 million of loan originations, partially offset by loan paydowns, particularly in our non-strategic portfolio. Our acquired loans have produced higher yields than our originated loans, due to the recognition of accretion of fair value adjustments and accretable yield. The tepid economic recovery and intense loan competition have kept interest rates low during 2015, limiting the yields we have been able to obtain on originated loans. During 2015, our weighted average yield on loan originations was 3.52% (fully taxable equivalent), which is lower than the 2014 weighted average yield of our total loan portfolio of 3.78% (fully taxable equivalent). We expect downward pressure on the yields on our total loan portfolio to the extent that our originated loan portfolio does not provide sufficient yields to replace the high yields on the acquired loan portfolio as they pay down or pay off. Growth in our interest income will ultimately be dependent on our ability to generate sufficient volumes of high-quality originated loans.

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

Performance Overview

As a financial institution, we routinely evaluate and review our consolidated statements of financial condition and results of operations. We evaluate the levels, trends and mix of the statements of financial condition and statements of operations line items and compare those levels to our budgeted expectations, our peers, industry averages and trends.

Within our statements of financial condition, we specifically evaluate and manage the following:

Loan balances - We monitor our loan portfolio to evaluate loan originations, payoffs, concentrations and profitability. We forecast loan originations and payoffs within the overall loan portfolio, and we work to resolve problem loans and OREO in an expeditious manner. We track the runoff of our “non-strategic” loans and put particular emphasis on the buildup of “strategic” relationships.

Asset quality - We monitor the asset quality of our loans and OREO through a variety of metrics, and we work to resolve problem assets in an efficient manner. Specifically, we monitor the resolution of problem loans through payoffs, pay downs, troubled debt restructurings and foreclosure activity. We marked all of our acquired assets to fair value at the date of their respective acquisitions, taking into account our estimation of credit quality.

Many of the loans that we acquired in the Hillcrest Bank, Bank of Choice and Community Banks of Colorado acquisitions had deteriorated credit quality at the respective dates of acquisition. These loans are accounted for under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. This guidance is described more fully below under "Application of Critical Accounting Policies" and in note 2 in our consolidated financial statements.

Our evaluation of traditional credit quality metrics and the allowance for loan losses ("ALL") levels, especially when compared to industry averages or to other financial institutions, takes into account that any credit quality deterioration that existed at the date of acquisition was considered in the original valuation of those assets on our balance sheet. These factors limit the comparability of our credit quality and ALL levels to peers or other financial institutions.

Deposit balances - We monitor our deposit levels by type, market and rate. Our loans are funded through our deposit base, and we seek to optimize our deposit mix in order to provide reliable, low-cost funding sources.

Liquidity - We monitor liquidity based on policy limits and through projections of sources and uses of cash. In order to test the adequacy of our liquidity, we routinely perform various liquidity stress test scenarios that incorporate wholesale funding maturities, if any, certain deposit run-off rates and access to borrowings. We manage our liquidity primarily through our balance sheet mix, including our cash and our investment security portfolio, and the interest rates that we offer on our loan and deposit products, coupled with contingency funding plans as necessary.

Capital - We monitor our capital levels, including evaluating the effects of share repurchases and potential acquisitions, to ensure continued compliance with regulatory requirements. We review our tier 1 leverage capital ratios, common equity tier 1 ratios, our tier 1 risk-based capital ratios and our total risk-based capital ratios on a regular basis.

Within our consolidated results of operations, we specifically evaluate the following:

Net interest income - Net interest income represents the amount by which interest income on interest earning assets exceeds interest expense incurred on interest bearing liabilities. We generate interest income through interest and dividends on loans, investment securities and interest bearing bank deposits. Our acquired loans have generally provided higher yields than our originated loans due to the recognition of accretion of fair value adjustments and accretable yield, and as a result, we have historically had downward pressure on our interest income. While there is still some volatility in our interest income due to the nature of our portfolio, solid loan originations are helping to stabilize interest income by offsetting the decrease in interest income from the higher yielding acquired loans with the interest income earned on new loan originations. We incur interest expense on our interest bearing deposits, repurchase agreements and on our FHLB advances, and we would also incur interest expense on any future borrowings, including any debt assumed in acquisitions. We strive to maximize our interest income by acquiring and originating loans and investing excess cash in investment securities. Furthermore, we seek to minimize our interest expense through low-cost funding sources, thereby maximizing our net interest income.

Provision for loan losses - The provision for loan losses includes the amount of expense that is required to maintain the ALL at an adequate level to absorb probable losses inherent in the non 310-30 loan portfolio at the balance sheet date. Additionally, we incur a provision for loan losses on loans accounted for under ASC 310-30 as a result of a decrease in the net present value of the expected future cash flows during the periodic remeasurement of the cash flows associated with these pools of loans. The determination of the amount of the provision for loan losses and the related ALL is complex and involves a high degree of judgment and subjectivity to maintain a level of ALL that is considered by management to be appropriate under GAAP.

