

Edgar Filing: National Bank Holdings Corp - Form 10-Q

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

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-35654

NATIONAL BANK HOLDINGS CORPORATION  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)  
7800 East Orchard, Suite 300, Greenwood Village, Colorado 80111  
(Address of principal executive offices) (Zip Code)  
Registrant's telephone, including area code: (720) 529-3336

27-0563799  
(I.R.S. Employer  
Identification 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 whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

As of November 7, 2013, NBHC had outstanding 42,325,987 shares of Class A voting common stock and 3,127,774 shares of Class B non-voting common stock, each with \$0.01 par value per share.



|                                                                                                                                   | Page      |
|-----------------------------------------------------------------------------------------------------------------------------------|-----------|
| <u>Part I. Financial Information</u>                                                                                              |           |
| Item 1. <u>Financial Statements</u>                                                                                               | <u>3</u>  |
| <u>Unaudited Consolidated Statements of Financial Condition as of September 30, 2013 and December 31, 2012</u>                    | <u>3</u>  |
| <u>Unaudited Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2013 and 2012</u>            | <u>4</u>  |
| <u>Unaudited Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2013 and 2012</u>  | <u>5</u>  |
| <u>Unaudited Consolidated Statements of Changes in Stockholders' Equity for the Nine Months Ended September 30, 2013 and 2012</u> | <u>6</u>  |
| <u>Unaudited Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2013 and 2012</u>                      | <u>7</u>  |
| <u>Notes to Unaudited Consolidated Financial Statements</u>                                                                       | <u>9</u>  |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                              | <u>39</u> |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>                                                         | <u>80</u> |
| Item 4. <u>Controls and Procedures</u>                                                                                            | <u>80</u> |
| <u>Part II. Other Information</u>                                                                                                 |           |
| Item 1. <u>Legal Proceedings</u>                                                                                                  | <u>81</u> |
| Item 1A. <u>Risk Factors</u>                                                                                                      | <u>81</u> |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                                                        |           |
| Item 6. <u>Exhibits</u>                                                                                                           | <u>82</u> |
| <u>Signature Page</u>                                                                                                             | <u>83</u> |
| Exhibit 31.1 Certification of CEO Pursuant to Section 302 of Sarbanes- Oxley Act of 2002                                          |           |
| Exhibit 31.2 Certification of CFO Pursuant to Section 302 of Sarbanes- Oxley Act of 2002                                          |           |
| Exhibit 32 Certifications of CEO and CFO pursuant to 18 U.S.C. Section 1350                                                       |           |

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, notwithstanding that such statements are not specifically identified. Any statements about our expectations, beliefs, plans, predictions, forecasts, objectives, assumptions or future events or performance are not historical facts and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as “anticipate,” “believe,” “can,” “would,” “should,” “could,” “may,” “predict,” “anticipate,” “seek,” “potential,” “will,” “plan,” “project,” “continuing,” “ongoing,” “expect,” “intend” and similar words or phrases. These statements are only 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 recent joint final rules promulgated by the Federal Reserve Board, Office of the Comptroller of the Currency and the FDIC revising certain regulatory capital requirements to align with the Basel III capital standards and meet certain requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act);
- effects of inflation, as well as, interest rate, securities market and monetary supply fluctuations;
- changes in the economy or supply-demand imbalances affecting local real estate values;
- changes in consumer spending, borrowings and savings habits;
- our ability to identify potential candidates for, obtain regulatory approval, and consummate, acquisitions of financial institutions on attractive terms, or at all;
- our ability to integrate acquisitions and to achieve synergies, operating efficiencies and/or other expected benefits within expected time-frames, or at all, or within expected cost projections, and to preserve the goodwill of acquired financial institutions;
- our ability to achieve organic loan and deposit growth and the composition of such growth;
- changes in sources and uses of funds, including loans, deposits and borrowings;
- increased competition in the financial services industry, nationally, regionally or locally, resulting in, among other things, lower risk-adjusted returns;
- the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters;
- continued consolidation in the financial services industry;
- our ability to maintain or increase market share and control expenses;
- costs and effects of changes in laws and regulations and of other legal and regulatory developments, including, but not limited to, changes in regulation that affect the fees that we charge, the resolution of legal proceedings or regulatory or other governmental inquiries, and the results of regulatory examinations, reviews or other inquiries.
- technological changes;
- the timely development and acceptance of new products and services and perceived overall value of these products and services by our clients;

Edgar Filing: National Bank Holdings Corp - Form 10-Q

• changes in our management personnel and our continued ability to hire and retain qualified personnel;  
• ability to implement and/or improve operational management and other internal risk controls and processes and our reporting system and procedures;  
• regulatory limitations on dividends from our bank subsidiary;  
• changes in estimates of future loan reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements;  
• political instability, acts of war or terrorism and natural disasters;  
• impact of reputational risk on such matters as business generation and retention; and  
• our success at managing the risks involved in the foregoing items.

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

## PART I: FINANCIAL INFORMATION

## Item 1: FINANCIAL STATEMENTS

## NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Financial Condition (Unaudited)

(In thousands, except share and per share data)

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

Edgar Filing: National Bank Holdings Corp - Form 10-Q

|                                                                                    |             |             |
|------------------------------------------------------------------------------------|-------------|-------------|
| Total stockholders' equity                                                         | 1,031,250   | 1,090,559   |
| Total liabilities and stockholders' equity                                         | \$5,161,969 | \$5,410,775 |
| See accompanying notes to the unaudited consolidated interim financial statements. |             |             |



## NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Operations (Unaudited)

(In thousands, except share and per share data)

|                                                                | For the three months ended<br>September 30, |          | For the nine months ended<br>September 30, |           |
|----------------------------------------------------------------|---------------------------------------------|----------|--------------------------------------------|-----------|
|                                                                | 2013                                        | 2012     | 2013                                       | 2012      |
| Interest and dividend income:                                  |                                             |          |                                            |           |
| Interest and fees on loans                                     | \$35,328                                    | \$40,105 | \$105,783                                  | \$129,290 |
| Interest and dividends on investment securities                | 13,539                                      | 15,190   | 40,383                                     | 46,750    |
| Dividends on non-marketable securities                         | 388                                         | 377      | 1,170                                      | 1,142     |
| Interest on interest-bearing bank deposits                     | 267                                         | 370      | 762                                        | 1,595     |
| Total interest and dividend income                             | 49,522                                      | 56,042   | 148,098                                    | 178,777   |
| Interest expense:                                              |                                             |          |                                            |           |
| Interest on deposits                                           | 3,965                                       | 6,519    | 12,647                                     | 24,022    |
| Interest on borrowings                                         | 42                                          | 27       | 80                                         | 88        |
| Total interest expense                                         | 4,007                                       | 6,546    | 12,727                                     | 24,110    |
| Net interest income before provision for loan losses           | 45,515                                      | 49,496   | 135,371                                    | 154,667   |
| Provision for loan losses                                      | 437                                         | 5,263    | 3,524                                      | 25,325    |
| Net interest income after provision for loan losses            | 45,078                                      | 44,233   | 131,847                                    | 129,342   |
| Non-interest income:                                           |                                             |          |                                            |           |
| FDIC indemnification asset negative accretion                  | (4,208                                      | ) (2,832 | ) (11,843                                  | ) (9,165  |
| FDIC loss sharing income                                       | (1,191                                      | ) 1,503  | 3,278                                      | 9,278     |
| Service charges                                                | 4,334                                       | 4,466    | 11,944                                     | 13,170    |
| Bank card fees                                                 | 2,482                                       | 2,484    | 7,509                                      | 7,168     |
| Gain on sales of mortgages, net                                | 345                                         | 283      | 1,125                                      | 886       |
| Gain on sale of securities, net                                | —                                           | —        | —                                          | 674       |
| Gain on previously charged-off acquired loans                  | 224                                         | 837      | 1,118                                      | 2,627     |
| Other non-interest income                                      | 1,352                                       | 1,322    | 4,682                                      | 3,744     |
| Total non-interest income                                      | 3,338                                       | 8,063    | 17,813                                     | 28,382    |
| Non-interest expense:                                          |                                             |          |                                            |           |
| Salaries and employee benefits                                 | 22,639                                      | 27,182   | 69,363                                     | 72,226    |
| Occupancy and equipment                                        | 6,556                                       | 5,570    | 18,391                                     | 14,845    |
| Professional fees                                              | 791                                         | 2,669    | 3,045                                      | 8,612     |
| Telecommunications and data processing                         | 3,050                                       | 4,475    | 9,805                                      | 11,694    |
| Marketing and business development                             | 1,408                                       | 1,760    | 3,519                                      | 4,290     |
| Supplies and printing                                          | 326                                         | 1,288    | 1,180                                      | 2,495     |
| Other real estate owned expenses                               | 459                                         | 3,468    | 7,675                                      | 12,152    |
| Problem loan expenses                                          | 1,134                                       | 2,267    | 4,361                                      | 6,704     |
| Intangible asset amortization                                  | 1,336                                       | 1,353    | 4,009                                      | 4,020     |
| FDIC deposit insurance                                         | 1,021                                       | 1,152    | 3,074                                      | 3,664     |
| ATM/debit card expenses                                        | 1,179                                       | 1,102    | 3,291                                      | 3,100     |
| Banking center closure related expenses                        | 3,389                                       | —        | 3,389                                      | —         |
| Initial public offering related expenses                       | —                                           | 7,566    | —                                          | 7,974     |
| Acquisition related costs                                      | —                                           | —        | —                                          | 870       |
| Loss (gain) from the change in fair value of warrant liability | 441                                         | (1,154   | ) 138                                      | (1,017    |
| Other non-interest expense                                     | 2,884                                       | 1,259    | 8,487                                      | 6,602     |
| Total non-interest expense                                     | 46,613                                      | 59,957   | 139,727                                    | 158,231   |
| Income (loss) before income taxes                              | 1,803                                       | (7,661   | ) 9,933                                    | (507      |
| Income tax expense                                             | 856                                         | 230      | 4,006                                      | 3,039     |
| Net income (loss)                                              | \$947                                       | \$(7,891 | ) \$5,927                                  | \$(3,546  |

Edgar Filing: National Bank Holdings Corp - Form 10-Q

|                                                                                    |            |            |            |            |   |
|------------------------------------------------------------------------------------|------------|------------|------------|------------|---|
| Income (loss) per share—basic                                                      | \$0.02     | \$(0.15    | ) \$0.11   | \$(0.07    | ) |
| Income (loss) per share—diluted                                                    | \$0.02     | \$(0.15    | ) \$0.11   | \$(0.07    | ) |
| Weighted average number of common shares outstanding:                              |            |            |            |            |   |
| Basic                                                                              | 51,454,200 | 52,191,239 | 51,940,245 | 52,186,465 |   |
| Diluted                                                                            | 51,501,980 | 52,191,239 | 51,973,161 | 52,186,465 |   |
| See accompanying notes to the unaudited consolidated interim financial statements. |            |            |            |            |   |

## NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

(In thousands)

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

## NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

Nine Months Ended September 30, 2013 and 2012

(In thousands, except share and per share data)

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

See accompanying notes to the unaudited consolidated interim financial statements.

## NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

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

Edgar Filing: National Bank Holdings Corp - Form 10-Q

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

Supplemental schedule of non-cash investing activities:

|                                                                                                |          |           |
|------------------------------------------------------------------------------------------------|----------|-----------|
| Loans transferred to other real estate owned at fair value                                     | \$32,408 | \$67,741  |
| FDIC indemnification asset claims transferred to other assets                                  | \$24,460 | \$109,142 |
| Available-for-sale investment securities transferred to investment securities held-to-maturity | \$—      | \$754,063 |

See accompanying notes to the unaudited consolidated interim financial statements.

Table of contents

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

Note 1 Basis of Presentation

National Bank Holdings Corporation (the “Company”) is a bank holding company that was incorporated in the State of Delaware in June 2009 with the intent to acquire and operate community banking franchises and other complementary businesses in targeted markets. The accompanying unaudited consolidated interim financial statements include the accounts of the Company and its wholly owned subsidiary, NBH Bank, N.A. NBH Bank, N.A. is the resulting entity from the Company's acquisitions to date and it offers consumer and commercial banking through banking centers that are predominately located in the greater Kansas City area and Colorado.

These interim financial statements serve to update the National Bank Holdings Corporation Annual Report on Form 10-K for the year ended December 31, 2012. The accompanying unaudited financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and where applicable, with general practices in the banking industry or guidelines prescribed by bank regulatory agencies. However, they may not include all information and notes necessary to constitute a complete set of financial statements under GAAP applicable to annual periods and accordingly should be read in conjunction with the financial information contained in the Form 10-K. The unaudited consolidated interim financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results presented. All such adjustments are of a normal recurring nature. All significant intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications of prior years' amounts are made whenever necessary to conform to current period presentation. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year or any other interim period.

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

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

Note 2 Recent Accounting Pronouncements



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

Table of contents

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

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

### Note 3 Investment Securities

The Company's investment securities portfolio is comprised of available-for-sale and held-to-maturity investment securities. These investment securities totaled \$2.6 billion at September 30, 2013, an increase from \$2.3 billion at December 31, 2012. Included in the aforementioned \$2.6 billion was \$1.9 billion of available-for-sale securities and \$0.7 billion of held-to-maturity securities.

#### Available-for-sale

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

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

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

At September 30, 2013 and December 31, 2012, mortgage-backed securities represented 98.9% and 94.7%, respectively, of the Company's available-for-sale investment portfolio and all mortgage-backed securities were backed by government sponsored enterprises ("GSE") collateral such as Federal Home Loan Mortgage Corporation ("FHLMC") and Federal National Mortgage Association ("FNMA"), and the government sponsored agency Government National Mortgage Association ("GNMA").



Table of contents

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

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

|                                                                                                                        | September 30, 2013  |                   |                   |                   |             |                   |
|------------------------------------------------------------------------------------------------------------------------|---------------------|-------------------|-------------------|-------------------|-------------|-------------------|
|                                                                                                                        | Less than 12 months |                   | 12 months or more |                   | Total       |                   |
|                                                                                                                        | Fair Value          | Unrealized Losses | Fair Value        | Unrealized Losses | Fair Value  | Unrealized Losses |
| Mortgage-backed securities ("MBS"):                                                                                    |                     |                   |                   |                   |             |                   |
| Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises | \$212,138           | \$(925 )          | \$14              | \$(1 )            | \$212,152   | \$(926 )          |
| Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises                        | 922,778             | (40,928 )         | 17,302            | (474 )            | 940,080     | (41,402 )         |
| Total                                                                                                                  | \$1,134,916         | \$(41,853 )       | \$17,316          | \$(475 )          | \$1,152,232 | \$(42,328 )       |

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

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

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

Table of contents

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

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

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

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

**Held-to-maturity**

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

|                                                                                                                        | September 30, 2013 |                              |                               |             |
|------------------------------------------------------------------------------------------------------------------------|--------------------|------------------------------|-------------------------------|-------------|
|                                                                                                                        | Amortized<br>Cost  | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value  |
| Mortgage-backed securities ("MBS"):                                                                                    |                    |                              |                               |             |
| Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises | \$530,406          | \$3,613                      | \$(555)                       | ) \$533,464 |
| Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises                        | 134,311            | 142                          | (3,339)                       | ) 131,114   |
| Total investment securities held-to-maturity                                                                           | \$664,717          | \$3,755                      | \$(3,894)                     | ) \$664,578 |

|                                                                                                                        | December 31, 2012 |                              |                               |               |
|------------------------------------------------------------------------------------------------------------------------|-------------------|------------------------------|-------------------------------|---------------|
|                                                                                                                        | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
| Mortgage-backed securities ("MBS"):                                                                                    |                   |                              |                               |               |
| Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises | \$577,486         | \$7,065                      | \$—                           | \$584,551     |
| Total investment securities held-to-maturity                                                                           | \$577,486         | \$7,065                      | \$—                           | \$584,551     |



Table of contents

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

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

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

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

#### Note 4 Loans

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

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

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

Edgar Filing: National Bank Holdings Corp - Form 10-Q

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

13

---



Table of contents

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

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

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

Table of contents

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

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

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

Edgar Filing: National Bank Holdings Corp - Form 10-Q

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

Table of contents

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

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

Edgar Filing: National Bank Holdings Corp - Form 10-Q

Total loans accounted for  
under ASC 310-30

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

Table of contents

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

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

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

Table of contents

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

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

**Impaired Loans**

Loans are considered to be impaired when it is probable that the Company will not be able to collect all amounts due in accordance with the contractual terms of the loan agreement. Included in impaired loans are loans excluded from ASC 310-30 on non-accrual status and troubled debt restructurings (“TDRs”) described below. If a specific allowance is warranted based on the borrower’s overall financial condition, the specific allowance is calculated based on discounted cash flows using the loan’s initial contractual effective interest rate or the fair value of the collateral less selling costs for collateral dependent loans. At September 30, 2013, the Company measured \$14.8 million of impaired loans using discounted cash flows and the loan’s initial contractual effective interest rate and \$4.7 million of impaired loans based

on the fair value of the collateral less selling costs.

18

---



Table of contents

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

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

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

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

Edgar Filing: National Bank Holdings Corp - Form 10-Q

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

19

---

Table of contents

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

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

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



Table of contents

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

**Troubled debt restructurings**

It is the Company's policy to review each prospective credit in order to determine the appropriateness and the adequacy of security or collateral prior to making a loan. In the event of borrower default, the Company seeks recovery in compliance with state lending laws, the respective loan agreements, and credit monitoring and remediation procedures that may include restructuring a loan to provide a concession by the Company to the borrower from their original terms due to borrower financial difficulties in order to facilitate repayment. Additionally, if a borrower's repayment obligation has been discharged by a court, and that debt has not been reaffirmed by the borrower, regardless of past due status, the loan is considered to be a troubled debt restructuring ("TDR"). At September 30, 2013 and December 31, 2012, the Company had \$14.3 million and \$17.7 million, respectively, of accruing TDR's that had been restructured from the original terms in order to facilitate repayment. Of these, \$6.0 million and \$5.0 million, respectively, were covered by FDIC loss sharing agreements.