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Non-interest income - Non-interest income consists of service charges, bank card fees, increase in bank-owned life insurance value, gains on sales of mortgages, gains on sales of investment securities, gains on previously charged-off acquired loans, bargain purchase gains, OREO related write-ups and other income and other non-interest income. Also included in non-interest income is FDIC indemnification asset amortization and other FDIC loss sharing income (expense) for the year, prior to the Company's termination of the FDIC loss-share agreements during the fourth quarter of 2015. This income (expense) consists of reimbursement of costs related to the resolution of covered assets, and amortization of our clawback liability. For additional information, see "Application of Critical Accounting Policies-Acquisition Accounting Application and the Valuation of Assets Acquired and Liabilities Assumed" and note 2 in our consolidated financial statements. Due to fluctuations in the amortization rates on the FDIC indemnification asset and the amortization of the clawback liability and due to varying levels of expenses and income related to the resolution of covered assets, the FDIC loss sharing income is not consistent on a period-to-period basis.

Non-interest expense - The primary components of our non-interest expense are salaries and benefits, occupancy and equipment, telecommunications and data processing and intangible asset amortization. Any expenses related to the resolution of problem assets are also included in non-interest expense. These expenses are dependent on individual resolution circumstances and, as a result, are not consistent from period to period. We seek to manage our non-interest expense in order to maximize efficiencies.

Net income - We utilize traditional industry return ratios such as return on average assets, return on average tangible assets, return on average equity and, return on average tangible equity to measure and assess our returns in relation to our balance sheet profile.

Application of Critical Accounting Policies

We use accounting principles and methods that conform to GAAP and general banking practices. We are required to apply significant judgment and make material estimates in the preparation of our financial statements and with regard to various accounting, reporting and disclosure matters. Assumptions and estimates are required to apply these principles where actual measurement is not possible or practical. The most significant of these estimates relate to the fair value determination of assets acquired and liabilities assumed in business combinations, the accounting for acquired loans and the determination of the ALL. These critical accounting policies and estimates are summarized below, and are further analyzed with other significant accounting policies in note 2, "Summary of Significant Accounting Policies" in the notes to our consolidated financial statements for the year ended December 31, 2015.

Valuation of Assets Acquired and Liabilities Assumed in Business Combinations

We account for business combinations under the acquisition method of accounting in accordance with ASC Topic 805, Business Combinations. Assets acquired and liabilities assumed are measured and recorded at fair value at the date of acquisition, including any identifiable intangible assets. The initial fair values are determined in accordance with the guidance provided in ASC Topic 820, Fair Value Measurements and Disclosures. If the fair value of net assets acquired exceeds the fair value of consideration paid, a bargain purchase gain is recognized at the date of acquisition. Conversely, if the consideration paid exceeds the fair value of the net assets acquired, goodwill is recognized at the acquisition date. The determination of fair value requires the use of estimates and significant judgment is required. Fair values are subject to refinement for up to one year after the closing date of an acquisition as information relative to closing date fair values becomes available. Adjustments recorded to the acquired assets and liabilities are applied prospectively in accordance with FASB Accounting Standards Update (“ASU”) 2015-16. Any change in the acquisition date fair value of assets acquired and liabilities assumed may materially affect our financial position, results of operations and liquidity.

The determination of the fair value of loans acquired takes into account credit quality deterioration and probability of loss; therefore, the related ALL is not carried forward. We segregate loans based on the accounting treatment into (a) loans accounted for under ASC 310-30 and (b) loans excluded from ASC 310-30, which also includes our originated loans.

OREO is recorded at fair value, less estimated selling costs. The fair value of OREO property is generally estimated using both market and income approach valuation techniques incorporating observable market data to formulate an opinion of the estimated fair value. When current appraisals are not available, judgment is used based on management's experience for similar properties.

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

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The fair value of core deposit intangible assets is determined based on a discounted cash flow methodology that considers primary asset attributes such as expected client runoff rates, cost of the deposit base, and reserve requirements.

Accounting for Acquired Loans

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

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

Loan pools accounted for under ASC 310-30 are periodically remeasured to determine expected future cash flows. In determining the expected cash flows, we evaluate the credit profile, contractual interest rates, collateral values and expected prepayments of the loan pools. Prepayment assumptions are based on statistical models that take into account factors such as the loan interest rate, credit profile of the borrowers, the years in which the loans were originated, and whether the loans were fixed or variable rate loans. Decreases to the expected future cash flows in the applicable pool generally result in an immediate provision for loan losses charged to the consolidated statements of operations. Conversely, subsequent increases in the expected future cash flows result in a transfer from the non-accretable difference to the accretable yield, which is then accreted as a yield adjustment over the remaining life of the pool once any previously recorded impairment expense has been recouped. These cash flow estimations are inherently subjective as they require material estimates, all of which may be susceptible to significant change.

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

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Allowance for Loan Losses

The determination of the ALL, which represents management's estimate of probable losses inherent in our loan portfolio at the balance sheet date, including acquired loans to the extent necessary, involves a high degree of judgment and complexity. The determination of the ALL takes into consideration, among other matters, the estimated fair value of the underlying collateral, economic conditions, particularly as such conditions relate to the market areas in which we operate, historical net loan losses and other factors that warrant recognition. Any change in these factors, or the rise of any other factors that we, or our regulators, may deem necessary to consider when estimating the ALL, may materially affect the ALL and provisions for loan losses. For further discussion of the ALL, see "—Financial Condition—Asset Quality" and "—Financial Condition—Allowance for Loan Losses" and notes 2 and 7 to our consolidated financial statements.

Financial Condition

Total assets were $4.7 billion at December 31, 2015 compared to $4.8 billion at December 31, 2014. During the year ended 2015, the decrease from the investment securities portfolio and non-strategic loans was used to fund loan growth. Total loans were $2.6 billion at December 31, 2015, and grew $425.3 million, or 19.7% from December 31, 2014. We originated $966.9 million of loans during 2015, which grew the balances in our strategic portfolio $507.2 million year-over-year, or 25.9%. We reduced our non-strategic loan portfolio $81.9 million from December 31, 2014 to $119.8 million at December 31, 2015, or 40.6%, which was a reflection of our successful workout progress on acquired problem loans. OREO deceased $8.3 million, or 28.6%, as we continue to resolve problem assets. The indemnification asset and amounts due to the FDIC were eliminated from our consolidated statement of financial condition as of December 31, 2015 as a result of our termination of the loss-share agreements with the FDIC in the fourth quarter of 2015. Lower cost demand, savings, and money market ("transaction") deposits increased $237.9 million, or 9.5%, while average time deposits decreased $140.6 million, or 9.9%, as we continued to focus our deposit base on clients who were interested in market-rate time deposits and in developing a long-term banking relationship.

Total assets were $4.8 billion at December 31, 2014 compared to $4.9 billion at December 31, 2013, a decrease of $0.1 billion, or 1.9%. The decrease in total assets was primarily attributable to the successful repurchase of 6.1 million of our outstanding shares for $119.4 million. We continued our strategy of remixing our earning assets during 2014, using the run-off from the investment securities portfolio and non-strategic loans to fund loan growth. Total loans were $2.2 billion at December 31, 2014, and grew $308.3 million, or 16.6%, from December 31, 2013. We originated $869.2 million of loans during 2014, which grew the balances in our strategic portfolio $456.6 million from December 31, 2013 to December 31, 2014, or 30.4%. We reduced our non-strategic loan portfolio to $201.7 million at December 31, 2014, a decrease of $148.2 million from December 31, 2013, or 42.4%, which was a reflection of our successful workout progress on acquired problem loans (many of which were covered). Our FDIC indemnification asset decreased $25.4 million during 2014, primarily as a result of amortization that resulted from an increase in actual and expected cash flows on the underlying covered assets, resulting in lower expected reimbursements from the FDIC. Strong OREO sales late in the fourth quarter of 2014, coupled with a relatively flat loan growth during that quarter, resulted in a $67.5 million increase in cash and cash equivalents at December 31, 2014 compared to December 31, 2013. Other assets

increased $38.3 million due to the purchase of $44.2 million of bank-owned life insurance during 2014.
Total deposits of $3.8 billion at December 31, 2014 decreased $72.1 million from December 31, 2013.
Lower-cost demand, savings, and money market ("transaction") deposits increased $66.5 million and was more than offset by a $138.6 million decrease in time deposits as we continued to focus our deposit base on clients who were interested in market-rate time deposits and in developing a banking relationship, coupled with the California banking center and limited-service retirement center exits on December 31, 2013.

Investment Securities

Available-for-sale

Total investment securities available-for-sale were $1.2 billion at December 31, 2015, compared to $1.5 billion at December 31, 2014, a decrease of $0.3 billion, or 20%. During 2015, maturities and pay downs of available-for-sale securities totaled $314.3 million. There were no purchases of available-for-sale securities during 2015. Available-for-sale securities acquired from the Pine River acquisition totaled $30.1 million at the date of acquisition. Shortly after the acquisition date, the Company sold $29.8 million of the acquired securities and recorded no gain or loss.

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

	December 31, 2015				December 31, 2014			
	Amortized cost	Fair value	Percent of portfolio	Weighted average yield	Amortized cost	Fair value	Percent of portfolio	Weighted average yield
ortgage-backed curities ("MBS"):								
sidential ortgage ss-through curities issued guaranteed by S. Government encies sponsored terprises	$ 305,773	$ 310,978	26.87 %	2.24%	$ 395,244	$ 404,215	27.33 %	2.11
her residential BS issued or aranteed by S. Government encies or onsored terprises	861,321	845,543	73.07 %	1.74%	1,088,834	1,074,580	72.64 %	1.75
her securities	725	725	0.06 %	0.00%	419	419	0.03 %	0.00
tal investment curities ailable-for-sale	$ 1,167,819	$ 1,157,246	100.00%	1.87%	$ 1,484,497	$ 1,479,214	100.00%	1.85

As of December 31, 2015 and 2014, except for other securities, the entire available-for-sale investment portfolio was backed by mortgages. The residential mortgage pass-through securities portfolio is comprised of both fixed rate and adjustable rate Federal Home Loan Mortgage Corporation ("FHLMC"), Federal National Mortgage Association ("FNMA") and Government National Mortgage Association ("GNMA") securities. The other mortgage-backed securities are comprised of securities backed by FHLMC, FNMA and GNMA securities.