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

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

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

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

Edgar Filing: National Bank Holdings Corp - Form 10-Q

|       |          |          |          |         |
|-------|----------|----------|----------|---------|
| Total | \$17,720 | \$19,543 | \$18,179 | \$6,943 |
|-------|----------|----------|----------|---------|

21

---

Table of contents

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

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

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

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

Loans accounted for under ASC Topic 310-30

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

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

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

Table of contents

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

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

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

Note 5 Allowance for Loan Losses

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

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



Table of contents

## NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

September 30, 2013

|                                                           | Nine months ended September 30, 2013  |                           |             |                            |          |             |
|-----------------------------------------------------------|---------------------------------------|---------------------------|-------------|----------------------------|----------|-------------|
|                                                           | Commercial                            | Commercial<br>real estate | Agriculture | Residential<br>real estate | Consumer | Total       |
| Beginning balance                                         | \$2,798                               | \$7,396                   | \$592       | \$4,011                    | \$583    | \$15,380    |
| Non 310-30 beginning balance                              | 2,798                                 | 3,056                     | 323         | 4,011                      | 540      | 10,728      |
| Charge-offs                                               | (1,654)                               | (943)                     | —           | (741)                      | (717)    | (4,055)     |
| Recoveries                                                | 187                                   | 129                       | 13          | 64                         | 224      | 617         |
| Provision                                                 | 1,315                                 | (317)                     | 186         | 932                        | 409      | 2,525       |
| Non 310-30 ending balance                                 | 2,646                                 | 1,925                     | 522         | 4,266                      | 456      | 9,815       |
| ASC 310-30 beginning balance                              | —                                     | 4,340                     | 269         | —                          | 43       | 4,652       |
| Charge-offs                                               | (407)                                 | (2,796)                   | (221)       | (623)                      | —        | (4,047)     |
| Recoveries                                                | —                                     | —                         | —           | —                          | —        | —           |
| Provision                                                 | 496                                   | (1,246)                   | 537         | 1,255                      | (43)     | 999         |
| ASC 310-30 ending balance                                 | 89                                    | 298                       | 585         | 632                        | —        | 1,604       |
| Ending balance                                            | \$2,735                               | \$2,223                   | \$1,107     | \$4,898                    | \$456    | \$11,419    |
| Ending allowance balance<br>attributable to:              |                                       |                           |             |                            |          |             |
| Non 310-30 loans individually<br>evaluated for impairment | \$92                                  | \$40                      | \$1         | \$533                      | \$7      | \$673       |
| Non 310-30 loans collectively<br>evaluated for impairment | 2,554                                 | 1,885                     | 521         | 3,733                      | 449      | 9,142       |
| ASC 310-30 loans                                          | 89                                    | 298                       | 585         | 632                        | —        | 1,604       |
| Total ending allowance balance                            | \$2,735                               | \$2,223                   | \$1,107     | \$4,898                    | \$456    | \$11,419    |
| Loans:                                                    |                                       |                           |             |                            |          |             |
| Non 310-30 individually<br>evaluated for impairment       | \$7,670                               | \$11,258                  | \$223       | \$9,629                    | \$295    | \$29,075    |
| Non 310-30 collectively<br>evaluated for impairment       | 264,444                               | 277,494                   | 117,241     | 513,531                    | 28,018   | 1,200,728   |
| ASC 310-30 loans                                          | 68,250                                | 325,701                   | 37,882      | 72,409                     | 8,768    | 513,010     |
| Total loans                                               | \$340,364                             | \$614,453                 | \$155,346   | \$595,569                  | \$37,081 | \$1,742,813 |
|                                                           | Three months ended September 30, 2012 |                           |             |                            |          |             |
|                                                           | Commercial                            | Commercial<br>real estate | Agriculture | Residential<br>real estate | Consumer | Total       |
| Beginning balance                                         | \$3,318                               | \$7,797                   | \$660       | \$4,872                    | \$647    | \$17,294    |
| Non 310-30 beginning balance                              | 1,725                                 | 3,578                     | 284         | 3,813                      | 635      | 10,035      |
| Charge-offs                                               | (297)                                 | (35)                      | —           | (351)                      | (566)    | (1,249)     |
| Recoveries                                                | 279                                   | (195)                     | 4           | (47)                       | (41)     | —           |
| Provision                                                 | 842                                   | (15)                      | (22)        | 274                        | 521      | 1,600       |
| Non 310-30 ending balance                                 | 2,549                                 | 3,333                     | 266         | 3,689                      | 549      | 10,386      |
| ASC 310-30 beginning balance                              | 1,593                                 | 4,219                     | 376         | 1,059                      | 12       | 7,259       |
| Charge-offs                                               | (1)                                   | (3,500)                   | (144)       | (169)                      | —        | (3,814)     |
| Recoveries                                                | —                                     | 2                         | —           | —                          | —        | 2           |
| Provision                                                 | (1,592)                               | 6,012                     | —           | (747)                      | (10)     | 3,663       |
| ASC 310-30 ending balance                                 | —                                     | 6,733                     | 232         | 143                        | 2        | 7,110       |
| Ending balance                                            | \$2,549                               | \$10,066                  | \$498       | \$3,832                    | \$551    | \$17,496    |



Table of contents

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

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

In evaluating the loan portfolio for an appropriate ALL level, non-impaired loans that were not accounted for under ASC 310-30 were grouped into segments based on broad characteristics such as primary use and underlying collateral. Within the segments, the portfolio was further disaggregated into classes of loans with similar attributes and risk characteristics for purposes of applying loss ratios and determining applicable subjective adjustments to the ALL. The application of subjective adjustments was based upon qualitative risk factors, including economic trends and conditions, industry conditions, asset quality, loss trends, lending management, portfolio growth and loan review/internal audit results.

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

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

Table of contents

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

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

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

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

#### Note 6 FDIC Indemnification Asset

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

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

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

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

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

result of claims filed with the FDIC.

Table of contents

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

## Note 7 Other Real Estate Owned

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

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

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

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

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

## Note 8 Deposits

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

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

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

the time

27

---



Table of contents

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

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

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

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

Note 9 Regulatory Capital

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

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

Table of contents

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

|                                                | December 31, 2012 |             |                                                           |             |                                                  |             |
|------------------------------------------------|-------------------|-------------|-----------------------------------------------------------|-------------|--------------------------------------------------|-------------|
|                                                | Actual            |             | Required to be considered well capitalized <sup>(1)</sup> |             | Required to be considered adequately capitalized |             |
|                                                | Ratio             | Amount      | Ratio                                                     | Amount      | Ratio                                            | Amount      |
| Tier 1 leverage ratio                          |                   |             |                                                           |             |                                                  |             |
| Consolidated                                   | 18.2              | % \$962,779 | N/A                                                       | N/A         | 4                                                | % \$211,439 |
| NBH Bank, N.A.                                 | 16.4              | % 851,365   | 10                                                        | % \$518,244 | 4                                                | % 207,298   |
| Tier 1 risk-based capital ratio <sup>(2)</sup> |                   |             |                                                           |             |                                                  |             |
| Consolidated                                   | 51.9              | % \$962,779 | 6                                                         | % \$111,396 | 4                                                | % \$74,264  |
| NBH Bank, N.A.                                 | 46.6              | % 851,365   | 11                                                        | % 201,147   | 4                                                | % 73,144    |
| Total risk-based capital ratio <sup>(2)</sup>  |                   |             |                                                           |             |                                                  |             |
| Consolidated                                   | 52.7              | % \$978,535 | 10                                                        | % \$185,659 | 8                                                | % \$148,527 |
| NBH Bank, N.A.                                 | 47.4              | % 867,121   | 12                                                        | % 219,433   | 8                                                | % 146,289   |

(1) These ratio requirements are reflective of the agreements the Company has made with its various regulators in connection with the approval of the de novo charter for NBH Bank, N.A., as described above.

(2) Due to the conditional guarantee represented by the loss sharing agreements, the FDIC indemnification asset and covered assets are risk-weighted at 20% for purposes of risk-based capital computations.

Note 10 FDIC Loss Sharing Income (Expense)

In connection with the loss sharing agreements that the Company has with the FDIC with regard to the Hillcrest Bank and Community Banks of Colorado transactions, the Company recognizes the actual reimbursement of costs of resolution of covered assets from the FDIC through the statements of operations. The table below provides additional details of the Company's FDIC loss sharing income (expense) during the three and nine months ended September 30, 2013 and 2012 (in thousands):

|                                                                        | For the three months ended<br>September 30, 2013 |   | For the three months ended<br>September 30, 2012 |   | For the nine months ended<br>September 30, 2013 |   | For the nine months ended<br>September 30, 2012 |   |
|------------------------------------------------------------------------|--------------------------------------------------|---|--------------------------------------------------|---|-------------------------------------------------|---|-------------------------------------------------|---|
| Clawback liability amortization                                        | \$ (314                                          | ) | \$ (355                                          | ) | \$ (937                                         | ) | \$ (1,066                                       | ) |
| Clawback liability remeasurement                                       | (405                                             | ) | (820                                             | ) | 244                                             | ) | 247                                             | ) |
| Reimbursement to FDIC for gain on sale of and income from covered OREO | (2,514                                           | ) | (1,842                                           | ) | (4,615                                          | ) | (1,408                                          | ) |
| Reimbursement to FDIC for recoveries                                   | —                                                |   | (2                                               | ) | (22                                             | ) | (3                                              | ) |
| FDIC reimbursement of costs of resolution of covered assets            | 2,042                                            |   | 4,522                                            |   | 8,608                                           |   | 11,508                                          |   |
| Total                                                                  | \$ (1,191                                        | ) | \$ 1,503                                         |   | \$ 3,278                                        |   | \$ 9,278                                        |   |

Note 11 Stock-based Compensation and Employee Benefits

The Company issued stock options in accordance with the NBH Holdings Corp. 2009 Equity Incentive Plan (the "Plan") during the nine months ended September 30, 2013. These option awards vest on a graded basis over 1-4 years of continuous service and have 10-year contractual terms. The expense associated with the awarded stock options was measured at fair value using a Black-Scholes option-pricing model using the following weighted average assumptions:

|                         | Black-Scholes |   |
|-------------------------|---------------|---|
| Risk-free interest rate | 1.15          | % |
| Expected volatility     | 32.07         | % |
| Expected term (years)   | 6.70          |   |

|                |      |   |
|----------------|------|---|
| Dividend yield | 1.09 | % |
|----------------|------|---|

29

---

Table of contents

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

Expected volatility was calculated using a time-based weighted migration of the Company's own stock price volatility coupled with those of a peer group of 9 comparable publicly traded companies for a period commensurate with the expected term of the options. The risk-free rate for the expected term of the options was based on the U.S. Treasury yield curve at the date of grant and based on the expected term. The expected term was estimated to be the average of the contractual vesting term and time to expiration. The dividend yield was assumed to be \$0.05 per share per quarter. Options granted during the nine months ended September 30, 2013 had weighted average grant date fair values of \$5.54 per share.

The following table summarizes option activity for the nine months ended September 30, 2013:

|                                                            | Options   | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term in<br>Years | Aggregate<br>Intrinsic<br>Value |
|------------------------------------------------------------|-----------|------------------------------------------|---------------------------------------------------------------------|---------------------------------|
| Outstanding at December 31, 2012                           | 3,471,665 | \$ 19.98                                 | 6.94                                                                | \$22,800                        |
| Granted during the nine months ended September 30, 2013    | 174,750   | 18.62                                    |                                                                     |                                 |
| Forfeited                                                  | (47,570 ) | 19.35                                    |                                                                     |                                 |
| Expired                                                    | (60,833 ) | 20.00                                    |                                                                     |                                 |
| Exercised                                                  | —         | —                                        |                                                                     |                                 |
| Outstanding at September 30, 2013                          | 3,538,012 | \$ 19.92                                 | 6.37                                                                | \$2,238,176                     |
| Options fully vested and exercisable at September 30, 2013 | 2,602,082 | \$ 20.00                                 | 6.19                                                                | \$—                             |
| Options expected to vest                                   | 933,800   | \$ 19.74                                 | 6.43                                                                | \$2,111,363                     |

Stock option expense is included in salaries and employee benefits in the accompanying consolidated statements of operations and totaled \$0.5 million and \$3.9 million for the three months ended September 30, 2013 and 2012, respectively, and \$1.8 million and \$5.9 million for the nine months ended September 30, 2013 and 2012, respectively. At September 30, 2013, there was \$1.8 million of total unrecognized compensation cost related to non-vested stock options granted under the Plan. The cost is expected to be recognized over a weighted average period of 0.9 years. Expense related to non-vested restricted stock totaled \$0.8 million and \$2.7 million during the three months ended September 30, 2013 and 2012, respectively, and \$2.2 million and \$5.0 million during the nine months ended September 30, 2013 and 2012, respectively, and is included in salaries and employee benefits in the Company's consolidated statements of operations. As of September 30, 2013, there was \$2.3 million of total unrecognized compensation cost related to non-vested restricted shares granted under the Plan, which is expected to be recognized over a weighted average period of 1.1 years. The following table summarizes restricted stock activity for the nine months ended September 30, 2013:

|                                | Total<br>Restricted<br>Shares | Weighted<br>Average<br>Grant-Date<br>Fair Value |
|--------------------------------|-------------------------------|-------------------------------------------------|
| Unvested at December 31, 2012  | 951,668                       | 14.79                                           |
| Granted                        | 146,218                       | 18.25                                           |
| Forfeited                      | (10,732 )                     | 18.09                                           |
| Unvested at September 30, 2013 | 1,087,154                     | 15.22                                           |



Table of contents

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

## Note 12 Common Stock

The Company had 45,245,425 shares of Class A common stock and 5,967,619 shares of Class B common stock outstanding as of September 30, 2013 and 46,368,483 shares of Class A common stock and 5,959,189 shares of Class B common stock outstanding as of December 31, 2012. Additionally, as of September 30, 2013 and December 31, 2012, the Company had 1,087,154 and 951,668 shares, respectively, of restricted Class A common stock issued but not yet vested under the NBH Holdings Corp. 2009 Equity Incentive Plan. Class A common stock possesses all of the voting power for all matters requiring action by holders of common stock, with certain limited exceptions. The Company's certificate of incorporation provides that, except with respect to voting rights and conversion rights, the Class A common stock and Class B non-voting common stock are treated equally and identically.

## Note 13 Income Per Share

The Company calculates income per share under the two-class method, as certain non-vested share awards contain nonforfeitable rights to dividends. As such, these awards are considered securities that participate in the earnings of the Company. Non-vested shares are discussed further in note 11.

The Company had 51,213,044 and 52,191,239 shares outstanding (inclusive of Class A and B) as of September 30, 2013 and 2012, respectively. Additional information regarding share activity subsequent to September 30, 2013 can be found in note 18. Certain stock options and non-vested restricted shares are potentially dilutive securities, but are not included in the calculation of diluted earnings per share because to do so would have been anti-dilutive for three and nine months ended September 30, 2013 and 2012, respectively.

The following table illustrates the computation of basic and diluted income per share for the three and nine months ended September 30, 2013 and 2012 (in thousands, except share and earnings per share information):

|                                                                           | For the three months ended<br>September 30, |            | For the nine months ended<br>September 30, |            |
|---------------------------------------------------------------------------|---------------------------------------------|------------|--------------------------------------------|------------|
|                                                                           | 2013                                        | 2012       | 2013                                       | 2012       |
| Distributed earnings                                                      | \$2,622                                     | \$—        | \$7,934                                    | \$—        |
| Undistributed earnings (distributions in excess of earnings)              | (1,675 )                                    | (7,891 )   | (2,007 )                                   | (3,546 )   |
| Net income (loss)                                                         | \$947                                       | \$(7,891 ) | \$5,927                                    | \$(3,546 ) |
| Less: earnings allocated to participating securities                      | (5 )                                        | —          | (12 )                                      | —          |
| Earnings allocated to common stockholders                                 | \$942                                       | \$(7,891 ) | \$5,915                                    | \$(3,546 ) |
| Weighted average shares outstanding for basic earnings per common share   | 51,454,200                                  | 52,191,239 | 51,940,245                                 | 52,186,465 |
| Dilutive effect of equity awards                                          | 45,301                                      | —          | 32,916                                     | —          |
| Dilutive effect of warrants                                               | 2,479                                       | —          | —                                          | —          |
| Weighted average shares outstanding for diluted earnings per common share | 51,501,980                                  | 52,191,239 | 51,973,161                                 | 52,186,465 |
| Basic earnings (loss) per share                                           | \$0.02                                      | \$(0.15 )  | \$0.11                                     | \$(0.07 )  |
| Diluted earnings (loss) per share                                         | \$0.02                                      | \$(0.15 )  | \$0.11                                     | \$(0.07 )  |

The Company had 3,538,012 and 3,443,332 outstanding stock options to purchase common stock at weighted average exercise prices of \$19.92 and \$20.00 per share at September 30, 2013 and 2012, respectively, which have time-vesting criteria, and as such, any dilution is derived only for the time frame in which the vesting criteria had been met and where the inclusion of those stock options is dilutive. Additionally, the Company had 830,750 outstanding warrants to purchase the Company's common stock as of September 30, 2013 and 2012. The warrants have an exercise price of \$20.00, which was out-of-the-money for purposes of dilution calculations during both the nine months ended September 30, 2013 and the three and nine months ended September 30, 2012. The Company had 1,087,154 and

1,169,792 unvested restricted shares outstanding as of September 30, 2013 and 2012, respectively, which have performance, market and time-vesting criteria, and as such, any dilution is derived only for the time frame in which the vesting criteria had been met and where the inclusion of those restricted shares is dilutive.

Table of contents

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

Note 14 Derivatives

The Company manages economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and duration of its assets and liabilities. During the nine months ended September 30, 2013, the Company began entering into interest rate swaps. The Company's existing interest rate derivatives result from a service provided to certain qualifying clients in the extension of credit and, therefore, are not used to manage interest rate risk in the Company's assets or liabilities. The Company manages a matched book with respect to its derivative instruments whereby it enters into offsetting swaps in order to minimize its net risk exposure resulting from such transactions. The Company's swap derivatives are not designated as hedging relationships, and do not meet the strict hedge accounting requirements. Accordingly, changes in the fair value of both the client swaps and the offsetting swaps are recognized directly in earnings. At September 30, 2013, the Company had entered into one matched interest rate swap transaction with a notional amount of \$2.1 million and a fair value of \$83.0 thousand. Under this arrangement, the client pays the Company a fixed rate of 5.75%, while the Company pays the client a LIBOR rate plus 275 basis points.

Note 15 Fair Value Measurements

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

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

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

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

Level 1 inputs are considered to be the most transparent and reliable and level 3 inputs are considered to be the least transparent and reliable. The Company assumes the use of the principal market to conduct a transaction of each particular asset or liability being measured and then considers the assumptions that market participants would use when pricing the asset or liability. Whenever possible, the Company first looks for quoted prices for identical assets or liabilities in active markets (level 1 inputs) to value each asset or liability. However, when inputs from identical assets or liabilities on active markets are not available, the Company utilizes market observable data for similar assets and liabilities. The Company maximizes the use of observable inputs and limits the use of unobservable inputs to occasions when observable inputs are not available. The need to use unobservable inputs generally results from the lack of market liquidity of the actual financial instrument or of the underlying collateral. Although, in some instances, third party price indications may be available, limited trading activity can challenge the observability of these quotations.