At December 31, 2015 and 2014, adjustable rate securities comprised 7.3% and 7.4%, respectively, of the available-for-sale MBS portfolio. The remainder of the portfolio was comprised of fixed rate amortizing securities with 10 to 30 year contractual maturities, with a weighted average coupon of 2.1% per annum and 2.2% per annum at December 31, 2015 and 2014, respectively.

The estimated weighted average life of the available-for-sale MBS portfolio as of December 31, 2015 and 2014 was 3.6 years and 3.5 years, respectively. This estimate is based on various assumptions, including repayment characteristics and portfolio aging, and actual results may differ. As of December 31, 2015 2014, the duration of the total available-for-sale investment portfolio was 3.4 years and 3.2 years, respectively.

The available-for-sale investment portfolio included $19.9 million and $21.8 million of gross unrealized losses at December 31, 2015 and 2014, respectively, which were partially offset by $9.4 million and $16.5 million of gross unrealized gains, respectively. In addition to the U.S. Government agency or sponsored enterprise backings of our MBS portfolio, we believe any unrecognized losses are a result of prevailing interest rates, and as such, we do not believe that any of the securities with unrealized losses were other-than-temporarily-impaired.

Held-to-maturity

At December 31, 2015, we held $427.5 million of held-to-maturity investment securities, compared to $530.6 million at December 31, 2014, a decrease of $103.1 million, or 19.4%. The Company purchased $6.2 million of held-to-maturity securities during 2015.

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

	December 31, 2015				December 31, 2014			
	Amortized cost	Fair value	Percent of portfolio	Weighted average yield	Amortized cost	Fair value	Percent of portfolio	Weighted average yield
Mortgage-backed securities (“MBS”):								
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ 340,131	$ 342,812	79.56 %	3.24%	$ 422,622	$ 428,323	79.65 %	3.25%
Other residential MBS issued or guaranteed by U.S. Government	87,372	85,773	20.44 %	1.69%	107,968	106,314	20.35 %	1.68%

agencies or sponsored enterprises								
Total investment securities held-to-maturity	$ 427,503	$ 428,585	100.00%	2.92%	$ 530,590	$ 534,637	100.00%	2.93%

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

The fair value of the held-to-maturity investment portfolio was $428.6 million and $534.6 million, at December 31, 2015 and 2014, respectively, and included $1.1 million of net unrealized gains and $4.0 million of net unrealized losses for the respective periods.

The estimated weighted average life of the held-to-maturity investment portfolio was 3.7 years and 3.4 years as of December 31, 2015 and 2014, respectively. The duration of the total held-to-maturity investment portfolio was 3.4 years and 3.2 years as of December 31, 2015 and 2014, respectively.

Non-marketable securities

Non-marketable securities include Federal Reserve Bank ("FRB") stock, Federal Home Loan Bank (“FHLB”) stock, and non-negotiable certificates of deposit. At December 31, 2015 and 2014, we held $14.1 million and $19.5 million, respectively, of FRB stock. At December 31, 2015 and 2014, we held $7.4 million and $7.6 million of FHLB stock, respectively. We hold these securities in accordance with debt and regulatory requirements. At December 31, 2015, we held $1.0 million of non-negotiable certificates of deposit acquired in the Pine River acquisition. These are restricted securities which lack a market and are therefore carried at cost.

Loans Overview

At December 31, 2015, our loan portfolio was comprised of new loans that we have originated and loans that were acquired in connection with our five acquisitions to date.

As discussed in note 2 to our consolidated financial statements, in accordance with applicable accounting guidance, all acquired loans are recorded at fair value at the date of acquisition, and an allowance for loan losses is not carried over with the loans but, rather, the fair value of the loans encompasses both credit quality and contractual interest rate considerations. Loans that exhibit signs of credit deterioration at the date of acquisition are accounted for in accordance with the provisions of ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality (“ASC 310-30”). Management accounted for all loans acquired in the Hillcrest Bank, Bank of Choice and Community Banks of Colorado acquisitions under ASC 310-30, with the exception of loans with revolving privileges, which were outside the scope of ASC 310-30. In our Bank Midwest transaction, we did not acquire all of the loans of the former Bank Midwest but, rather, selected certain loans based upon specific criteria of performance, adequacy of collateral, and loan type that were performing at the time of acquisition. As a result, none of the loans acquired in the Bank

Midwest transaction are accounted for under ASC 310-30. None of the loans acquired in the Pine River transaction are accounted for under ASC 310-30.

Consistent with differences in the accounting, the loan portfolio is presented in two categories: (i) ASC 310-30 loans and (ii) non 310-30 loans. Additionally, inherent in the nature of acquiring problem banks, only certain of our acquired clients conform to our long-term business model of in-market, relationship-oriented banking clients. We have developed a management tool to evaluate the progress of working out the problem loans acquired in our FDIC-assisted acquisitions and the progress of organic loan growth, whereby we have designated loans as “strategic” or “non-strategic.” Strategic loans include all originated loans in addition to those acquired loans inside our operating markets that meet our credit risk profile. Identification as strategic for acquired loans was made at the time of acquisition. Criteria utilized in the designation of a loan as “strategic” include (a) geography, (b) total relationship with borrower and (c) credit metrics commensurate with our current underwriting standards. We believe this presentation of our loan portfolio provides a meaningful basis to understand the underlying drivers of changes in our loan portfolio balances.

Due to the unique structure and accounting treatment in our loan portfolio, we utilize three primary presentations to analyze our loan portfolio, depending on the purpose of the analysis. Those are:

To analyze:	We look at:
Loan growth and production efforts	Strategic balances and loan originations
Workout efforts of our acquired non-strategic portfolio	Non-strategic balances and accretable yield
Interest income	Non 310-30 yields and 310-30 yields

For information regarding the loan portfolio composition and the breakdown of the portfolio between ASC 310-30 loans, and non 310-30 loans, see note 7.

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Strategic loans comprised 95.4% of the total loan portfolio at December 31, 2015, compared to 90.7% at December 31, 2014. The table below shows the loan portfolio composition categorized between strategic and non-strategic at the respective dates:

	December 31, 2015			December 31, 2014		
	Strategic	Non-strategic	Total	Strategic	Non-strategic	Total
Commercial	$ 1,047,053	$ 5,723	$ 1,052,776	$ 765,114	$ 30,282	$ 795,396
Agriculture	160,824	1,486	162,310	135,559	1,972	137,531
Owner-occupied commercial real estate	200,218	12,115	212,333	140,729	19,228	159,957
Commercial real estate	353,001	89,885	442,886	275,311	126,326	401,637
Residential real estate	674,351	9,651	684,002	610,583	22,117	632,700
Consumer	32,398	968	33,366	33,371	1,817	35,188
Total	$ 2,467,845	$ 119,828	$ 2,587,673	$ 1,960,667	$ 201,742	$ 2,162,409

Our loan portfolio totaled $2.6 billion at December 31, 2015 and increased $425.3 million from December 31, 2014. The 19.7% increase in total loans was primarily driven by a $507.2 million, or 25.9%, increase in our strategic loan portfolio, partially offset by an $81.9 million decrease in our non-strategic loan portfolio. The increase in strategic loans was driven by strong loan originations of $966.9 million, as we have successfully continued to generate new relationships with small to medium-sized businesses and individuals. We have experienced particularly strong loan growth in our commercial portfolio, which at December 31, 2015, was comprised of public administration-related loans of $259.2 million, energy-related loans of $146.9 million, finance and insurance-related loans of $100.9 million, manufacturing-related loans of $70.1 million, and a variety of smaller subcategories of commercial and industrial loans. Our enterprise-level dedicated special asset resolution team has had continued success working out non-strategic loans acquired in our FDIC-assisted transactions, which complimented the repayment of non-strategic loans.

Included in our commercial loans are energy-related loans that comprised 5.7% of total loans, 3.4% of interest earning assets and 28.3% of the Bank's tier 1 capital at December 31, 2015. The average loan balance per relationship in the energy sector was $5.2 million at December 31, 2015. Energy production (loans to companies engaged in exploration and production), energy midstream (loans to companies that engage in consolidation, storage, and transportation of oil and gas) and energy services (loans to companies that provide products and services to oil/gas companies), made up 40.0%, 40.5% and 19.5%, respectively, of the total energy related portfolio at December 31, 2015. Unfunded commitments to energy clients totaled $97.7 million at December 31, 2015, including $59.6 million to production clients, $26.1 million to midstream clients and $12.0 million to services clients. We may not be contractually required to fund certain amounts depending on the individual circumstances of each client. We have an experienced energy banking team, which includes an in-house petroleum geologist and we have maintained a disciplined approach to energy lending that includes carefully selected clients based on strong balance sheets, low leverage and quality management and we perform regular credit reviews. Energy prices declined significantly during 2014 and 2015 and prolonged or further pricing pressure could increase stress on our energy clients and ultimately the credit quality of this portfolio. However, the capital and liquidity of our energy clients, as well as the conservative loan structures, is expected to protect us against significant credit loss.

Loans in the production subsector totaled $58.8 million of the energy loan balances at December 31, 2015, with an average balance per client of $4.5 million. We lend only against proven reserves of our production clients and on a senior secured basis. Our production clients have net debt to proven reserves ranging from 0% to 65%, with an average of 27%. Net debt to total capitalization for our production clients ranges from 0% to 80%, with an average of 21%. Borrowing base commitment utilization remains low at 48%. With the exception of one client with an outstanding balance of $6.2 million that we classified due to liquidity constraints, as of December 31, 2015, our production clients have liquidity on hand to cover operating cost for 14 to 137 months. Excluding the one classified client in the production sector, at December 31, 2015, this sector has a ratio of net debt to EBITDA ranging from 0 to 2.6 times, with an average of 1.15 times. This compares very favorably to the average for large cap production companies, as reported recently by Wells Fargo Securities at 2.6 times.