Changes in the valuation inputs used for measuring the fair value of financial instruments may occur due to changes in current market conditions or other factors. Such changes may necessitate a transfer of the financial instruments to another level in the hierarchy based on the new inputs used. The Company recognizes these transfers at the end of the reporting period that the transfer occurs. During the nine months ended September 30, 2013 and 2012, there were no transfers of financial instruments between the hierarchy levels.



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

32

---

Table of contents

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

**Fair Value of Financial Instruments Measured on a Recurring Basis**

**Investment securities available-for-sale**—Investment securities available-for-sale are carried at fair value on a recurring basis. To the extent possible, observable quoted prices in an active market are used to determine fair value and, as such, these securities are classified as level 1. At December 31, 2012 the Company classified its U.S. Treasury securities as level 1 in the fair value hierarchy. At September 30, 2013 the Company did not hold U.S. Treasury securities. When quoted market prices in active markets for identical assets or liabilities are not available, quoted prices of securities with similar characteristics, discounted cash flows or other pricing characteristics are used to estimate fair values and the securities are then classified as level 2. At September 30, 2013 and December 31, 2012, the Company's level 2 securities included asset backed securities, mortgage-backed securities comprised of residential mortgage pass-through securities, and other residential mortgage-backed securities. All other investment securities are classified as level 3. There were no transfers between levels 1, 2 or 3 during the nine months ended September 30, 2013 or 2012.

**Warrant liability**—The Company measures the fair value of the warrant liability on a recurring basis using a Black-Scholes option pricing model. The Company's shares became publicly traded on September 20, 2012 and prior to that, had limited private trading; therefore, expected volatility was estimated based on the median historical volatility, for a period commensurate with the expected term of the warrants, of 9 comparable companies with publicly traded shares, and is deemed a significant unobservable input to the valuation model.

**Clawback liability**—The Company periodically measures the net present value of expected future cash payments to be made by the Company to the FDIC that must be made within 45 days of the conclusion of the loss sharing. The expected cash flows are calculated in accordance with the loss sharing agreements and are based primarily on the expected losses on the covered assets, which involve significant inputs that are not market observable.

The tables below present the financial instruments measured at fair value on a recurring basis as of September 30, 2013 and December 31, 2012 on the consolidated statements of financial condition utilizing the hierarchy structure described above (in thousands):

|                                                                                                                        | September 30, 2013 |                    |                 |                    |
|------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|-----------------|--------------------|
|                                                                                                                        | Level 1            | Level 2            | Level 3         | Total              |
| <b>Assets:</b>                                                                                                         |                    |                    |                 |                    |
| <b>Investment securities available-for-sale:</b>                                                                       |                    |                    |                 |                    |
| Asset backed securities                                                                                                | \$—                | \$20,098           | \$—             | \$20,098           |
| <b>Mortgage-backed securities ("MBS"):</b>                                                                             |                    |                    |                 |                    |
| Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises | —                  | 523,183            | —               | 523,183            |
| Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises                        | —                  | 1,346,262          | —               | 1,346,262          |
| Other securities                                                                                                       | —                  | —                  | 419             | 419                |
| <b>Total assets at fair value</b>                                                                                      | <b>\$—</b>         | <b>\$1,889,543</b> | <b>\$419</b>    | <b>\$1,889,962</b> |
| <b>Liabilities:</b>                                                                                                    |                    |                    |                 |                    |
| Warrant liability                                                                                                      | \$—                | \$—                | \$5,599         | \$5,599            |
| Clawback liability                                                                                                     | —                  | —                  | 31,964          | 31,964             |
| <b>Total liabilities at fair value</b>                                                                                 | <b>\$—</b>         | <b>\$—</b>         | <b>\$37,563</b> | <b>\$37,563</b>    |

Table of contents

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

|                                                                                                                        | December 31, 2012 |             |          |             |
|------------------------------------------------------------------------------------------------------------------------|-------------------|-------------|----------|-------------|
|                                                                                                                        | Level 1           | Level 2     | Level 3  | Total       |
| Assets:                                                                                                                |                   |             |          |             |
| Investment securities available-for-sale:                                                                              |                   |             |          |             |
| U.S. Treasury securities                                                                                               | \$ 300            | \$—         | \$—      | \$ 300      |
| Asset backed securities                                                                                                | —                 | 90,003      | —        | 90,003      |
| Mortgage-backed securities (“MBS”):                                                                                    |                   |             |          |             |
| Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises | —                 | 678,017     | —        | 678,017     |
| Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises                        | —                 | 949,289     | —        | 949,289     |
| Other securities                                                                                                       | —                 | —           | 419      | 419         |
| Total assets at fair value                                                                                             | \$ 300            | \$1,717,309 | \$ 419   | \$1,718,028 |
| Liabilities:                                                                                                           |                   |             |          |             |
| Warrant liability                                                                                                      | \$—               | \$—         | \$5,461  | \$5,461     |
| Clawback liability                                                                                                     | —                 | —           | 31,271   | 31,271      |
| Total liabilities at fair value                                                                                        | \$—               | \$—         | \$36,732 | \$36,732    |

The table below details the changes in level 3 financial instruments during the nine months ended September 30, 2013 (in thousands):

|                               | Warrant liability | Clawback liability |
|-------------------------------|-------------------|--------------------|
| Balance at December 31, 2012  | \$5,461           | \$31,271           |
| Change in value               | 138               | (244 )             |
| Accretion                     | —                 | 937                |
| Settlement                    | —                 | —                  |
| Net change in Level 3         | 138               | 693                |
| Balance at September 30, 2013 | \$5,599           | \$31,964           |

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

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

The Company records collateral dependent loans that are considered to be impaired at their estimated fair value. A loan is considered impaired when it is probable that the Company will be unable to collect all contractual amounts due in accordance with the terms of the loan agreement. Collateral dependent impaired loans are measured based on the fair value of the collateral. The Company relies on third-party appraisals and internal assessments in determining the estimated fair values of these loans. The inputs used to determine the fair values of loans are considered level 3 inputs in the fair value hierarchy. During the nine months ended September 30, 2013, the Company measured 28 loans not accounted for under ASC 310-30 at fair value on a non-recurring basis. These loans carried specific reserves totaling \$0.6 million at September 30, 2013. During the nine months ended September 30, 2013, the Company added specific reserves of \$0.6 million for eleven loans with carrying balances of \$10.0 million at September 30, 2013. The Company also eliminated specific reserves of \$1.9 million for twenty-seven loans during the nine months ended September 30, 2013, primarily due to paydowns on these loans.

The Company may be required to record fair value adjustments on loans held-for-sale on a non-recurring basis. The non-recurring fair value adjustments could involve lower of cost or fair value accounting and may include

write-downs.

34

---

Table of contents

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

OREO is recorded at the lower of the loan balance or the fair value of the collateral less estimated selling costs. The estimated fair values of OREO are updated periodically and further write-downs may be taken to reflect a new basis. The Company recognized \$9.0 million of OREO impairments in its consolidated statements of financial condition during the nine months ended September 30, 2013, of which \$6.6 million, or 73.2% , were on OREO that was covered by loss sharing agreements with the FDIC. The fair values of OREO are derived from third party price opinions or appraisals that generally use an income approach or a market value approach. If reasonable comparable appraisals are not available, then the Company may use internally developed models to determine fair values. The inputs used to determine the fair values of OREO are considered level 3 inputs in the fair value hierarchy.

The table below provides information regarding the assets recorded at fair value on a non-recurring basis during the nine months ended September 30, 2013 (in thousands):

September 30, 2013

|                         | Level 1 | Level 2 | Level 3  | Total    | Losses<br>From<br>Fair<br>Value<br>Changes |
|-------------------------|---------|---------|----------|----------|--------------------------------------------|
| Other real estate owned | \$—     | \$—     | \$70,753 | \$70,753 | \$9,049                                    |
| Impaired loans          | \$—     | \$—     | \$29,075 | \$29,075 | \$1,305                                    |

The Company did not record any liabilities for which the fair value was made on a non-recurring basis during the nine months ended September 30, 2013.

The following table provides information about the valuation techniques and unobservable inputs used in the valuation of financial instruments falling within level 3 of the fair value hierarchy as of September 30, 2013. The table below excludes non-recurring fair value measurements of collateral value used for impairment measures for OREO. These valuations utilize third party appraisal or broker price opinions, and are classified as level 3 due to the significant judgment involved (in thousands):

|                    | Fair Value at<br>September 30,<br>2013 | Valuation Technique                         | Unobservable Input       | Quantitative<br>Measures        |
|--------------------|----------------------------------------|---------------------------------------------|--------------------------|---------------------------------|
| Other securities   | \$419                                  | Cash investment in private equity fund      | Cash investment          |                                 |
| Impaired loans     | 29,075                                 | Appraised value                             | Appraised values         |                                 |
|                    |                                        |                                             | Discount rate            | 0-25%                           |
| Clawback liability | 31,964                                 | Contractually defined discounted cash flows | Intrinsic loss estimates | \$323.3 million - \$405 million |
|                    |                                        |                                             | Expected credit losses   | —<br>\$98                       |
|                    |                                        |                                             | Asset purchase premium   | million-\$182.7 million         |
|                    |                                        |                                             | Discount rate            | 4%                              |
|                    |                                        |                                             | Discount period          | 73-85 months                    |
| Warrant liability  | 5,599                                  | Black-Scholes                               | Volatility               | 16%-49%                         |

#### Note 16 Fair Value of Financial Instruments

The fair value of a financial instrument is the amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is determined based upon quoted market prices to the extent possible; however, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques

that may be significantly impacted by the assumptions used, including the discount rate and estimates of future cash flows. Changes in any of these assumptions could significantly affect the fair value estimates. The fair value of the financial instruments listed below does not reflect a premium or discount that could result from offering all of the Company's holdings of financial instruments at one time, nor does it reflect the underlying value of the Company, as ASC Topic 825 excludes certain financial instruments and all non-

Table of contents

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

financial instruments from its disclosure requirements. In connection with the Hillcrest Bank, Bank Midwest, Bank of Choice and Community Banks of Colorado acquisitions, the Company recorded all of the acquired assets and assumed liabilities at fair value at the respective dates of acquisition. The fair value of financial instruments at September 30, 2013 and December 31, 2012, including methods and assumptions utilized for determining fair value of financial instruments, are set forth below (in thousands):

|                                                                                                                                                                      |                                           | September 30, 2013 |                      | December 31, 2012 |                      |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|--------------------|----------------------|-------------------|----------------------|
|                                                                                                                                                                      | Level in Fair Value Measurement Hierarchy | Carrying Amount    | Estimated Fair Value | Carrying Amount   | Estimated Fair Value |
| ASSETS:                                                                                                                                                              |                                           |                    |                      |                   |                      |
| Cash and cash equivalents                                                                                                                                            | Level 1                                   | \$349,244          | \$349,244            | \$769,180         | \$769,180            |
| Securities purchased under agreements to resell                                                                                                                      | Level 2                                   | 75,000             | 75,016               | —                 | —                    |
| U.S. Treasury securities available-for-sale                                                                                                                          | Level 1                                   | —                  | —                    | 300               | 300                  |
| Asset backed securities available-for-sale                                                                                                                           | Level 2                                   | 20,098             | 20,098               | 90,003            | 90,003               |
| Mortgage-backed securities—residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises available-for-sale | Level 2                                   | 523,183            | 523,183              | 678,017           | 678,017              |
| Mortgage-backed securities—other residential mortgage-backed securities issued or guaranteed by U.S. Government agencies or sponsored enterprises available-for-sale | Level 2                                   | 1,346,262          | 1,346,262            | 949,289           | 949,289              |
| Other securities                                                                                                                                                     | Level 3                                   | 419                | 419                  | 419               | 419                  |
| Mortgage-backed securities—residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises held-to-maturity   | Level 2                                   | 530,406            | 533,464              | 577,486           | 584,551              |
| Mortgage-backed securities—other residential mortgage-backed securities issued or guaranteed by U.S. Government agencies or sponsored enterprises held-to-maturity   | Level 2                                   | 134,311            | 131,114              | —                 | —                    |
| Capital stock of FHLB                                                                                                                                                | Level 2                                   | 6,705              | 6,705                | 7,976             | 7,976                |
| Capital stock of FRB                                                                                                                                                 | Level 2                                   | 25,020             | 25,020               | 25,020            | 25,020               |
| Loans receivable, net                                                                                                                                                | Level 3                                   | 1,731,394          | 1,742,595            | 1,817,322         | 1,829,987            |
| Loans held-for-sale                                                                                                                                                  | Level 2                                   | 5,265              | 5,265                | 5,368             | 5,368                |
| Accrued interest receivable                                                                                                                                          | Level 2                                   | 11,670             | 11,670               | 12,673            | 12,673               |
| LIABILITIES:                                                                                                                                                         |                                           |                    |                      |                   |                      |
| Deposit transaction accounts                                                                                                                                         | Level 2                                   | 2,417,113          | 2,417,113            | 2,448,001         | 2,448,001            |
| Time deposits                                                                                                                                                        | Level 2                                   | 1,534,390          | 1,538,608            | 1,752,718         | 1,759,886            |

Edgar Filing: National Bank Holdings Corp - Form 10-Q

|                                                |         |         |         |        |        |
|------------------------------------------------|---------|---------|---------|--------|--------|
| Securities sold under agreements to repurchase | Level 2 | 116,471 | 116,471 | 53,685 | 53,685 |
| Due to FDIC                                    | Level 3 | 31,964  | 31,964  | 31,271 | 31,271 |
| Warrant liability                              | Level 3 | 5,599   | 5,599   | 5,461  | 5,461  |
| Accrued interest payable                       | Level 2 | 3,225   | 3,225   | 4,239  | 4,239  |



Table of contents

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

Cash and cash equivalents

Cash and cash equivalents have a short-term nature and the estimated fair value is equal to the carrying value.

Securities purchased under agreements to resell

The fair value of securities purchased under agreements to resell is estimated by discounting contractual maturities utilizing current market rates for similar instruments.

Investment securities

The estimated fair value of investment securities is based on quoted market prices or bid quotations received from securities dealers. Other investment securities, including securities that are held for regulatory purposes are carried at cost, less any other than temporary impairment.

Loans receivable

The estimated fair value of the loan portfolio is estimated using a discounted cash flow analysis using a discount rate based on interest rates offered at the respective measurement dates for loans with similar terms to borrowers of similar credit quality. The allowance for loan losses is considered a reasonable estimate of any required adjustment to fair value to reflect the impact of credit risk. The estimates of fair value do not incorporate the exit-price concept prescribed by ASC Topic 820 Fair Value Measurements and Disclosures.

Loans held-for-sale

Loans held-for-sale are carried at the lower of aggregate cost or estimated fair value. The portfolio consists primarily of fixed rate residential mortgage loans that are sold within 45 days. The estimated fair value is based on quoted market prices for similar loans in the secondary market and are classified as level 2.

Accrued interest receivable

Accrued interest receivable has a short-term nature and the estimated fair value is equal to the carrying value.

Deposits

The estimated fair value of deposits with no stated maturity, such as non-interest bearing demand deposits, savings, NOW accounts, and money market accounts, is equal to the amount payable on demand. The fair value of interest-bearing time deposits is based on the discounted value of contractual cash flows of such deposits, taking into account the option for early withdrawal. The discount rate is estimated using the rates offered by the Company, at the respective measurement dates, for deposits of similar remaining maturities.

Securities sold under agreements to repurchase

The vast majority of the Company's repurchase agreements are overnight transactions that mature the day after the transaction, and as a result of this short-term nature, the estimated fair value is equal to the carrying value.

Due to FDIC

The amount due to FDIC is specified in the purchase agreements and, as it relates to the clawback liability, is discounted to reflect the uncertainty in the timing and payment of the amount due by the Company.

Warrant liability

The warrant liability is estimated using a Black-Scholes model, the assumptions of which are detailed in note 19 of our audited consolidated financial statements.

Accrued interest payable

Accrued interest payable has a short-term nature and the estimated fair value is equal to the carrying value.

Table of contents

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

Note 17 Banking Center Closures

On September 30, 2013, the Company announced plans to integrate 32 limited-service retirement center locations (acquired in its 2010 purchase of Hillcrest Bank) and exit four banking centers in Northern California (acquired in its 2011 purchase of Community Banks of Colorado). The affected centers are expected to close by December 31, 2013. Included in the three and nine months ended September 30, 2013 operating results are \$3.4 million of expenses incurred in connection with the closures, including \$3.3 million related to facilities expense, which are included in the Banking center closure related expenses line on the consolidated statement of operations in the accompanying financial statements. Valuation adjustments to banking center properties and fixed assets were based on prices for similar assets and account for \$2.5 million of the facilities expense and \$0.8 million of the facilities expense relates to lease costs. No additional material charges or future cash expenditures are expected at this time.

As of September 30, 2013, the impacted centers had \$0.2 million loans outstanding, the limited-service retirement center locations had \$94.0 million in total deposits and the California banking centers had \$65.8 million in total deposits.

Note 18 Subsequent Events

In October 2013, NBH Bank, N.A. received approval and a waiver from the OCC under the Operating Agreement to permanently reduce the bank's capital by \$313.0 million. As a result, the bank paid a \$313.0 million cash dividend to the Company.

On November 1, 2013, the Company repurchased 5,015,000 shares of its common stock, including 2,175,155 shares of Class A common stock and 2,839,845 shares of Class B nonvoting common stock, together representing approximately 9.8% of its outstanding shares, from an institutional stockholder. The repurchase price of \$20.00 per share resulted in a total transaction value of approximately \$100.3 million. On November 7, 2013, the Company repurchased 756,126 shares of Class A common stock, representing approximately 1.6% of its outstanding shares, from an institutional stockholder. The repurchase price of \$20.00 per share resulted in a total transaction value of approximately \$15.1 million. These repurchases were exclusive of and separate from the previously announced stock repurchase program in November 2012.

## Item 2: MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following management discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited consolidated interim financial statements and related notes for the three and nine months ended September 30, 2013 and 2012, and with our annual report on Form 10-K (file number 001-35654), which includes our audited consolidated financial statements and related notes as of and for the years ended December 31, 2012, 2011, and 2010. Additional information, such as statements of assets acquired and liabilities assumed for each of our acquisitions and other financial and statistical data is also available in our prospectus included in Form S-1 filed with the Securities and Exchange Commission on September 19, 2012 (file number 333-177971). 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” located elsewhere in this quarterly report and in Item 1A “Risk Factors” in the annual report on Form 10-K, referenced above, and should be read herewith.