Loans in the midstream subsector totaled $59.5 million, with an average balance per client of $11.9 million. Our five midstream clients have a ratio of senior secured debt to EBITDA ranging from 1.3 times to 6.1 times with a median of 3.9 times. Senior secured debt to total assets ranges from 10% to 80% with an average of only 40%. One of our midstream clients represents an outlier with senior secured debt above 4.5 times and senior secured debt to total assets above 51%. This client is working on several strategies to reduce its leverage to be in line with other clients. Generally, we consider senior secured debt to EBITDA of less than 5 times to represent acceptable leverage for a midstream company.

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Loans in the services subsector totaled $28.6 million, with an average balance per client of $2.9 million. As duration of low oil prices persisted and worsened in the latter half of 2015, we identified two loans within our energy services subsector that we moved to non-accrual in third quarter of 2015. These two loans account for $12.0 million of the $28.6 million in energy services loan balances as of December 31, 2015. We have specific reserves of $2.1 million against these non-accruals, and are working with both clients on resolution strategies. The remaining energy services clients are effectively managing capital, liquidity and cash flow in the face of the protracted and severe downturn in the industry and are prepared for long scenario continuing low oil prices and have senior debt to assets ranging from 50% to 71% with an average of 59%.

As of December 31, 2015, our non-owner occupied commercial real estate totaled $442.9 million and was only 85% of bank tier-1 capital. Multi-family exposure totaled $7.8 million, or 1.8%, of non-owner occupied commercial real estate loans as of December 31, 2015, and no specific property type comprised more than 3.4% of total loans.

Our loan origination strategy involves lending primarily to clients within our markets; however, our acquired loans include clients in various geographies. Additionally, our specialty commercial banking groups, and in particular, our capital finance and government and non-profit banking, cover regional markets including adjacent states. These specialty lending groups drove the year-over-year increase in loans noted as “other” in the table below.

The table below shows the geographic breakout of our loan portfolio at December 31, 2015 and 2014, based on the domicile of the borrower or, in the case of collateral-dependent loans, the geographic location of the collateral:

	December 31, 2015		December 31, 2014	
	Loan balance	Percent of loan portfolio	Loan balance	Percent of loan portfolio
Colorado	$ 1,120,806	43.3 %	$ 850,778	39.3 %
Missouri	651,386	25.2	518,623	24.0
Texas	274,012	10.6	248,262	11.5
Kansas	198,374	7.7	228,612	10.6
California	53,313	2.1	44,694	2.1
Other	289,782	11.1	271,440	12.5
Total	$ 2,587,673	100.0%	$ 2,162,409	100.0%

New loan origination is a direct result of our ability to recruit and retain top banking talent, connect with clients in our markets and provide needed services at competitive rates. New loan originations of $966.9 million during 2015, increased $97.6 million, or 11.2%, from 2014 as a result of continued market penetration. The following table represents new loan originations during 2015 and 2014:

	Fourth quarter 2015	Third quarter 2015	Second quarter 2015	First quarter 2015	Total 2015
Commercial	$ 123,739	$ 151,434	$ 147,321	$ 129,120	$ 551,614
Agriculture	24,194	11,295	19,019	3,605	58,113
Owner-occupied commercial real estate	13,395	12,095	17,566	12,778	55,834
Commercial real estate	23,260	36,480	38,113	21,898	119,751
Residential real estate	50,387	36,808	44,699	33,042	164,936
Consumer	3,086	5,616	4,669	3,247	16,618
Total	$ 238,061	$ 253,728	$ 271,387	$ 203,690	$ 966,866

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	Fourth quarter 2014	Third quarter 2014	Second quarter 2014	First quarter 2014	Total 2014
Commercial	$ 102,732	$ 110,083	$ 133,671	$ 130,096	$ 476,582
Agriculture	4,952	7,014	10,288	4,959	27,213
Owner-occupied commercial real estate	11,139	10,293	28,803	21,002	71,237
Commercial real estate	27,617	33,817	45,903	29,633	136,970
Residential real estate	31,680	35,404	44,539	27,812	139,435
Consumer	4,111	6,678	3,556	3,461	17,806
Total	$ 182,231	$ 203,289	$ 266,760	$ 216,963	$ 869,243

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

	December 31, 2015			
	Due within 1 Year	Due after 1 but within 5 Years	Due after 5 Years	Total
Commercial	$ 86,592	$ 579,815	$ 386,369	$ 1,052,776
Agriculture	40,982	80,268	41,060	162,310
Owner-occupied commercial real estate	17,772	77,673	116,889	212,334
Commercial real estate	95,100	269,582	78,204	442,886
Residential real estate	10,681	33,438	639,883	684,002
Consumer	9,469	17,820	6,077	33,366
Total loans	$ 260,596	$ 1,058,596	$ 1,268,482	$ 2,587,673

	December 31, 2014			
	Due within 1 Year	Due after 1 but within 5 Years	Due after 5 Years	Total
Commercial	$ 118,569	$ 502,622	$ 174,205	$ 795,396
Agriculture	36,769	49,032	51,730	137,531
Owner-occupied commercial real estate	19,048	65,963	74,946	159,957
Commercial real estate	93,040	222,984	85,613	401,637
Residential real estate	22,678	37,900	572,122	632,700
Consumer	12,899	16,115	6,174	35,188
Total loans	$ 303,003	$ 894,616	$ 964,790	$ 2,162,409

The stated interest rate sensitivity (which excludes the effects of non-refundable loan origination and commitment fees, net of costs and the accretion of fair value marks) of non 310-30 loans with maturities over one year is as follows at the dates indicated:

	December 31, 2015					
	Fixed		Variable		Total	
	Balance	Weighted average rate	Balance	Weighted average rate	Balance	Weighted average rate
Commercial(1)	$ 453,179	3.33 %	$ 505,134	3.58 %	$ 958,313	3.47 %
Agriculture	49,261	4.69 %	56,076	3.73 %	105,337	4.18 %
Owner-occupied commercial real estate	85,036	4.43 %	88,090	4.04 %	173,126	4.23 %
Commercial real estate	137,124	4.56 %	162,781	3.43 %	299,905	3.95 %
Residential real estate	359,657	3.50 %	294,051	3.73 %	653,708	3.61 %
Consumer	17,822	4.68 %	3,652	4.10 %	21,474	4.58 %
Total loans with > 1 year maturity	$ 1,102,079	3.71 %	$ 1,109,784	3.65 %	$ 2,211,863	3.68 %

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	December 31, 2014					
	Fixed		Variable		Total	
	Balance	Weighted average rate	Balance	Weighted average rate	Balance	Weighted average rate
Commercial(1)	$ 222,448	3.80 %	$ 443,305	3.63 %	$ 665,753	3.68 %
Agriculture	45,721	4.83 %	37,533	4.58 %	83,254	4.72 %
Owner-occupied commercial real estate	68,723	4.31 %	44,482	4.10 %	113,205	4.23 %
Commercial real estate	118,724	4.59 %	109,117	3.41 %	227,841	4.02 %
Residential real estate	341,833	3.48 %	236,365	3.59 %	578,198	3.53 %
Consumer	13,828	5.32 %	4,591	3.95 %	18,419	4.97 %
Total loans with > 1 year maturity	$ 811,277	3.91 %	$ 875,393	3.66 %	$ 1,686,670	3.78 %

(1) Included in commercial fixed rate loans are loans totaling $273.3 million and $68.8 million as of December 31, 2015 and 2014, respectively, that have been swapped to variable rates at current market pricing. Included in the commercial segment are tax exempt loans totaling $347.6 million and $117.5 million, with a weighted average rate of 3.18% and 3.42% at December 31, 2015 and 2014, respectively.

Accretable Yield

At December 31, 2015 and 2014, the accretable yield balance was $84.2 million and $113.5 million, respectively. During 2015 and 2014, we re-measured the expected cash flows quarterly for all 27 and 28 remaining loan pools, respectively, accounted for under ASC 310-30 utilizing the same cash flow methodology used at the time of acquisition. This re-measurement resulted in a net $18.0 million and $43.7 million reclassification from non-accretable difference to accretable yield as of December 31, 2015 and 2014, respectively.

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

	December 31, 2015	December 31, 2014
Remaining accretable yield on loans accounted for under ASC 310-30	$ 84,194	$ 113,463
Remaining accretable fair value mark on loans not accounted for under ASC 310-30	5,008	7,618
Total remaining accretable yield and fair value mark	$ 89,202	$ 121,081

Asset Quality

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

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

Additionally, we have implemented procedures to timely identify loans that may become problematic in order to ensure the most beneficial resolution to the Company. Asset quality is monitored by our credit risk management department and evaluated based on quantitative and subjective factors such as the timeliness of contractual payments received. Additional factors that are considered, particularly with commercial loans over $250,000, include the financial condition and liquidity of individual borrowers and guarantors, if any, and the value of collateral. To facilitate the oversight of asset quality, loans are categorized based on the number of days past due and on an internal risk rating system, and both are discussed in more detail below.

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

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

Non-performing Assets

Non-performing assets consist of non-accrual loans, troubled debt restructurings on non-accrual, OREO and other repossessed assets. Non-accrual loans and troubled debt restructurings on non-accrual accounted for under ASC 310-30, as described below, may be excluded from our non-performing assets to the extent that the cash flows of the loan pools are still estimable. During the third quarter of 2014, we revised our definition of non-performing assets and non-performing loans to exclude accruing loans 90 days past due and accruing troubled debt restructurings to more accurately align the financial metrics related to non-performing assets and non-performing loans with our financial results. Prior period information has been modified for this revision. Interest income that would have been recorded had nonaccrual loans performed in accordance with their original contract terms during 2015, 2014 and 2013, was $1.4 million, $1.2 million and $0.5 million, respectively.

Our acquired non-performing assets were marked to fair value at the time of acquisition, mitigating much of our loss potential on these non-performing assets. As a result, the levels of our non-performing assets are not fully comparable to those of our peers or to industry benchmarks.