Readers are cautioned that meaningful comparability of current period financial information to prior periods may be limited. Prior to the completion of the Hillcrest Bank acquisition on October 22, 2010, we had no banking operations and our activities were limited to corporate organization matters and due diligence. Following our Hillcrest Bank acquisition, we completed three additional acquisitions: Bank Midwest on December 10, 2010, Bank of Choice on July 22, 2011 and Community Banks of Colorado on October 21, 2011. As a result, our operating results are limited to the periods since these acquisitions, and the comparability of periods is compromised due to the timing of these acquisitions. Additionally, the comparability of data related to our acquisitions prior to the respective dates of acquisition is limited because, in accordance with Accounting Standards Codification (“ASC”) Topic 805, Business Combinations, the assets acquired and liabilities assumed were recorded at fair value at their respective dates of acquisition and do not have a significant resemblance to the assets and liabilities of the predecessor banking franchises. The comparability of pre-acquisition data is compromised not only by the fair value accounting applied, but also by the FDIC loss sharing agreements in place that cover a portion of losses incurred on certain assets acquired in the Hillcrest Bank and the Community Banks of Colorado acquisitions. In the Bank Midwest acquisition, only specific, performing loans were chosen for acquisition. Additionally, we acquired the assets of Bank of Choice at a substantial discount from the FDIC. We received a considerable amount of cash during the settlement of these acquisitions, we paid off certain borrowings, and we contributed significant capital to each banking franchise we acquired. All of these actions materially changed the balance sheet composition, liquidity, and capital structure of the acquired banking franchises.

In May 2012, we changed the name of Bank Midwest, N.A. to NBH Bank, N.A. (“NBH Bank” or the “Bank”) and all references to NBH Bank, N.A. should be considered synonymous with references to Bank Midwest, N.A. prior to the name change.

### Overview

National Bank Holdings Corporation is a bank holding company that was incorporated in the State of Delaware in June 2009. In October 2009, we raised net proceeds of approximately \$974 million through a private offering of our common stock. We completed the initial public offering of our common stock in September 2012. We are executing a strategy to create long-term stockholder value through the acquisition and operation of community banking franchises and other complementary businesses in our targeted markets. We believe these markets exhibit attractive demographic attributes, are home to a substantial number of financial institutions, including troubled financial institutions, and present favorable competitive dynamics, thereby offering long-term opportunities for growth. Our emphasis is on creating meaningful market share with strong revenues complemented by operational efficiencies that we believe will produce attractive risk-adjusted returns.

We believe we have a disciplined approach to acquisitions, both in terms of the selection of targets and the structuring of transactions, which has been exhibited by our four acquisitions to date. As of September 30, 2013, we had \$5.2 billion in assets, \$4.0 billion in deposits and \$1.0 billion in equity. Through our subsidiary, NBH Bank, N.A., we operate under the following brand names: Bank Midwest in Kansas and Missouri, Community Banks of Colorado in

Colorado and Northern California, and Hillcrest Bank in Texas. We believe that our established presence positions us well for growth opportunities in our current and complementary markets. We currently operate a network of 101 full-service banking centers located in Colorado, the greater Kansas City region, Northern California, and Texas. During the third quarter of 2013 we announced plans to integrate 32 limited-service retirement center locations (acquired in our 2010 purchase of Hillcrest Bank) and exit four full-service banking centers in Northern California (acquired in our 2011 purchase of Community Banks of Colorado). These actions are a result of our decision to streamline our focus on servicing our clients through full-service banking centers across our core geography, as well as through online and mobile banking channels. Additional information about the banking center closures can be found in note 17 of our unaudited consolidated interim financial statements.

Our strategic plan is to be a leading regional bank holding company through selective acquisitions of financial institutions, including troubled financial institutions, that have stable core franchises and significant local market share, as well as other complementary businesses, while structuring transactions to limit risk. We plan to achieve this through the growth of our existing banking franchise and through conservatively structured unassisted transactions and through the acquisition of banking franchises from the FDIC. We seek acquisitions that offer opportunities for clear financial benefits through add-on transactions, long-term organic growth opportunities and expense reductions. Additionally, our acquisition strategy is to identify markets that are relatively unconsolidated, establish a meaningful presence within those markets, and take advantage of operational efficiencies and enhanced market position. Our focus is on building strong banking relationships with small to mid-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 core banking franchise with operations in the greater Kansas City region and in Colorado, 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 nine months ended September 30, 2013:

##### Low-risk balance sheet

As of September 30, 2013, 45.0%, or \$0.8 billion, of our total loans (by dollar amount) carried acquisition discounts and were recorded at their estimated fair value at the time of acquisition.

As of September 30, 2013, 21.0%, or \$366.3 million, of our total loans (by dollar amount) were covered by loss sharing agreements with the FDIC.

As of September 30, 2013, 62.3%, or \$44.1 million, of our total other real estate owned (by dollar amount) was covered by loss sharing agreements with the FDIC.

##### Loan portfolio

For the first time in the short history of our company, an important milestone related to loan growth was reached, as total loans grew \$19.5 million from June 30, 2013 to September 30, 2013.

As of September 30, 2013, we have \$1.3 billion of loans outstanding that are associated with a “strategic” client relationship - a 24.7% annualized growth for the nine months ended September 30, 2013.

Organic loan originations totaled \$469.8 million for the nine months ended September 30, 2013, representing a 59.5% increase from the same period of 2012.

On a year-to-date basis, an \$89.9 million decrease in total loans was led by a \$297.4 million decrease in our non-strategic loans during the nine months ended September 30, 2013 as we successfully worked out non-strategic loans acquired in our FDIC-assisted transactions.

29.4% of the loan portfolio is accounted for under ASC 310-30 (loan pools).

##### Credit quality

##### Strategic loans

Loans associated with our strategic client relationships had strong credit quality with only 0.75% in non-performing loans as of September 30, 2013.

##### Non 310-30 loans

Credit quality of the non 310-30 loan portfolio continued to improve with non-performing non 310-30 loans to total non 310-30 loans improving to 2.31% at September 30, 2013 from 4.04% at December 31, 2012.

Net charge-offs on non 310-30 loans were 0.43% annualized.

##### ASC 310-30 loans

Accretable yield for the acquired loans accounted for under ASC 310-30 increased \$50.1 million during the nine months ended September 30, 2013. This was partially offset by \$1.0 million in impairments during the same period. One commercial and industrial loan pool accounted for under ASC 310-30, totaling \$16.9 million and covered by a loss-sharing agreement, was put on non-accrual status during the nine months ended September 30, 2013.

#### Client deposit funded balance sheet

As of September 30, 2013, total deposits and client repurchase agreements made up 98.5% of our total liabilities. Transaction accounts improved to 61.2% of total deposits as of September 30, 2013 from 58.3% at December 31, 2012.

Average transaction account deposit balances grew 3.3% annualized.

As of September 30, 2013, we did not have any brokered deposits.

#### Yields, returns and revenue stream

Our average annual yield on our loan portfolio was 8.11% for the nine months ended September 30, 2013.

Cost of deposits improved 27 basis points to 0.42% for the nine months ended September 30, 2013 from

- 0.69% for the nine months ended September 30, 2012 due to the continued emphasis on our commercial and consumer relationship banking strategy and lower cost transaction accounts.

Net interest margin was 3.82% during the nine months ended September 30, 2013, driven by the attractive yields on loans accounted for under ASC 310-30 loan pools, which includes the immediate one-time recognition of \$2.5 million of accretable yield related to the early payoff of one loan pool, and lower cost of deposits.

Expenses before problem loan/OREO workout expenses declined \$7.1 million during the nine months ended September 30, 2013, compared to the same period in 2012, adjusting for IPO expenses during 2012 and branch closure related expenses during 2013.

Problem loan/OREO workout expenses totaled \$12.0 million for the nine months ended September 30, 2013, decreasing \$6.8 million from the same period in 2012.

#### Strong capital position

As of September 30, 2013, our consolidated tier 1 leverage ratio was 18.5% and our consolidated tier 1 risk-based capital ratio was 48.0%.

As of September 30, 2013, we had approximately \$400 million of capital available to deploy while maintaining a 10% leverage ratio, and we had approximately \$475 million of available capital to deploy at an 8% leverage ratio.

The after-tax accretable yield on ASC 310-30 loans plus the after-tax yield on the FDIC indemnification asset, net, in excess of 4.5%, an approximate yield on new loan originations, and discounted at 5%, adds \$0.59 per share to our tangible book value per share as of September 30, 2013.

Tangible common book value per share was \$18.60 before consideration of the excess accretable yield value of \$0.59 per share.

During the nine months ended September 30, 2013, we repurchased 1,114,628 shares at a weighted average price of \$18.45 per share.

In November 2013, we repurchased 5,771,126 shares of our common stock, including 2,931,281 shares of Class A common stock and 2,839,845 shares of Class B nonvoting common stock, together representing approximately 11.4% of our outstanding shares, from two institutional shareholders after the expiration of their respective three-year FDIC lock-up periods. The \$20.00 price per share was a cost effective means to reduce our overall share count, and to acquire shares for deployment in future M&A opportunities.

#### Key Challenges

There are a number of significant challenges confronting us and our industry. Economic conditions remain guarded and increasing bank regulation is adding costs and uncertainty to all U.S. banks. We face a variety of challenges in implementing our business strategy, including being a new entity, hiring talented people, the challenges of acquiring distressed franchises and rebuilding them, deploying our remaining capital on quality targets, low interest rates and low demand from borrowers and intense competition for loans.

Continued uncertainty about the economic outlook has strained the advancement of an economic recovery, both nationally and in our core markets. Residential real estate values have largely recovered from their lows, and we continue to consider this with guarded optimism. Commercial real estate values have been recovering slightly slower than residential real estate, and it is difficult to determine how strong this recovery is and how long it will last. Any deterioration in credit quality or elevated levels of non-performing assets, would ultimately have a negative impact on the quality of our loan portfolio.

The decrease of our total loan balances during the first nine months of 2013 was the result of active resolution of problem and non-strategic loans acquired in our FDIC-assisted transactions outpacing organic loan growth.

Additionally, the historically low interest rate environment and loan competition have been limiting the yields we are able to obtain on interest earning assets,

including both new assets acquired as we grow and assets that replace existing, higher yielding assets as they are paid down or mature. For example, our acquired loans generally have produced higher yields than our originated loans due to the recognition of accretion of fair value adjustments and accretable yield. As a result, we expect the yields on our loans to decline as our acquired loan portfolio pays down or matures and we expect downward pressure on our interest income to the extent that the runoff on our acquired loan portfolio is not replaced with comparable high-yielding loans.

Increased regulation, such as the rules and regulations promulgated under the Dodd-Frank Act or potential higher required capital ratios, could reduce our competitiveness as compared to other banks or lead to industry-wide decreases in profitability. While certain external factors are out of our control and may provide obstacles during the implementation of our business strategy, we believe we are prepared to deal with these challenges. We seek to remain flexible, yet methodical, 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, 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 covered assets as well as the loan relationships that we have identified as “non-strategic” 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 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 ASC Topic 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 in our 2012 Annual Report on Form 10-K.

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.

Additionally, many of these assets are covered by loss sharing agreements. All of 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 committed line of credit draws. 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 potential acquisitions, to ensure continued compliance with regulatory requirements and with the OCC Operating Agreement and FDIC Order that we entered into with our regulators in connection with our Bank Midwest acquisition, which is described under “Supervision and Regulation” in our 2012 Annual Report on Form 10-K. We review our tier 1 leverage capital ratios, our tier 1 risk-based capital ratios and our total risk-based capital ratios on a quarterly 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 investment securities, interest bearing bank deposits and loans. Our acquired loans have generally produced higher yields than

our originated loans due to the recognition of accretion of fair value adjustments and accretable yield and, as a result, we expect downward pressure on our interest income to the extent that the runoff of our acquired loan portfolio is not replaced with comparable high-yielding loans. We incur interest expense on our interest bearing deposits and repurchase agreements and 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 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.

**Non-interest income** - Non-interest income consists primarily of service charges, bank card fees, gains on sales of investment securities, and other non-interest income. Also included in non-interest income is FDIC indemnification asset accretion and other FDIC loss sharing income, which 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” in our 2012 Annual Report on Form 10-K and note 2 in our audited consolidated financial statements. Due to fluctuations in the accretion rates on the FDIC indemnification asset and the amortization of clawback liability and due to varying levels of expenses related to the resolution of covered assets, the FDIC loss sharing income is not consistent on a period-to-period basis and, absent additional acquisitions with FDIC loss sharing agreements, is expected to decline over time as covered assets are resolved.

**Non-interest expense** - The primary components of our non-interest expense are salaries and employee benefits, occupancy and equipment, professional fees and data processing and telecommunications. Any expenses related to the resolution of covered 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 equity and return on risk-weighted assets to measure and assess our returns in relation to our balance sheet profile.

In evaluating the financial statement line items described above, we evaluate and manage our performance based on key earnings indicators, balance sheet ratios, asset quality metrics and regulatory capital ratios, among others. The table below presents some of the primary performance indicators that we use to analyze our business on a regular basis for the periods indicated:

Edgar Filing: National Bank Holdings Corp - Form 10-Q

|                                                                                        | As of and for the three months ended |                   |                    | As of and for the nine months ended |                    |   |
|----------------------------------------------------------------------------------------|--------------------------------------|-------------------|--------------------|-------------------------------------|--------------------|---|
|                                                                                        | September 30, 2013                   | December 31, 2012 | September 30, 2012 | September 30, 2013                  | September 30, 2012 |   |
| Key Ratios <sup>(1)</sup>                                                              |                                      |                   |                    |                                     |                    |   |
| Return on average assets                                                               | 0.07                                 | % 0.22            | % -0.56            | % 0.15                              | % -0.08            | % |
| Return on average tangible assets <sup>(2)</sup>                                       | 0.14                                 | % 0.28            | % -0.51            | % 0.22                              | % -0.03            | % |
| Return on average equity                                                               | 0.36                                 | % 1.10            | % -2.86            | % 0.74                              | % -0.43            | % |
| Return on average tangible common equity <sup>(2)</sup>                                | 0.73                                 | % 1.50            | % -2.78            | % 1.13                              | % -0.15            | % |
| Return on risk weighted assets                                                         | 0.19                                 | % 0.64            | % -1.65            | % 0.40                              | % -0.25            | % |
| Interest-earning assets to interest-bearing liabilities (end of period) <sup>(3)</sup> | 139.44                               | % 134.44          | % 133.44           | % 139.44                            | % 133.44           | % |
| Loans to deposits ratio (end of period)                                                | 44.24                                | % 43.76           | % 45.26            | % 44.24                             | % 45.26            | % |
| Average equity to average assets                                                       | 19.97                                | % 20.09           | % 19.41            | % 20.41                             | % 18.52            | % |
| Non-interest bearing deposits to total deposits (end of period)                        | 17.45                                | % 16.14           | % 15.15            | % 17.45                             | % 15.15            | % |
| Net interest margin <sup>(4)</sup>                                                     | 3.80                                 | % 4.09            | % 3.92             | % 3.82                              | % 3.95             | % |
| Interest rate spread <sup>(5)</sup>                                                    | 3.68                                 | % 3.94            | % 3.76             | % 3.69                              | % 3.77             | % |
| Yield on earning assets <sup>(3)</sup>                                                 | 4.14                                 | % 4.51            | % 4.44             | % 4.18                              | % 4.56             | % |
| Cost of interest bearing liabilities <sup>(3)</sup>                                    | 0.46                                 | % 0.57            | % 0.68             | % 0.49                              | % 0.79             | % |
| Cost of deposits                                                                       | 0.40                                 | % 0.48            | % 0.59             | % 0.42                              | % 0.69             | % |
| Non-interest expense to average assets                                                 | 3.56                                 | % 3.77            | % 4.22             | % 3.57                              | % 3.58             | % |
| Efficiency ratio <sup>(6)</sup>                                                        | 92.68                                | % 85.43           | % 101.82           | % 88.60                             | % 84.25            | % |
| Dividend payout ratio                                                                  | 250.00                               | % 83.33           | % 0.00             | % 136.36                            | % 0.00             | % |
| Asset Quality Data <sup>(7) (8) (9)</sup>                                              |                                      |                   |                    |                                     |                    |   |
| Non-performing loans to total loans                                                    | 2.60                                 | % 2.23            | % 1.94             | % 2.60                              | % 1.94             | % |
| Covered non-performing loans to total non-performing loans                             | 55.76                                | % 27.14           | % 19.98            | % 55.76                             | % 19.98            | % |
| Non-performing assets to total assets                                                  | 2.27                                 | % 2.53            | % 3.05             | % 2.27                              | % 3.05             | % |
| Covered non-performing assets to total non-performing assets                           | 59.51                                | % 41.70           | % 43.12            | % 59.51                             | % 43.12            | % |
| Allowance for loan losses to total loans                                               | 0.66                                 | % 0.84            | % 0.91             | % 0.66                              | % 0.91             | % |
| Allowance for loan losses to total non-covered loans                                   | 0.83                                 | % 1.26            | % 1.44             | % 0.83                              | % 1.44             | % |
| Allowance for loan losses to non-performing loans                                      | 25.20                                | % 37.64           | % 46.52            | % 25.20                             | % 46.52            | % |
| Net charge-offs to average loans                                                       | 0.20                                 | % 1.00            | % 1.03             | % 0.58                              | % 1.26             | % |

(1) Ratios are annualized.

(2) Ratio represents non-GAAP financial measure. See non-GAAP reconciliation on page 47.

Interest earning assets include assets that earn interest/accretion or dividends, except for the FDIC indemnification asset that may earn accretion but 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.

- (5) Interest rate spread represents the difference between the weighted average yield on interest earning assets and the weighted average cost of interest bearing liabilities.
- (6) The efficiency ratio represents non-interest expense, less intangible asset amortization, as a percentage of net interest income plus non-interest income.

Non-performing loans consist of non-accruing loans, loans 90 days or more past due and still accruing interest and (7)restructured loans, but exclude any loans accounted for under ASC 310-30 in which the pool is still performing.

These ratios may, therefore, not be comparable to similar ratios of our peers.

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

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

#### About Non-GAAP Financial Measures

Certain of the financial measures and ratios we present, including “tangible assets,” “return on average tangible assets,” “return on average tangible common equity,” “tangible common book value,” “tangible common book value per share,” and “tangible common equity,” are supplemental measures that are not required by, or are not presented in accordance with, U.S. generally accepted accounting principles, or “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. 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.

A reconciliation of our non-GAAP financial measures to the comparable GAAP financial measures is as follows (in thousands, except share and per share information).

Edgar Filing: National Bank Holdings Corp - Form 10-Q

|                                                                                                                 | As of and for the three months ended |                   |                    |       |
|-----------------------------------------------------------------------------------------------------------------|--------------------------------------|-------------------|--------------------|-------|
|                                                                                                                 | September 30, 2013                   | December 31, 2012 | September 30, 2012 |       |
| Total stockholders' equity                                                                                      | \$1,031,250                          | \$1,090,559       | \$1,095,835        |       |
| Less: goodwill                                                                                                  | (59,630)                             | (59,630)          | (59,630)           | )     |
| Add: deferred tax liability related to goodwill                                                                 | 4,284                                | 3,121             | 2,733              |       |
| Less: intangible assets, net                                                                                    | (23,566)                             | (27,575)          | (28,901)           | )     |
| Tangible common equity <sup>(1)</sup>                                                                           | \$952,338                            | \$1,006,475       | \$1,010,037        |       |
| <br>Total assets                                                                                                | <br>\$5,161,969                      | <br>\$5,410,775   | <br>\$5,522,826    |       |
| Less: goodwill                                                                                                  | (59,630)                             | (59,630)          | (59,630)           | )     |
| Add: deferred tax liability related to goodwill                                                                 | 4,284                                | 3,121             | 2,733              |       |
| Less: intangible assets, net                                                                                    | (23,566)                             | (27,575)          | (28,901)           | )     |
| Tangible assets <sup>(1)</sup>                                                                                  | \$5,083,057                          | \$5,326,691       | \$5,437,028        |       |
| <br>Total stockholders' equity to total assets                                                                  | <br>19.98                            | <br>% 20.16       | <br>% 19.84        | <br>% |
| Less: impact of goodwill and intangible assets, net                                                             | -1.24                                | % -1.27           | % -1.26            | %     |
| Tangible common equity to tangible assets <sup>(1)</sup>                                                        | 18.74                                | % 18.89           | % 18.58            | %     |
| <br>Common book value per share calculations:                                                                   |                                      |                   |                    |       |
| Total stockholders' equity                                                                                      | \$1,031,250                          | \$1,090,559       | \$1,095,835        |       |
| Divided by: ending shares outstanding                                                                           | 51,213,044                           | 52,327,672        | 52,191,239         |       |
| Common book value per share                                                                                     | \$20.14                              | \$20.84           | \$21.00            |       |
| <br>Tangible common book value per share calculations:                                                          |                                      |                   |                    |       |
| Tangible common equity                                                                                          | \$952,338                            | \$1,006,475       | \$1,010,037        |       |
| Divided by: ending shares outstanding                                                                           | 51,213,044                           | 52,327,672        | 52,191,239         |       |
| Tangible common book value per share <sup>(1)</sup>                                                             | \$18.60                              | \$19.23           | \$19.35            |       |
| <br>Tangible common book value per share, excluding accumulated other comprehensive income (loss) calculations: |                                      |                   |                    |       |
| Tangible common equity                                                                                          | \$952,338                            | \$1,006,475       | \$1,010,037        |       |
| Less: accumulated other comprehensive income (loss)                                                             | 142                                  | (40,573)          | (46,752)           | )     |
| Tangible common book value, excluding accumulated other comprehensive income (loss)                             | 952,480                              | 965,902           | 963,285            |       |
| Divided by: ending shares outstanding                                                                           | 51,213,044                           | 52,327,672        | 52,191,239         |       |
| Tangible common book value per share, excluding accumulated other comprehensive income (loss) <sup>(1)</sup>    | \$18.60                              | \$18.46           | \$18.46            |       |

(1) During the three months ended September 30, 2013, we modified the calculation of tangible common book value to adjust for goodwill net of deferred tax liabilities, driven by the asset purchase structure used in our bank acquisitions. All prior periods have been restated.

Edgar Filing: National Bank Holdings Corp - Form 10-Q

|                                                           | As of and for the three months ended |                   |                    | As of and for the nine months ended |                    |                    |
|-----------------------------------------------------------|--------------------------------------|-------------------|--------------------|-------------------------------------|--------------------|--------------------|
|                                                           | September 30, 2013                   | December 31, 2012 | September 30, 2012 | September 30, 2013                  | September 30, 2012 | September 30, 2012 |
| Return on average assets                                  | 0.07                                 | % 0.22            | % -0.56            | % 0.15                              | % -0.08            | %                  |
| Add: impact of goodwill and intangible assets, net        | 0.00                                 | % 0.00            | % -0.01            | % 0.00                              | % 0.00             | %                  |
| Add: impact of core deposit intangible expense, after tax | 0.07                                 | % 0.06            | % 0.06             | % 0.07                              | % 0.05             | %                  |
| Return on average tangible assets <sup>(1)</sup>          | 0.14                                 | % 0.28            | % -0.51            | % 0.22                              | % -0.03            | %                  |
| Return on average equity                                  | 0.36                                 | % 1.10            | % -2.86            | % 0.74                              | % -0.43            | %                  |
| Add: impact of goodwill and intangible assets, net        | 0.03                                 | % 0.08            | % -0.24            | % 0.06                              | % -0.04            | %                  |
| Add: impact of core deposit intangible expense, after tax | 0.34                                 | % 0.32            | % 0.32             | % 0.33                              | % 0.32             | %                  |
| Return on average tangible common equity <sup>(1)</sup>   | 0.73                                 | % 1.50            | % -2.78            | % 1.13                              | % -0.15            | %                  |

### 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 and the application of acquisition accounting, the accounting for acquired loans and the related FDIC indemnification asset, the determination of the ALL, and the valuation of stock-based compensation. These critical accounting policies and estimates are summarized in the sections captioned “Application of Critical Accounting Policies” in Management's Discussion and Analysis in our 2012 Annual Report on Form 10-K, 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 2012.

During the nine months ended September 30, 2013, we began entering into agreements with certain financial institutions whereby we purchase securities under agreements to resell as of a specified future date at a specified price plus accrued interest. The securities purchased under agreements to resell are carried at the contractual amounts at which the securities will subsequently be resold, including accrued interest. The securities are pledged as collateral by the counterparties and are held by a third party custodian. The collateral is valued daily and additional collateral may be obtained or refunded as necessary to maintain full collateralization of these transactions.

During the nine months ended September 30, 2013, we began entering into interest rate swaps. The existing interest rate derivatives result from a service provided to certain qualifying clients and, therefore, are not used to manage interest rate risk in our assets or liabilities and therefore are not considered hedges. We manage a matched book with respect to its derivative instruments in order to minimize its net risk exposure resulting from such transactions.

There have been no other significant changes to the application of critical accounting policies since December 31, 2012.

### Financial Condition

Total assets at September 30, 2013 were \$5.2 billion compared to \$5.4 billion at December 31, 2012, a decrease of \$0.2 billion. The decrease in total assets was largely driven by a decrease in non-strategic loan balances of \$297.4 million, which was a reflection of our workout progress on troubled loans (many of which were covered) that we acquired. We also originated \$469.8 million of loans during the nine months ended September 30, 2013, which offset normal client payments and grew the loan balances in our strategic portfolio at an annualized rate of 24.7%. We coupled the total loan balance decrease of \$89.9 million with a \$249.2 million decrease in total deposits, as we sought to retain only those depositors who were interested in time deposits at market rate and developing a banking relationship and continued our focus on migrating toward a client-based deposit mix with higher concentrations of lower cost demand, savings and money market (“transaction”) deposits. We also utilized available cash and purchased \$938.5 million of investment securities during the nine months ended September 30, 2013. Our FDIC indemnification asset decreased \$28.8 million during the nine months ended September 30, 2013 as a result of \$24.5 million of payments from and claims submitted to the FDIC for reimbursement on continued workout progress on our covered loans and OREO, coupled with an increase in actual and expected cash flows on our covered assets. These increases in cash flows also contributed to a net reclassification of \$50.1 million of non-accretable difference to accretable yield during the period, which is being accreted to income over the remaining life of the loans.

### Investment Securities

#### Available-for-sale

Total investment securities available-for-sale were \$1.9 billion at September 30, 2013, compared to \$1.7 billion at December 31, 2012, an increase of \$0.2 billion, or 10.0%. During the nine months ended September 30, 2013, we purchased \$694.0 million of available-for-sale mortgage backed securities, which was partially offset by \$456.1 million of maturities and paydowns. Our available-for-sale investment securities portfolio is summarized as follows for the periods indicated (in thousands):





Edgar Filing: National Bank Holdings Corp - Form 10-Q

|                                                                                                                        | September 30, 2013 |             |                      |                        | December 31, 2012 |             |                      |                        |
|------------------------------------------------------------------------------------------------------------------------|--------------------|-------------|----------------------|------------------------|-------------------|-------------|----------------------|------------------------|
|                                                                                                                        | Amortized Cost     | Fair Value  | Percent of Portfolio | Weighted Average Yield | Amortized Cost    | Fair Value  | Percent of Portfolio | Weighted Average Yield |
| U.S. Treasury securities                                                                                               | \$—                | \$—         | 0.00 %               | 0.00 %                 | \$300             | \$300       | 0.02 %               | 0.13 %                 |
| Asset backed securities                                                                                                | 20,091             | 20,098      | 1.06 %               | 0.61 %                 | 89,881            | 90,003      | 5.24 %               | 0.61 %                 |
| Mortgage-backed securities (“MBS”):                                                                                    |                    |             |                      |                        |                   |             |                      |                        |
| Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises | 514,584            | 523,183     | 27.68 %              | 2.04 %                 | 658,169           | 678,017     | 39.46 %              | 2.03 %                 |
| Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises                        | 1,376,453          | 1,346,262   | 71.24 %              | 1.78 %                 | 931,979           | 949,289     | 55.26 %              | 2.13 %                 |
| Other securities                                                                                                       | 419                | 419         | 0.02 %               | 0.00 %                 | 419               | 419         | 0.02 %               | 0.00 %                 |
| Total investment securities available-for-sale                                                                         | \$1,911,547        | \$1,889,962 | 100.00 %             | 1.83 %                 | \$1,680,748       | \$1,718,028 | 100.00 %             | 2.01 %                 |

As of September 30, 2013, approximately 98.9% of the available-for-sale investment portfolio was backed by mortgages. The residential mortgage pass-through securities portfolio is comprised of both fixed rate and adjustable rate Federal Home Loan Mortgage Corporation (“FHLMC”), Federal National Mortgage Association (“FNMA”) and Government National Mortgage Association (“GNMA”) securities. The other mortgage-backed securities are comprised of securities backed by FHLMC, FNMA and GNMA securities.

At September 30, 2013, adjustable rate securities comprised 7.8% of the available-for-sale MBS portfolio and the remainder of the portfolio was comprised of fixed rate securities with 10 to 30 year maturities, with a weighted average coupon of 2.2% per annum.

The available-for-sale investment portfolio included \$21.6 million of net unrealized losses and \$37.3 million of net unrealized gains, at September 30, 2013 and December 31, 2012, respectively, inclusive of \$20.7 million of unrealized gains and \$321.0 thousand of unrealized losses, respectively. The change from a net unrealized gain at December 31, 2012 to a net unrealized loss at September 30, 2013 is primarily driven by rising interest rates during the period. We do not believe that any of the securities with unrealized losses were other-than-temporarily-impaired.

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

|                                     | Due in one year or less | Due after one year through five years | Due after five years through ten years | Due after ten years     | Other securities        | Total                   |
|-------------------------------------|-------------------------|---------------------------------------|----------------------------------------|-------------------------|-------------------------|-------------------------|
|                                     | Weighted Carrying Value | Weighted Carrying Value               | Weighted Carrying Value                | Weighted Carrying Value | Weighted Carrying Value | Weighted Carrying Value |
| Asset backed securities             | \$—                     | \$20,098                              | \$—                                    | \$—                     | \$—                     | \$20,098                |
| Mortgage-backed securities (“MBS”): |                         |                                       |                                        |                         |                         |                         |
| Residential mortgage                | —                       | 9                                     | 194,408                                | 328,766                 | —                       | 523,183                 |

pass-through  
securities issued  
or guaranteed by  
U.S. Government  
agencies or  
sponsored  
enterprises

Other residential MBS

issued or  
guaranteed by  
U.S. Government  
agencies or  
sponsored  
enterprises

Other securities  
Total investment  
securities  
available-for-sale

|           |          |        |           |        |             |        |       |        |             |        |
|-----------|----------|--------|-----------|--------|-------------|--------|-------|--------|-------------|--------|
| —0.00 %   | —        | 0.00 % | 12,167    | 2.50 % | 1,334,095   | 1.77 % | —     | 0.00 % | 1,346,262   | 1.78 % |
| —0.00 %   | —        | 0.00 % | —         | 0.00 % | —           | 0.00 % | 419   | 0.00 % | 419         | 0.00 % |
| \$-0.00 % | \$20,107 | 0.62 % | \$206,575 | 1.39 % | \$1,662,861 | 1.91 % | \$419 | 0.00 % | \$1,889,962 | 1.83 % |

The estimated weighted average life of the available-for-sale MBS portfolio as of September 30, 2013 and December 31, 2012 was 4.4 years and 3.4 years, respectively, the extension of which was largely due to slower expected prepayment speeds in response to the higher interest rate environment at September 30, 2013 compared to December 31, 2012. This estimate is based on various assumptions, including repayment characteristics, and actual results may differ. As of September 30, 2013, the duration of the total available-for-sale investment portfolio was 4.0 years and the asset-backed securities portfolio within the available-for-sale investment portfolio had a duration of 0.2 year.

## Held-to-maturity

At September 30, 2013, we held \$664.7 million of held-to-maturity investment securities, compared to \$577.5 million at December 31, 2012, an increase of \$87.2 million or 15.1%. During the nine months ended September 30, 2013 we purchased \$244.5 million held-to-maturity securities. Held-to-maturity investment securities are summarized as follows as of the date indicated (in thousands):

|                                                                                                                        | September 30, 2013 |               |                         |                           |   |
|------------------------------------------------------------------------------------------------------------------------|--------------------|---------------|-------------------------|---------------------------|---|
|                                                                                                                        | Amortized<br>Cost  | Fair<br>Value | Percent of<br>Portfolio | Weighted<br>Average Yield |   |
| Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises | \$530,406          | \$533,464     | 80.27                   | % 3.26                    | % |
| Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises                        | 134,311            | 131,114       | 19.73                   | % 1.69                    | % |
| Total investment securities held-to-maturity                                                                           | \$664,717          | \$664,578     | 100.00                  | % 2.94                    | % |

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

At September 30, 2013 and December 31, 2012, the fair value of the held-to-maturity investment portfolio was \$664.6 million and \$584.6 million, inclusive of \$0.1 million of unrealized losses and \$7.1 million of unrealized gains, respectively. The table below summarizes the contractual maturities, as of the last scheduled repayment date, of our held-to-maturity investment portfolio as of September 30, 2013 (in thousands):

|                                        | Amortized<br>Cost | Weighted<br>Average<br>Yield |   |
|----------------------------------------|-------------------|------------------------------|---|
| Due in one year or less                | \$—               | 0.00                         | % |
| Due after one year through five years  | —                 | 0.00                         | % |
| Due after five years through ten years | 19,012            | 2.03                         | % |
| Due after ten years                    | 645,705           | 2.97                         | % |
| Other securities                       | —                 | 0.00                         | % |
| Total                                  | \$664,717         | 2.94                         | % |

The estimated weighted average life of the held-to-maturity investment portfolio as of September 30, 2013 and December 31, 2012 was 4.3 years and 3.8 years, respectively. As of September 30, 2013, the duration of the total held-to-maturity investment portfolio was 3.9 years and the duration of the entire investment securities portfolio was 4.0 years.

## Non-marketable securities

Non-marketable securities include Federal Reserve Bank stock and FHLB stock. At September 30, 2013 and December 31, 2012, we held \$25.0 million of Federal Reserve Bank stock and at September 30, 2013 and December 31, 2012 we also held \$6.7 million and \$8.0 million of FHLB stock, respectively. We hold these securities in accordance with debt and regulatory requirements. These are restricted securities which lack a market and are therefore carried at cost.

## Loans Overview

Our loan portfolio at September 30, 2013 was comprised of loans that were acquired in connection with our four acquisitions to date, in addition to new loans that we have originated. The majority of the loans acquired in the Hillcrest Bank and Community Banks of Colorado transaction are covered by loss sharing agreements with the FDIC. As discussed in note 2 to our audited 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 market considerations. Loans that exhibit signs of credit deterioration at the date of acquisition are accounted for in

accordance with the provisions of ASC Topic 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.

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. The portfolio is further stratified based on (i) loans covered by FDIC loss sharing agreements, or “covered loans,” and (ii) loans that are not covered by FDIC loss sharing agreements, or “non-covered loans.” Additionally, inherent in the nature of acquiring troubled 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 troubled 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. At September 30, 2013, strategic loans totaled \$1.3 billion and had strong credit quality as represented by a non-performing loans ratio of 0.75%. 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 four primary presentations to analyze our loan portfolio, depending on the purpose of the analysis. Those are:

To analyze:

Loan growth and production efforts

Workout efforts of our purchased non-strategic portfolio

Risk mitigants of our non-performing loans

Interest income

We look at:

Strategic balances and loan originations

Non-strategic balances and accretable yield

FDIC loss-share coverage and fair value marks

ASC 310-30 and non 310-30 yields and accretable yield

The table below shows the loan portfolio composition and the breakdown of the portfolio between ASC 310-30 loans, non 310-30 loans, along with the amounts that are covered and non-covered, at September 30, 2013 and December 31, 2012 (in thousands):

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

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

Strategic loans comprised 76.3% of the total loan portfolio at September 30, 2013, compared to 61.2% at December 31, 2012. The table below shows the loan portfolio composition categorized between strategic and non-strategic at the respective dates (in thousands):

|                         | September 30, 2013 |               |             | December 31, 2012 |               |             |
|-------------------------|--------------------|---------------|-------------|-------------------|---------------|-------------|
|                         | Strategic          | Non-Strategic | Total       | Strategic         | Non-Strategic | Total       |
| Commercial              | \$262,384          | \$77,980      | \$340,364   | \$163,193         | \$107,395     | \$270,588   |
| Commercial real estate  | 326,679            | 287,774       | 614,453     | 278,907           | 526,092       | 804,999     |
| Agriculture             | 144,784            | 10,562        | 155,346     | 160,963           | 12,444        | 173,407     |
| Residential real estate | 561,770            | 33,799        | 595,569     | 474,769           | 58,608        | 533,377     |
| Consumer                | 34,002             | 3,079         | 37,081      | 44,266            | 6,065         | 50,331      |
| Total                   | \$1,329,619        | \$413,194     | \$1,742,813 | \$1,122,098       | \$710,604     | \$1,832,702 |

Total loans decreased \$89.9 million from December 31, 2012, ending at \$1.7 billion at September 30, 2013. The 4.9% decrease in total loans was primarily driven by a \$297.4 million decrease in our non-strategic loan portfolio as our enterprise-level, dedicated special asset resolution team successfully worked out non-strategic loans acquired in our FDIC-assisted transactions, coupled with the repayment of non-strategic loans that do not conform to our business model of in-market, relationship-oriented loans with credit metrics commensurate with our current underwriting standards. Strategic loans increased \$207.5 million, or 24.7% annualized, at September 30, 2013 compared to December 31, 2012, driven by strong originations. We successfully increased our balances in our strategic commercial, commercial real estate and residential real estate portfolios as we continued to generate new relationships with individuals and small to mid-sized businesses.