Loans accounted for under ASC 310-30 were recorded at fair value based on cash flow projections that considered the deteriorated credit quality and expected losses. These loans are accounted for on a pool basis and any non-payment of contractual principal or interest is considered in our periodic re-measurement of the expected future cash flows. As a result of this accounting treatment, these pools may be considered to be performing, even though some or all of the individual loans within the pools may be contractually past due.

All loans accounted for under ASC 310-30 were classified as performing assets at December 31, 2015, as the carrying values of the respective loan or pool of loans cash flows were considered estimable and probable of collection. Therefore, interest income, through accretion of the difference between the carrying value of the loans in the pool and the pool's expected future cash flows, is being recognized on all acquired loans accounted for under ASC 310-30.

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

	December 31, 2015	December 31, 2014	December 31, 2013	December 31, 2012	December 31, 2011
Non-accrual loans:					
Commercial	$ 942	$ 221	$ 15,572	$ 1,547	$ 5,255
Agriculture	1,904	130	153	230	29
Owner-occupied commercial real estate	954	385	467	3,135	1,796
Commercial real estate	407	222	1,131	1,400	12,103
Residential real estate	3,617	2,845	3,437	3,936	2,298
Consumer	30	37	10	—	1
Total non-accrual loans	7,854	3,840	20,770	10,248	21,482
Restructured loans on non-accrual:					
Commercial	15,897	3,994	535	2,951	119
Agriculture	81	365	—	20	—
Owner-occupied commercial real estate	319	458	225	231	55
Commercial real estate	815	—	169	6,908	16,053
Residential real estate	679	1,966	2,408	2,471	61
Consumer	2	190	237	290	—
Total restructured loans on non-accrual	17,793	6,973	3,574	12,871	16,288
Total non-performing loans	25,647	10,813	24,344	23,119	37,770
OREO	20,814	29,120	70,125	94,808	120,636
Other repossessed assets	894	849	1,086	1,331	1,553
Total non-performing assets	$ 47,355	$ 40,782	$ 95,555	$ 119,258	$ 159,959
Loans 90 days or more past due and still accruing interest	$ 166	$ 263	$ 129	$ 25	$ 652
Accruing restructured loans	$ 8,403	$ 19,275	$ 11,605	$ 17,720	$ 12,325

ALL	$	27,119		$	17,613		$	12,521		$	15,380		$	11,527	
Total non-performing loans to total loans		0.99	%		0.50	%		1.31	%		1.26	%		1.66	%
Loans 90 days or more past due and still accruing interest to total loans		0.01	%		0.01	%		0.01	%		0.00	%		0.03	%
Total non-performing assets to total loans and OREO		1.81	%		1.86	%		5.00	%		6.19	%		6.71	%
ALL to non-performing loans		105.74	%		162.89	%		51.43	%		66.53	%		30.52	%

Total non-performing loans increased $14.8 million from December 31, 2014 to December 31, 2015. The primary driver was two energy services clients in the commercial segment, totaling $12.0 million that were restructured and put on non-accrual status during the year. During 2015, accruing TDRs decreased $10.9 million. The decrease was the result of payoffs of prior restructured loans, partially offset by a $6.3 million restructure of a relationship in the commerical segment.

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The OREO balance of $20.8 million at December 31, 2015, excludes $5.5 million of minority interest in participated OREO in connection with the repossession of collateral on loans for which we were not the lead bank and we do not have a controlling interest. These properties have been repossessed by the lead banks and we have recorded our receivable due from the lead banks in other assets as minority interest in participated OREO. During 2015, $4.6 million of OREO was foreclosed on or otherwise repossessed and $15.6 million of OREO was sold resulted in a net gain of $2.8 million. OREO write-downs of $1.6 million were recorded during 2015.

Total non-performing loans decreased $13.5 million from December 31, 2013 to December 31, 2014. The decrease was driven by a $15.5 million decrease in non-performing loans as a result of a 310-30 loan pool that was returned to accrual status during 2014. This decrease was offset by one restructured non 310-30 loan relationship in the commercial segment, totaling $3.6 million at December 31, 2014, that was placed on non-accrual status during 2014. The loans in this relationship were fully secured and current as to principal and interest payments at December 31, 2014.

During 2014, accruing TDRs increased $7.7 million compared to 2013. The increase was primarily attributable to two loans in the commercial segment with a recorded balance of $10.9 million and two loans in the agriculture segment with a recorded balance of $2.7 million, all of which have been granted an extension of maturity.

OREO balances were $29.1 million at December 31, 2014 and exclude $8.1 million of minority interest in participated OREO in connection with the repossession of collateral on loans for which we were not the lead bank and we do not have a controlling interest. These properties have been repossessed by the lead banks and we have recorded our receivable due from the lead banks in other assets as minority interest in participated OREO. During 2014, $4.5 million of OREO was foreclosed on or otherwise repossessed and $56.5 million of OREO was sold. The OREO sales resulted in $13.1 million of net gains. OREO write-downs of $2.1 million were recorded during 2014.

The following table represents the carrying value of our accruing and non-accrual loans compared to the unpaid principal balance ("UPB") as of December 31, 2015:

Accruing		Non-accrual	Total
Unpaid	Carrying	Unpaid	