Commercial loans consist of loans made to finance business operations and are secured by inventory or other business-related collateral such as accounts receivable or equipment. Commercial real estate loans include loans on 1-4 family construction properties, owner-occupied and non-owner-occupied commercial properties such as office buildings, shopping centers, or free standing commercial properties, multi-family properties and raw land development loans. Agriculture loans include loans on farm equipment and farmland loans. Residential real estate loans include 1-4 family closed and open end loans, in both senior and junior collateral positions. Consumer loans include both secured and unsecured loans.

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 \$469.8 million were up \$175.2 million, or 59.5% from the same period of the prior year as a result of the deployment of bankers and the development of our market presence. The following table represents new loan originations for the last five quarters (in thousands):

Edgar Filing: National Bank Holdings Corp - Form 10-Q

|                         | Third quarter<br>2013 | Second quarter<br>2013 | First quarter<br>2013 | Fourth quarter<br>2012 | Third quarter<br>2012 |
|-------------------------|-----------------------|------------------------|-----------------------|------------------------|-----------------------|
| Commercial              | \$80,833              | \$24,982               | \$15,150              | \$30,988               | \$25,640              |
| Commercial real estate  | 50,081                | 31,553                 | 36,749                | 20,993                 | 11,135                |
| Agriculture             | 5,689                 | 22,901                 | 9,446                 | 28,978                 | 24,328                |
| Residential real estate | 51,749                | 86,161                 | 45,808                | 52,778                 | 60,320                |
| Consumer                | 3,326                 | 3,157                  | 2,211                 | 6,025                  | 6,505                 |
| Total                   | \$191,678             | \$168,754              | \$109,364             | \$139,762              | \$127,928             |

The tables below show the contractual maturities of our loans for the dates indicated (in thousands):

|                         | September 30, 2013   |                                   |                      |             |
|-------------------------|----------------------|-----------------------------------|----------------------|-------------|
|                         | Due within<br>1 Year | Due after 1 but<br>within 5 Years | Due after<br>5 Years | Total       |
| Commercial              | \$107,084            | \$201,283                         | \$31,997             | \$340,364   |
| Commercial real estate  | 174,669              | 290,996                           | 148,788              | 614,453     |
| Agriculture             | 42,098               | 67,092                            | 46,156               | 155,346     |
| Residential real estate | 39,407               | 57,208                            | 498,954              | 595,569     |
| Consumer                | 14,210               | 16,089                            | 6,782                | 37,081      |
| Total loans             | \$377,468            | \$632,668                         | \$732,677            | \$1,742,813 |
| Covered                 | \$184,437            | \$138,460                         | \$43,449             | \$366,346   |
| Non-covered             | 193,031              | 494,208                           | 689,228              | 1,376,467   |
| Total loans             | \$377,468            | \$632,668                         | \$732,677            | \$1,742,813 |
|                         | December 31, 2012    |                                   |                      |             |
|                         | Due within<br>1 Year | Due after 1 but<br>within 5 Years | Due after<br>5 Years | Total       |
| Commercial              | \$83,093             | \$147,356                         | \$40,139             | \$270,588   |
| Commercial real estate  | 403,179              | 277,625                           | 124,195              | 804,999     |
| Agriculture             | 41,205               | 77,683                            | 54,519               | 173,407     |
| Residential real estate | 62,712               | 73,941                            | 396,724              | 533,377     |
| Consumer                | 23,842               | 17,668                            | 8,821                | 50,331      |
| Total loans             | \$614,031            | \$594,273                         | \$624,398            | \$1,832,702 |
| Covered                 | \$350,339            | \$198,373                         | \$59,510             | \$608,222   |
| Non-covered             | 263,692              | 395,900                           | 564,888              | 1,224,480   |
| Total loans             | \$614,031            | \$594,273                         | \$624,398            | \$1,832,702 |



The interest rate sensitivity of loans with maturities over one year is as follows at the dates indicated (in thousands):

|                                    | September 30, 2013 |           |             |
|------------------------------------|--------------------|-----------|-------------|
|                                    | Fixed              | Variable  | Total       |
| Commercial                         | \$70,915           | \$162,365 | \$233,280   |
| Commercial real estate             | 185,932            | 253,852   | 439,784     |
| Agriculture                        | 56,674             | 56,574    | 113,248     |
| Residential real estate            | 323,461            | 232,701   | 556,162     |
| Consumer                           | 12,759             | 10,112    | 22,871      |
| Total loans with > 1 year maturity | \$649,741          | \$715,604 | \$1,365,345 |
| Covered                            | \$41,730           | \$140,179 | \$181,909   |
| Non-covered                        | 608,011            | 575,425   | 1,183,436   |
| Total loans with > 1 year maturity | \$649,741          | \$715,604 | \$1,365,345 |
|                                    | December 31, 2012  |           |             |
|                                    | Fixed              | Variable  | Total       |
| Commercial                         | \$51,171           | \$136,324 | \$187,495   |
| Commercial real estate             | 161,200            | 240,620   | 401,820     |
| Agriculture                        | 60,194             | 72,008    | 132,202     |
| Residential real estate            | 247,321            | 223,344   | 470,665     |
| Consumer                           | 15,295             | 11,194    | 26,489      |
| Total loans with > 1 year maturity | \$535,181          | \$683,490 | \$1,218,671 |
| Covered                            | \$73,925           | \$183,958 | \$257,883   |
| Non-covered                        | 461,256            | 499,532   | 960,788     |
| Total loans with > 1 year maturity | \$535,181          | \$683,490 | \$1,218,671 |

#### Accretable Yield

The fair value adjustments assigned to loans that are accounted for under ASC 310-30 include both accretable yield and a non-accretable difference that are based on expected cash flows from the loans. Accretable yield is the excess of a pool's cash flows expected to be collected over the recorded balance of the related pool of loans. The non-accretable difference represents the expected shortfall in future cash flows from the contractual amount due in respect of each pool of such loans. Similar to the entire fair value adjustment for loans outside the scope of ASC 310-30, the accretable yield is accreted into income over the estimated remaining life of the loans in the applicable 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.

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

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

Loan pools accounted for under ASC Topic 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, increases in the expected future cash flows in the applicable pool result in a transfer from the non-accretable difference to the accretable yield, and have a positive impact on accretion income prospectively. This re-measurement process resulted in the following changes to the accretable yield during the nine months ended September 30, 2013 and 2012 (in thousands):

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

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

During the nine months ended September 30, 2013 one of the loans pools accounted for under ASC 310-30 paid off early. The early pay off of this pool resulted in an immediate recognition of \$2.5 million of accretion, which is included in the \$59.6 million of accretion in the above table.

We re-measure the expected cash flows of all 28 of the accruing loan pools accounted for under ASC 310-30 utilizing the same cash flow methodology used at the time of acquisition. Increases in expected cash flows are reflected as an increase in the accretion rates as well as an increased amount of accretable yield that will be recognized over the expected remaining lives of the underlying loan pools. During the nine months ended September 30, 2013 and 2012, we reclassified \$50.1 million, and \$38.6 million, net, from non-accretable difference to accretable yield, respectively. The re-measurements also resulted in \$1.0 million and \$17.4 million of net impairment during the same respective periods. The impairments during the nine months ended September 30, 2013 were primarily driven by our commercial real estate and residential real estate pools. These impairments are reflected in provision for loan loss in the consolidated statement of operations.

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. At September 30, 2013 and 2012, our total remaining accretable yield and fair value mark was as follows (in thousands):

|                                                                                  | September 30,<br>2013 | September 30,<br>2012 |
|----------------------------------------------------------------------------------|-----------------------|-----------------------|
| Remaining accretable yield on loans accounted for under ASC 310-30               | \$ 124,086            | \$ 148,868            |
| Remaining accretable fair value mark on loans not accounted for under ASC 310-30 | 12,834                | 23,144                |
| Total remaining accretable yield and fair value mark                             | \$ 136,920            | \$ 172,012            |
| Loss-Share Coverage                                                              |                       |                       |

We have two loss sharing agreements with the FDIC for the assets related to the Hillcrest Bank acquisition and a separate loss sharing agreement that covers certain assets related to the Community Banks of Colorado acquisition, whereby the FDIC will reimburse us for a portion of the losses incurred as a result of the resolution and disposition of the covered assets of these banks. The details of these agreements are more fully described in Management's Discussion and Analysis in our 2012 Annual Report on Form 10-K.



The categories, and the respective loss thresholds and coverage amounts related to the Hillcrest Bank loss sharing agreement are as follows (in thousands):

| Commercial |                   |                          | Single family |                |                          |
|------------|-------------------|--------------------------|---------------|----------------|--------------------------|
| Tranche    | Loss Threshold    | Loss-Coverage Percentage | Tranche       | Loss Threshold | Loss-Coverage Percentage |
| 1          | Up to \$295,592   | 60%                      | 1             | Up to \$4,618  | 60%                      |
| 2          | \$295,593-405,293 | 0%                       | 2             | \$4,618-8,191  | 30%                      |
| 3          | >\$405,293        | 80%                      | 3             | >\$8,191       | 80%                      |

The categories, and the respective loss thresholds and coverage amounts related to the Community Banks of Colorado loss sharing agreement are as follows (in thousands):

| Tranche | Loss Threshold    | Loss-Coverage Percentage |
|---------|-------------------|--------------------------|
| 1       | Up to \$204,194   | 80%                      |
| 2       | \$204,195-308,020 | 30%                      |
| 3       | >\$308,020        | 80%                      |

Under the Hillcrest Bank and Community Banks of Colorado loss sharing agreements, the reimbursable losses from the FDIC are based on the book value of the related covered assets as determined by the FDIC at the date of acquisition, and the FDIC's book value does not necessarily correlate with our book value of the same assets. This difference is primarily because we recorded the loans at fair value at the date of acquisition in accordance with applicable accounting guidance.

As of September 30, 2013, we had incurred \$203.4 million of losses on our Hillcrest Bank covered assets since the beginning of the loss sharing agreement as measured by the FDIC's book value, substantially all of which was related to the commercial assets. Additionally, as of September 30, 2013, we had incurred approximately \$144.0 million of losses related to our Community Banks of Colorado loss sharing agreement. The loss claims filed are subject to review and approval, including extensive audits, by the FDIC or its assigned agents for compliance with the terms in the loss sharing agreements.

#### 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 limited in their comparability to industry averages or to other financial institutions because:

1. Any asset quality deterioration that existed at the date of acquisition was considered in the original fair value adjustments; and
2. 59.5% of our non-performing assets (by dollar amount) at September 30, 2013 were covered by loss sharing agreements with the FDIC.

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 our collateral. To facilitate the oversight of asset quality, loans are categorized based on the number of days past due and on an internal risk rating system, and both are discussed in more detail below.



Our internal risk rating system uses a series of grades which reflect our assessment of the credit quality of covered and non-covered 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" 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 covered and non-covered non-accrual loans, accruing loans 90 days or more past due, troubled debt restructurings, OREO and other repossessed assets. However, loans and troubled debt restructurings 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. Our non-performing assets included \$25.3 million and \$11.1 million of covered loans at September 30, 2013 and December 31, 2012, respectively, and \$44.1 million and \$45.5 million of covered OREO at September 30, 2013 and December 31, 2012, respectively. In addition to being covered by loss sharing agreements, these 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.

As of September 30, 2013 and December 31, 2012, 60.3% and 64.2%, respectively, of loans accounted for under ASC 310-30 were covered by the FDIC loss sharing agreements. 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-estimation of the expected future cash flows. To the extent that we decrease our cash flow projections, we record an immediate impairment expense through the provision for loan losses. We recognize any increases to our cash flow projections on a prospective basis through an increase to the pool's yield over its remaining life once any previously recorded impairment expense has been recouped. 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.

During the nine months ended September 30, 2013, we identified one covered commercial and industrial loan pool accounted for under ASC 310-30 with a balance of \$16.9 million at September 30, 2013, for which the cash flows were no longer reasonably estimable. In accordance with the guidance in ASC 310-30, this pool was put on non-accrual status. As a result, we have ceased recognition of accretable yield to interest income on this loan pool. Income will now be recognized on this pool only after full recovery of the carrying value of the pool. This pool is now considered a non-performing asset and drove the increase in non-performing loans to 2.60% of total loans at September 30, 2013 from 2.23% at December 31, 2012.

All other loans accounted for under ASC 310-30 were classified as performing assets at September 30, 2013 and December 31, 2012, as the carrying values of the respective loan or pool of loans cash flows were considered estimatable 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 other acquired loans accounted for under ASC 310-30.



Edgar Filing: National Bank Holdings Corp - Form 10-Q

The following table sets forth the non-performing assets as of the dates presented (in thousands):

|                                                                                               | September 30, 2013 |          |           | December 31, 2012 |          |           |   |
|-----------------------------------------------------------------------------------------------|--------------------|----------|-----------|-------------------|----------|-----------|---|
|                                                                                               | Non-Covered        | Covered  | Total     | Non-Covered       | Covered  | Total     |   |
| Non-accrual loans:                                                                            |                    |          |           |                   |          |           |   |
| Commercial                                                                                    | \$655              | \$17,490 | \$18,145  | \$1,466           | \$3,034  | \$4,500   |   |
| Commercial real estate                                                                        | 6,185              | 316      | 6,501     | 10,216            | 1,453    | 11,669    |   |
| Agriculture                                                                                   | 156                | 47       | 203       | 207               | 44       | 251       |   |
| Residential real estate                                                                       | 4,344              | 1,407    | 5,751     | 4,894             | 1,514    | 6,408     |   |
| Consumer                                                                                      | 251                | —        | 251       | 291               | —        | 291       |   |
| Total non-accrual loans                                                                       | 11,591             | 19,260   | 30,851    | 17,074            | 6,045    | 23,119    |   |
| Loans past due 90 days or more and still accruing interest:                                   |                    |          |           |                   |          |           |   |
| Commercial                                                                                    | —                  | —        | —         | —                 | —        | —         |   |
| Commercial real estate                                                                        | 148                | —        | 148       | —                 | —        | —         |   |
| Agriculture                                                                                   | —                  | —        | —         | —                 | —        | —         |   |
| Residential real estate                                                                       | —                  | —        | —         | 22                | —        | 22        |   |
| Consumer                                                                                      | 21                 | —        | 21        | 3                 | —        | 3         |   |
| Total accruing loans 90 days past due                                                         | 169                | —        | 169       | 25                | —        | 25        |   |
| Accruing restructured loans <sup>(1)</sup>                                                    | 8,286              | 6,004    | 14,290    | 12,673            | 5,047    | 17,720    |   |
| Total non-performing loans                                                                    | 20,046             | 25,264   | 45,310    | 29,772            | 11,092   | 40,864    |   |
| OREO                                                                                          | 26,671             | 44,082   | 70,753    | 49,297            | 45,511   | 94,808    |   |
| Other repossessed assets                                                                      | 784                | 481      | 1,265     | 800               | 531      | 1,331     |   |
| Total non-performing assets                                                                   | \$47,501           | \$69,827 | \$117,328 | \$79,869          | \$57,134 | \$137,003 |   |
| Allowance for loan losses                                                                     |                    |          | \$11,419  |                   |          | \$15,380  |   |
| Total non-performing loans to total non-covered, total covered, and total loans, respectively | 1.46               | % 6.90   | % 2.60    | % 2.43            | % 1.82   | % 2.23    | % |
| Total non-performing assets to total assets                                                   |                    |          | 2.27      | %                 |          | 2.53      | % |
| Allowance for loan losses to non-performing loans                                             |                    |          | 25.20     | %                 |          | 37.64     | % |

(1) Includes restructured loans less than 90 days past due and still accruing.

OREO of \$70.8 million at September 30, 2013 includes \$3.8 million of participant interests in OREO in connection with our repossession of collateral on loans for which we were the lead bank and we have a controlling interest. We have recorded a corresponding payable to those participant banks in other liabilities. The \$70.8 million of OREO at September 30, 2013 excludes \$10.6 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 the nine months ended September 30, 2013, \$32.4 million of OREO was foreclosed on or otherwise repossessed and \$54.7 million of OREO was sold, including \$1.5 million of non-covered gains and \$5.9 million of covered gains that are subject to reimbursement to the FDIC at the applicable loss-share coverage percentage. OREO write-downs of \$9.1 million were recorded during the nine months ended September 30, 2013, of which \$6.6 million, or 72.5%, were covered by FDIC loss-sharing agreements. OREO balances decreased \$24.1 million during the nine

months ended September 30, 2013 to \$70.8 million, 62.3% of which was covered by FDIC loss-sharing agreements, compared to OREO balances of \$94.8 million at December 31, 2012, \$45.5 million, or 48.0%, of which was covered by the FDIC loss-sharing agreements.

## Past Due Loans

Past due status is monitored as an indicator of credit deterioration. Covered and non-covered loans are considered past due or delinquent when the contractual principal or interest due in accordance with the terms of the loan agreement remains unpaid after the due date of the scheduled payment. Loans that are 90 days or more past due and not accounted for under ASC 310-30 are put on non-accrual status unless the loan is well secured and in the process of collection. Pooled loans accounted for under ASC 310-30 that are 90 days or more past due and still accruing are included in loans 90 days or more past due and still accruing interest and are generally considered to be performing as is further described above under “Non-Performing Assets.” The one covered loan pool accounted for under ASC 310-30 that was put on non-accrual during the nine months ended September 30, 2013 is included in non-accrual loans. The table below shows the past due status of loans accounted for under ASC 310-30 and loans not accounted for under ASC 310-30, based on contractual terms of the loans as of September 30, 2013 and December 31, 2012 (in thousands):

|                                                                                                                      | September 30, 2013  |                            |                | December 31, 2012   |                         |                |   |
|----------------------------------------------------------------------------------------------------------------------|---------------------|----------------------------|----------------|---------------------|-------------------------|----------------|---|
|                                                                                                                      | ASC 310-30<br>Loans | Non ASC<br>310-30<br>Loans | Total<br>Loans | ASC 310-30<br>Loans | Non ASC<br>310-30 Loans | Total<br>Loans |   |
| Loans 30-89 days past due and still accruing interest                                                                | \$27,900            | \$2,247                    | \$30,147       | \$18,412            | \$4,581                 | \$22,993       |   |
| Loans 90 days past due and still accruing interest                                                                   | 62,324              | 169                        | 62,493         | 146,761             | 25                      | 146,786        |   |
| Non-accrual loans                                                                                                    | 16,857              | 13,994                     | 30,851         | —                   | 23,119                  | 23,119         |   |
| Total past due and non-accrual loans                                                                                 | \$107,081           | \$16,410                   | \$123,491      | \$165,173           | \$27,725                | \$192,898      |   |
| Total covered loans                                                                                                  | \$88,406            | \$2,642                    | \$91,048       | \$130,350           | \$6,172                 | \$136,522      |   |
| Total past due and non-accrual loans to total ASC 310-30 loans, total non 310-30 loans and total loans, respectively | 20.87               | % 1.33                     | % 7.09         | % 20.09             | % 2.74                  | % 10.53        | % |
| Total non-accrual loans to total ASC 310-30 loans, total non 310-30 loans, and total loans, respectively             | 3.29                | % 1.14                     | % 1.77         | % 0.00              | % 2.29                  | % 1.26         | % |
| % of total past due and non-accrual loans that carry fair value adjustments                                          | 100.00              | % 38.65                    | % 91.85        | % 100.00            | % 57.78                 | % 93.93        | % |
| % of total past due and non-accrual loans that are covered by FDIC loss sharing agreements                           | 82.56               | % 16.10                    | % 73.73        | % 78.92             | % 22.26                 | % 70.77        | % |

During the nine months ended September 30, 2013, total past due and non-accrual loans increased slightly for loans accounted for under ASC 310-30 to 20.87% at September 30, 2013 from 20.09% of total loans accounted for under ASC 310-30 at December 31, 2012. Total past due and non-accrual loans not accounted for under ASC 310-30 improved significantly to 1.33% at September 30, 2013 from 2.74% at December 31, 2012 driven by a decline in non-accrual loans. Total loans 30 days or more past due and still accruing interest and non-accrual loans represented 7.09% of total loans as of September 30, 2013 compared to 10.53% at December 31, 2012. Loans 30-89 days past due and still accruing interest increased \$7.2 million at September 30, 2013 compared to December 31, 2012. Loans 90 days or more past due and still accruing interest decreased \$84.3 million at September 30, 2013 compared to December 31, 2012. The collective decrease in past due loans of \$77.1 million is reflective of improved credit quality

in the broader loan portfolio and the successful workout strategies employed by our special assets division during the period. Non-accrual loans increased \$7.7 million from December 31, 2012 to September 30, 2013 primarily due to the addition of the covered commercial and industrial loan pool accounted for under ASC 310-30, totaling \$16.9 million, to non-accrual status during the period. Non-accrual loans not accounted for under ASC 310-30 decreased \$9.1 million during the period primarily due to resolution of certain assets and foreclosures during the period. The non-accrual loans are primarily secured by real estate both in and outside of our market areas.

### Allowance for Loan Losses

The ALL represents the amount that we believe is necessary to absorb probable losses inherent in the loan portfolio at the balance sheet date and involves a high degree of judgment and complexity. Determination of the ALL is based on an evaluation of the collectability of loans, the realizable value of underlying collateral and, to the extent applicable, prior loss experience. The ALL is critical to the portrayal and understanding of our financial condition, liquidity and results of operations. The determination and application of the ALL accounting policy involves judgments, estimates, and uncertainties that are subject to change. Changes in these assumptions, estimates or the conditions surrounding them may have a material impact on our financial condition, liquidity or results of operations.

In accordance with the applicable guidance for business combinations, acquired loans were recorded at their acquisition date fair values, which were based on expected future cash flows and included an estimate for future loan losses, therefore no ALL was recorded as of the acquisition date. Any estimated losses on acquired loans that arise after the acquisition date are reflected in a charge to the provision for loan losses. Losses incurred on covered loans are reimbursable at the applicable loss share percentages in accordance with the loss sharing agreements with the FDIC. Accordingly, any provision for loan losses relating to covered loans is partially offset by a corresponding increase to the FDIC indemnification asset and FDIC loss sharing income in non-interest income.

Loans accounted for under the accounting guidance provided in ASC 310-30 have been grouped into pools based on the predominant risk characteristics of purpose and/or type of loan. The timing and receipt of expected principal, interest and any other cash flows of these loans are periodically re-estimated and the expected future cash flows of the collective pools are compared to the carrying value of the pools. To the extent that the expected future cash flows of each pool is less than the book value of the pool, an allowance for loan losses will be established through a charge to the provision for loan losses and, for loans covered by loss sharing agreements with the FDIC, a related adjustment to the FDIC indemnification asset for the portion of the loss that is covered by the loss sharing agreements. If the re-estimated expected future cash flows are greater than the book value of the pools, then the improvement in the expected future cash flows is accreted into interest income over the remaining expected life of the loan pool. During the nine months ended September 30, 2013 and 2012, these re-estimations resulted in overall increases in expected cash flows in certain loan pools, which, absent previous valuation allowances within the same pool, is reflected in increased accretion as well as an increased amount of accretable yield and is recognized over the expected remaining lives of the underlying loans as an adjustment to yield.

For all loans not accounted for under ASC 310-30, the determination of the ALL follows a process to determine the appropriate level of ALL that is designed to account for changes in credit quality. This process provides an ALL consisting of a specific allowance component based on certain individually evaluated loans and a general allowance component based on estimates of reserves needed for all other loans, segmented based on similar risk characteristics.

Impaired loans less than \$250,000 are included in the general allowance population. Impaired loans over \$250,000 are subject to individual evaluation on a regular basis to determine the need, if any, to allocate a specific reserve to the impaired loan. Typically, these loans consist of commercial, commercial real estate and agriculture loans and exclude homogeneous loans such as residential real estate and consumer loans. Specific allowances are determined by collectively analyzing:

- the borrower's resources, ability, and willingness to repay in accordance with the terms of the loan agreement;
- the likelihood of receiving financial support from any guarantors;
- the adequacy and present value of future cash flows, less disposal costs, of any collateral;
- the impact current economic conditions may have on the borrower's financial condition and liquidity or the value of the collateral.

In evaluating the loan portfolio for an appropriate ALL level, unimpaired loans are grouped into segments based on broad characteristics such as primary use and underlying collateral. We have identified five primary loan segments that are further stratified into 10 loan classes to provide more granularity in analyzing loss history and to allow for more definitive qualitative adjustments based upon specific factors affecting each loan class. Following are the loan classes within each of the five primary loan segments:



|                  |                                                                                                     |                   |                            |                |
|------------------|-----------------------------------------------------------------------------------------------------|-------------------|----------------------------|----------------|
| Commercial       | Commercial real estate                                                                              | Agriculture       | Residential real estate    | Consumer       |
| Total commercial | Construction<br>Acquisition and development<br>Multi-family<br>Owner-occupied<br>Non-owner occupied | Total agriculture | Senior lien<br>Junior lien | Total consumer |

Appropriate ALL levels are determined by segment and class utilizing risk ratings, loss history, peer loss history and qualitative adjustments. The qualitative adjustments consider the following risk factors:

• economic/external conditions;

• loan administration, loan structure and procedures;

• risk tolerance/experience;

• loan growth;

• trends;

• concentrations;

• other

Historical loss data is categorized by segment and class and a loss rate is applied to loan balances. The loss rates are based on loan segment and class and utilize a credit risk rating migration analysis. Due to our relatively short historical loss history, we incorporate not only our own historical loss rates since the beginning of 2012, but we also utilize peer historical loss data based on a 12-quarter historical average net charge-off ratio on each loan type, relying on the Uniform Bank Performance Reports compiled by the Federal Financial Institutions Examinations Council (“FFIEC”). While we use our own loss history and peer loss history for both purchased and originated loans, we assign a higher portion of our own loss history to our purchased loans, because those loans are more seasoned and more of the actual losses in the portfolio have historically been in the purchased portfolio. For originated loans, we assign a higher portion of the peer loss history, as we believe that this is likely more indicative of losses inherent in the portfolio.

The collective resulting ALL for loans not accounted for under ASC 310-30 is calculated as the sum of the specific reserves and the general reserves. While these amounts are calculated by individual loan or segment and class, the entire ALL is available for any loan that, in our judgment, should be charged-off.

During the three and nine months ended September 30, 2013, we recorded \$0.7 million and \$2.5 million of provision for loan losses for loans not accounted for under ASC 310-30, respectively, as we provided for \$0.6 million and \$3.4 million of net loan charge-offs and credit risks inherent in the non 310-30 balances. During the nine months ended September 30, 2013, \$1.5 million, \$0.8 million, and \$0.7 million of the \$3.4 million of net charge-offs were from the commercial, commercial real estate, and residential real estate segments, respectively. At September 30, 2013, there were eight impaired loans that carried specific reserves totaling \$0.6 million compared to ten impaired loans that carried specific reserves totaling \$1.9 million at December 31, 2012.

During the three months ended September 30, 2013, two loans pools accounted for under ASC 310-30 had previous valuation allowances of \$0.9 million that were reversed as a result of an increase in expected cash flows. In addition, two pools had net impairments of \$0.6 million as a result of decreases in expected cash flows, resulting in a net reversal of provision of \$0.3 million.

During the nine months ended September 30, 2013, two loans pools accounted for under ASC 310-30 had previous valuation allowances of \$1.3 million that were reversed as a result of an increase in expected cash flows. The remaining pools had net impairments of \$2.3 million as a result of decreases in expected cash flows, resulting in a net of provision of \$1.0 million.

Within the commercial real estate segment, \$2.8 million of ASC 310-30 loans were charged-off during the nine months ended September 30, 2013. This resulted in an ending ALL for ASC 310-30 loans of \$1.6 million at September 30, 2013, compared to \$4.7 million at December 31, 2012.

During the three and nine months ended September 30, 2012, we recorded provisions for loan losses of \$3.7 million and \$17.4 million, respectively, as a result of net decreases in expected cash flow on loans accounted for under ASC

310-30. Additionally, we charged off \$12.5 million, net of recoveries, of loans accounted for under ASC Topic 310-30 during the nine months ended

61

---



September 30, 2012, \$11.4 million of which was from the commercial real estate segment. This resulted in an ending ALL for ASC 310-30 loans of \$7.1 million at September 30, 2012.

During the three and nine months ended September 30, 2012, we recorded \$1.6 million and \$7.9 million, respectively, of provision for loan losses for loans not accounted for under ASC 310-30 as we provided for net loan charge-offs and risks inherent in the September 30, 2012 non 310-30 balances. Of the \$6.9 million of net charge-offs during the nine months ended September 30, 2012, \$2.8 million was in the commercial segment and \$2.4 million was in the commercial real estate segment.

After considering the abovementioned factors, we believe that the ALL of \$11.4 million and \$15.4 million was adequate to cover probable losses inherent in the loan portfolio at September 30, 2013 and December 31, 2012, respectively. However, it is likely that future adjustments to the ALL will be necessary and any changes to the assumptions, circumstances or estimates used in determining the ALL could adversely affect the Company's results of operations, liquidity or financial condition.

The following schedule presents, by class stratification, the changes in the ALL during the three months ended September 30, 2013 and 2012 (in thousands):

|                                     | September 30, 2013  |                     |          | September 30, 2012  |                     |          |
|-------------------------------------|---------------------|---------------------|----------|---------------------|---------------------|----------|
|                                     | ASC 310-30<br>Loans | Non 310-30<br>Loans | Total    | ASC 310-30<br>Loans | Non 310-30<br>Loans | Total    |
| Beginning allowance for loan losses | \$2,195             | \$9,652             | \$11,847 | \$7,259             | \$10,035            | \$17,294 |
| Charge-offs:                        |                     |                     |          |                     |                     |          |
| Commercial                          | —                   | (401)               | (401)    | (1)                 | (297)               | (298)    |
| Commercial real estate              | —                   | —                   | —        | (3,500)             | (35)                | (3,535)  |
| Agriculture                         | (221)               | —                   | (221)    | (144)               | —                   | (144)    |
| Residential real estate             | (57)                | (117)               | (174)    | (169)               | (351)               | (520)    |
| Consumer                            | —                   | (276)               | (276)    | —                   | (566)               | (566)    |
| Total charge-offs                   | (278)               | (794)               | (1,072)  | (3,814)             | (1,249)             | (5,063)  |
| Recoveries                          | —                   | 207                 | 207      | 2                   | —                   | 2        |
| Net charge-offs                     | (278)               | (587)               | (865)    | (3,812)             | (1,249)             | (5,061)  |
| Provision for loan loss             | (313)               | 750                 | 437      | 3,663               | 1,600               | 5,263    |
| Ending allowance for loan losses    | \$1,604             | \$9,815             | \$11,419 | \$7,110             | \$10,386            | \$17,496 |

Edgar Filing: National Bank Holdings Corp - Form 10-Q

The following schedule presents, by class stratification, the changes in the ALL during the nine months ended September 30, 2013 and 2012 (in thousands):

|                                                                                                           | September 30, 2013  |                     |             | September 30, 2012  |                     |             |   |
|-----------------------------------------------------------------------------------------------------------|---------------------|---------------------|-------------|---------------------|---------------------|-------------|---|
|                                                                                                           | ASC 310-30<br>Loans | Non 310-30<br>Loans | Total       | ASC 310-30<br>Loans | Non 310-30<br>Loans | Total       |   |
| Beginning allowance for loan losses                                                                       | \$4,652             | \$10,728            | \$15,380    | \$2,188             | \$9,339             | \$11,527    |   |
| Charge-offs:                                                                                              |                     |                     |             |                     |                     |             |   |
| Commercial                                                                                                | (407 )              | (1,654 )            | (2,061 )    | (216 )              | (3,056 )            | (3,272 )    |   |
| Commercial real estate                                                                                    | (2,796 )            | (943 )              | (3,739 )    | (11,643 )           | (2,448 )            | (14,091 )   |   |
| Agriculture                                                                                               | (221 )              | —                   | (221 )      | (144 )              | (8 )                | (152 )      |   |
| Residential real estate                                                                                   | (623 )              | (741 )              | (1,364 )    | (729 )              | (815 )              | (1,544 )    |   |
| Consumer                                                                                                  | —                   | (717 )              | (717 )      | (19 )               | (1,161 )            | (1,180 )    |   |
| Total charge-offs                                                                                         | (4,047 )            | (4,055 )            | (8,102 )    | (12,751 )           | (7,488 )            | (20,239 )   |   |
| Recoveries                                                                                                | —                   | 617                 | 617         | 275                 | 608                 | 883         |   |
| Net charge-offs                                                                                           | (4,047 )            | (3,438 )            | (7,485 )    | (12,476 )           | (6,880 )            | (19,356 )   |   |
| Provision for loan loss                                                                                   | 999                 | 2,525               | 3,524       | 17,398              | 7,927               | 25,325      |   |
| Ending allowance for loan losses                                                                          | \$1,604             | \$9,815             | \$11,419    | \$7,110             | \$10,386            | \$17,496    |   |
| Ratio of annualized net charge-offs to average total loans during the period, respectively                | 0.81                | % 0.43              | % 0.58      | % 1.50              | % 0.98              | % 1.26      | % |
| Ratio of allowance for loan losses to total loans outstanding at period end, respectively                 | 0.31                | % 0.80              | % 0.66      | % 0.73              | % 1.08              | % 0.91      | % |
| Ratio of allowance for loan losses to total non-covered loans outstanding at period end, respectively     | 0.79                | % 0.84              | % 0.83      | % 2.06              | % 1.19              | % 1.44      | % |
| Ratio of allowance for loan losses to total non-performing loans at period end, respectively              | 9.52                | % 34.50             | % 25.20     | % 0.00              | % 27.62             | % 46.52     | % |
| Ratio of allowance for loan losses to total non-performing, non-covered loans at period end, respectively | 0.00                | % 48.96             | % 56.96     | % 0.00              | % 34.51             | % 58.14     | % |
| Total loans                                                                                               | \$513,010           | \$1,229,803         | \$1,742,813 | \$971,036           | \$958,490           | \$1,929,526 |   |
| Average total loans outstanding during the period                                                         | \$669,623           | \$1,068,194         | \$1,737,817 | \$1,113,860         | \$942,231           | \$2,056,091 |   |
| Total non-covered loans                                                                                   | \$203,630           | \$1,172,837         | \$1,376,467 | \$345,814           | \$872,683           | \$1,218,497 |   |
| Total non-performing loans                                                                                | \$16,857            | \$28,453            | \$45,310    | \$—                 | \$37,606            | \$37,606    |   |
| Total non-performing, covered loans                                                                       | \$16,857            | \$8,407             | \$25,264    | \$—                 | \$7,514             | \$7,514     |   |



The following table presents the allocation of the ALL and the percentage of the total amount of loans in each loan category listed as of the dates presented (in thousands):

|                         | September 30, 2013 |                  |             |          |   |
|-------------------------|--------------------|------------------|-------------|----------|---|
|                         | Total Loans        | % of total Loans | Related ALL | % of ALL |   |
| Commercial              | \$340,364          | 19.5             | % \$2,735   | 24.0     | % |
| Commercial real estate  | 614,453            | 35.3             | % 2,223     | 19.5     | % |
| Agriculture             | 155,346            | 8.9              | % 1,107     | 9.7      | % |
| Residential real estate | 595,569            | 34.2             | % 4,898     | 42.8     | % |
| Consumer and overdrafts | 37,081             | 2.1              | % 456       | 4.0      | % |
| Total                   | \$1,742,813        | 100.0            | % \$11,419  | 100.0    | % |
|                         | December 31, 2012  |                  |             |          |   |
|                         | Total Loans        | % of total Loans | Related ALL | % of ALL |   |
| Commercial              | \$270,588          | 14.8             | % \$2,798   | 18.2     | % |
| Commercial real estate  | 804,999            | 43.9             | % 7,396     | 48.1     | % |
| Agriculture             | 173,407            | 9.5              | % 592       | 3.8      | % |
| Residential real estate | 533,377            | 29.1             | % 4,011     | 26.1     | % |
| Consumer and overdrafts | 50,331             | 2.7              | % 583       | 3.8      | % |
| Total                   | \$1,832,702        | 100.0            | % \$15,380  | 100.0    | % |

During the nine months ended September 30, 2013, the ALL allocated to commercial real estate declined from 48.1% to 19.5% largely due to \$2.8 million in charge-offs in our commercial real estate loans accounted for under ASC 310-30, coupled with a \$1.2 million provision reversal related to our commercial real estate ASC 310-30 loans. Previously recorded impairments were recaptured in connection with an improvement in estimated cash flows. The ALL allocated to the residential real estate segment increased to 42.8% from 26.1% during the nine months ended September 30, 2013, which was largely the result of a \$1.3 million impairment partially offset by \$0.6 million in charge-offs in the residential real estate pool accounted for under ASC 310-30. In the non 310-30 residential real estate category we added \$0.9 million of provision for loan growth, which was partially offset by \$0.7 million in charge-offs.

#### FDIC Indemnification Asset and Clawback Liability

The FDIC indemnification asset represents the net present value of the expected reimbursements from the FDIC for probable losses on covered loans and OREO that were acquired in the Hillcrest Bank and Community Banks of Colorado transactions. The initial fair values were established by discounting the expected future cash flows with a market discount rate for like maturity and risk instruments. The discount is accreted to income in connection with the expected timing of the related cash flows, and may increase or decrease from period to period due to changes in amounts and timing of expected cash flows from covered loans and OREO. As covered assets are resolved, whether it be through repayment, short sale of the underlying collateral, the foreclosure on, and sale of collateral, or the sale or charge-off of loans or OREO, the portion of any loss incurred that is reimbursable by the FDIC is recognized as FDIC loss sharing income in non-interest income. Any gains or losses realized from the resolution of covered assets reduce or increase, respectively, the amount of the FDIC indemnification asset.

In the three and nine months ended September 30, 2013, we recognized \$4.2 million and \$11.8 million, respectively, of negative accretion on the FDIC indemnification asset as the performance of our covered assets improved. The negative accretion resulted from an increase in actual and expected cash flows on the underlying covered assets, resulting in lower expected reimbursements from the FDIC. The increase in expected cash flows from these underlying assets is reflected in increased accretion rates on covered loans as well as an increased amount of accretable yield on our covered loans accounted for under ASC 310-30 and is being recognized over the expected lives of the underlying covered loans as an adjustment to yield. The carrying value of the FDIC indemnification asset was further reduced by \$24.5 million during the nine months ended September 30, 2013 as a result of claims filed with the FDIC. During the nine months ended September 30, 2013, we received \$77.0 million in loss-share payments

from the FDIC. The loss claims filed are subject to review and approval, including extensive audits, by the FDIC or its assigned agents for compliance with the terms in the loss sharing agreements.

During the three and nine months ended September 30, 2012, we recognized \$2.8 million and \$9.2 million, respectively, of negative accretion related to the FDIC indemnification asset as a result of improved performance of our covered assets. We also reduced the carrying value of the FDIC indemnification asset by \$101.0 million as a result of claims filed with the FDIC during the nine months ended September 30, 2012. During the nine months ended September 30, 2012, we received \$75.9 million from the FDIC related to losses incurred during the fourth quarter of 2011 and the first and second quarters of 2012.

Within 45 days of the end of each of the loss sharing agreements with the FDIC, we may be required to reimburse the FDIC in the event that our losses on covered assets do not reach the second tranche in each related loss sharing agreement, based on the initial discount received less cumulative servicing amounts for the covered assets acquired. At September 30, 2013 and December 31, 2012, this clawback liability was carried at \$32.0 million and \$31.3 million, respectively, and is included in Due to FDIC in our consolidated statements of financial condition.

#### Other real estate owned

OREO is comprised of properties acquired through the foreclosure or repossession process, or any other resolution activity that results in partial or total satisfaction of problem loans. We have a dedicated, enterprise-level problem asset resolution team that is actively working to resolve problem loans and to obtain and subsequently sell the underlying collateral. OREO includes the interests of several outside participating banks totaling \$3.8 million at September 30, 2013 and \$5.3 million at December 31, 2012, for which an offsetting liability is recorded in other liabilities. It excludes \$10.6 million, for both of the respective periods, of the Company's minority interests in OREO which are held by outside banks where the Company was not the lead bank and does not have a controlling interest, for which the Company maintains a receivable in other assets.

Of the \$70.8 million of OREO at September 30, 2013, \$44.1 million, or 62.3%, was covered by the loss sharing agreements with the FDIC. Any losses on these assets are substantially offset by a corresponding change in the FDIC indemnification asset. During the three and nine months ended September 30, 2013, we sold \$17.0 million and \$54.7 million of OREO and realized net gains of \$3.5 million and \$7.4 million, respectively. We sold \$21.3 million and \$57.2 million of OREO and realized net gains of \$2.8 million and \$6.8 million, respectively, during the three and nine months ended September 30, 2012. Changes in OREO during the nine months ended September 30, 2013 and 2012 were as follows (in thousands):

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

#### Other Assets

Significant components of other assets were as follows as of the periods indicated (in thousands):

|                                                                              | September 30,<br>2013 | December 31,<br>2012 |
|------------------------------------------------------------------------------|-----------------------|----------------------|
| FDIC indemnification-claimed                                                 | \$3,651               | \$59,291             |
| Minority interest in participated other real estate owned                    | 10,627                | 10,627               |
| Accrued interest on interest bearing bank deposits and investment securities | 5,836                 | 5,585                |
| Accrued interest on loans                                                    | 5,834                 | 7,088                |
| Accrued income taxes receivable and deferred tax asset                       | 49,973                | 7,274                |
| Other assets                                                                 | 9,421                 | 10,158               |
| Total other assets                                                           | \$85,342              | \$100,023            |



Other assets decreased \$14.7 million, or 14.7%, during the nine months ended September 30, 2013. The decrease was largely attributable to a \$55.6 million decline in FDIC indemnification-claimed, as payments were received on outstanding loss-share claims submitted to the FDIC. Accrued income taxes receivable and the deferred tax assets increased \$42.7 million during the nine months ended September 30, 2013 as a result of declines in unrealized gains on our available-for-sale securities and due to the current recognition of taxable income from the purchase discount related to loans acquired in the Hillcrest Bank, Bank of Choice and Community Banks of Colorado transactions that had previously been deferred for income tax purposes. These deferred gains are recognized for income tax purposes as the loans are collected and as covered loans are worked out through the FDIC indemnification process.

#### Other Liabilities

Significant components of other liabilities were as follows as of the dates indicated (in thousands):

|                                                 | September 30,<br>2013 | December 31,<br>2012 |
|-------------------------------------------------|-----------------------|----------------------|
| Participant interest in other real estate owned | \$3,815               | \$5,321              |
| Accrued income taxes payable                    | —                     | 4,972                |
| Accrued interest payable                        | 3,225                 | 4,239                |
| Accrued expenses                                | 15,866                | 12,263               |
| Warrant liability                               | 5,599                 | 5,461                |
| Other liabilities                               | 2,276                 | 2,285                |
| Total other liabilities                         | \$30,781              | \$34,541             |

Other liabilities decreased \$3.8 million during the nine months ended September 30, 2013. Included in total other liabilities is accrued income taxes payable which decreased by \$5.0 million, primarily due to tax payments made during the period.

During the nine months ended September 30, 2013, we continued to lower the interest rates paid on our deposits, coupled with the shift from higher-cost time deposits to lower cost transaction accounts. The lower cost mix of deposits resulted in a decrease in accrued interest payable of \$1.0 million during the period.

Accrued expenses for the nine months ended September 30, 2013 increased \$3.6 million, or 29.4%, from December 31, 2012, primarily due to expenses accrued in connection with our announcement to integrate 32 limited-service retirement center locations (acquired in our 2010 purchase of Hillcrest Bank) and exit four banking centers in Northern California (acquired in our 2011 purchase of Community Banks of Colorado). Additionally, participant interests in other real estate owned, which represents participant banks' interests in properties that we have repossessed, decreased \$1.5 million. These participant interests are also reflected in our other real estate owned balances.

We have outstanding warrants to purchase 830,750 shares of our common stock, which are classified as a liability and included in other liabilities in our consolidated statements of financial condition. The warrants were granted to certain lead stockholders and all warrants have an exercise price of \$20.00 per share. The term of the warrants is for ten years and the expiration dates of the warrants range from October 20, 2019 to September 30, 2020. We revalue the warrants at the end of each reporting period using a Black-Scholes model and any change in fair value is reported in the statements of operations as "loss (gain) from change in fair value of warrant liability" in non-interest expense in the period in which the change occurred. The warrant liability increased \$0.1 million during the nine months ended September 30, 2013 to \$5.6 million. The value of the warrant liability, and the expense that results from an increase to this liability, is correlated to our stock price. Accordingly, an increase in our stock price results in an increase in the warrant liability and the associated expense. More information on the accounting and measurement of the warrant liability can be found in notes 2 and 19 in our audited consolidated financial statements in our 2012 Annual Report on Form 10-K.

#### Deposits

Deposits from banking clients serve as a primary funding source for our banking operations and our ability to gather and manage deposit levels is critical to our success. Deposits not only provide a low cost funding source for our loans, but also provide a foundation for the client relationships that are critical to future loan growth. The following table presents information regarding our deposit composition at September 30, 2013 and December 31, 2012 (in thousands):





|                                      | September 30, 2013 |       | December 31, 2012 |             |       |   |
|--------------------------------------|--------------------|-------|-------------------|-------------|-------|---|
| Non-interest bearing demand deposits | \$689,405          | 17.5  | %                 | \$677,985   | 16.1  | % |
| Interest bearing demand deposits     | 430,123            | 10.9  | %                 | 529,996     | 12.6  | % |
| Savings accounts                     | 193,305            | 4.9   | %                 | 187,339     | 4.5   | % |
| Money market accounts                | 1,104,280          | 27.9  | %                 | 1,052,681   | 25.1  | % |
| Total transaction deposits           | 2,417,113          | 61.2  | %                 | 2,448,001   | 58.3  | % |
| Time deposits < \$100,000            | 1,002,747          | 25.4  | %                 | 1,121,757   | 26.7  | % |
| Time deposits > \$100,000            | 531,643            | 13.4  | %                 | 630,961     | 15.0  | % |
| Total time deposits                  | 1,534,390          | 38.8  | %                 | 1,752,718   | 41.7  | % |
| Total deposits                       | \$3,951,503        | 100.0 | %                 | \$4,200,719 | 100.0 | % |

During the nine months ended September 30, 2013, our total deposits decreased \$249.2 million. Since the acquisition of the four problem banks, we have continued to focus our deposit base on clients who are interested in market rate deposits and developing a banking relationship, rather than the highly rate-sensitive time deposit clients of the predecessor banks. As a result, our time deposits decreased \$218.3 million, or 12.5%, during the nine months ended September 30, 2013. At September 30, 2013, the mix of transaction deposits to total deposits improved to 61.2% from 58.3% at December 31, 2012. At September 30, 2013 and December 31, 2012, we had \$1.1 billion and \$1.2 billion, respectively, of time deposits that were scheduled to mature within 12 months. Of the \$1.1 billion in time deposits scheduled to mature in within 12 months, \$0.4 billion of which were in denominations of \$100,000 or more, and \$0.8 billion of which were in denominations less than \$100,000. Note 8 to the unaudited consolidated interim financial statements provides a maturity schedule and weighted average rates of time deposits outstanding at September 30, 2013 and December 31, 2012.

In connection with our FDIC-assisted bank acquisitions, the FDIC provided Bank of Choice, Hillcrest Bank and Community Banks of Colorado depositors with the right to redeem their time deposits at any time during the life of the time deposit, without penalty, unless the depositor accepts new terms. At September 30, 2013 and December 31, 2012, the Company had approximately \$82.6 million and \$164.3 million, respectively, of time deposits that were subject to the penalty-free withdrawals.

#### Results of Operations

Our net income depends largely on net interest income, which is the difference between interest income from interest earning assets and interest expense on interest bearing liabilities. Our results of operations are also affected by provisions for loan losses and non-interest income, such as service charges, bank card income and FDIC loss sharing income. Our primary operating expenses, aside from interest expense, consist of salaries and employee benefits, professional fees, occupancy costs, and data processing expense.

#### Overview of Results of Operations

We recorded net income of \$0.9 million and \$5.9 million during the three and nine months ended September 30, 2013, respectively, compared to net losses of \$7.9 million and \$3.5 million during the three and nine months ended September 30, 2012, respectively. Net interest income declined \$4.0 million and \$19.3 million from the three and nine months ended September 30, 2012 to the three and nine months ended September 30, 2013, respectively, which resulted from the lower loan balances of ASC 310-30 loans as non-strategic loans were successfully moved to resolution, coupled with lower yields earned on the investment portfolio and on the non 310-30 loan portfolio. Provision for loan loss expense was \$0.4 million and \$3.5 million during the three and nine months ended September 30, 2013, respectively, compared to \$5.3 million and \$25.3 million during the three and nine months ended September 30, 2012, respectively. The decrease in provision was due to lower impairment charges on the ASC 310-30 loan pools due to gross cash flow improvements resulting from the Company's re-measurement of expected future cash flows on those underlying pools, coupled with improved credit quality metrics in the non 310-30 portfolio. Non-interest income was \$3.3 million and \$17.8 million during the three and nine months ended September 30, 2013, respectively, compared to \$8.1 million and \$28.4 million during the same periods in 2012. The declines of \$4.7 million and \$10.6 million during the three and nine months ended September 30, 2013 compared to the same periods in 2012 was largely due to \$4.1 million and \$8.7 million declines in collective FDIC indemnification asset accretion and FDIC-related income, respectively.

Non-interest expense totaled \$46.6 million and \$139.7 million during the three and nine months ended September 30, 2013, respectively, compared to \$60.0 million and \$158.2 million during the three and nine months ended September 30, 2012, respectively. The decline in non-interest expense during the three months ended September 30, 2013 as compared to the three

months ended September 30, 2012, was largely attributable to expenses in connection with our initial public offering in September 2012, which included of \$7.6 million of direct initial public offering related expenses and \$4.9 million of stock-based compensation expense. Other decreases in non-interest expense during the aforementioned period included other real estate owned expenses and professional fees of \$3.0 million and \$1.9 million, respectively, which were partially offset by one-time banking center closure related expenses of \$3.4 million, with the announcement to integrate 32 limited-service retirement center locations and exit four banking centers, and the change in the fair value of the warrant liability of \$1.6 million, respectively. The decline in non-interest expense of \$18.5 million from the nine months ended September 30, 2012 to the nine months ended September 30, 2013 was primarily due to expenses related to our initial public offering mentioned above in addition to decreases of \$5.6 million, \$4.5 million, and \$2.3 million in professional fees, other real estate owned expenses, and problem loan expenses, respectively, as we have steadily worked out many of the acquired troubled loans. The aforementioned decreases for the nine months ended September 30, 2013 were slightly offset with increases during the same period of \$3.5 million in occupancy and equipment expense, which was largely due to the additional depreciation of the premises and equipment purchased in the Bank of Choice and Community Banks of Colorado acquisitions, and \$3.4 million in one-time banking center closure related expenses.

#### Net Interest Income

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

The following tables present the components of net interest income for the periods indicated. The tables include: (i) the average daily balances of interest earning assets and interest bearing liabilities; (ii) the average daily balances of non-interest earning assets and non-interest bearing liabilities; (iii) the total amount of interest income earned on interest earning assets; (iv) the total amount of interest expense incurred on interest bearing liabilities; (v) the resultant average yields and rates; (vi) net interest spread; and (vii) net interest margin, which represents the difference between interest income and interest expense, expressed as a percentage of interest earning assets. The effects of trade-date accounting of investment securities for which the cash had not settled are not considered interest earning assets and are excluded from this presentation for time frames prior to their cash settlement, as are the market value adjustments on the investment securities available-for-sale. Non-accrual and restructured loan balances are included in the average loan balances; however, the forgone interest on non-accrual and restructured loans is not included in the dollar amounts of interest earned. All amounts presented are on a pre-tax basis.

Edgar Filing: National Bank Holdings Corp - Form 10-Q

The table below presents the components of net interest income for the three months ended September 30, 2013 and 2012 (in thousands):

|                                                                                  | For the three months ended September 30, 2013 |          |              |   | For the three months ended September 30, 2012 |          |              |   |
|----------------------------------------------------------------------------------|-----------------------------------------------|----------|--------------|---|-----------------------------------------------|----------|--------------|---|
|                                                                                  | Average Balance                               | Interest | Average Rate |   | Average Balance                               | Interest | Average Rate |   |
| Interest earning assets:                                                         |                                               |          |              |   |                                               |          |              |   |
| ASC 310-30 loans                                                                 | \$554,750                                     | \$19,603 | 14.14        | % | \$990,661                                     | \$24,008 | 9.64         | % |
| Non 310-30 loans (1)(2)                                                          | 1,149,312                                     | 15,725   | 5.43         | % | 968,652                                       | 16,097   | 6.61         | % |
| Investment securities available-for-sale                                         | 1,983,108                                     | 8,851    | 1.79         | % | 1,747,254                                     | 9,302    | 2.12         | % |
| Investment securities held-to-maturity                                           | 648,799                                       | 4,688    | 2.89         | % | 683,700                                       | 5,888    | 3.43         | % |
| Other securities                                                                 | 31,754                                        | 388      | 4.89         | % | 33,067                                        | 377      | 4.54         | % |
| Interest earning deposits and securities purchased under agreements to resell    | 379,537                                       | 267      | 0.28         | % | 595,383                                       | 370      | 0.25         | % |
| Total interest earning assets                                                    | \$4,747,260                                   | \$49,522 | 4.14         | % | \$5,018,717                                   | \$56,042 | 4.44         | % |
| Cash and due from banks                                                          | 60,410                                        |          |              |   | 66,467                                        |          |              |   |
| Other assets                                                                     | 402,496                                       |          |              |   | 585,735                                       |          |              |   |
| Allowance for loan losses                                                        | (11,668 )                                     |          |              |   | (15,817 )                                     |          |              |   |
| Total assets                                                                     | \$5,198,498                                   |          |              |   | \$5,655,102                                   |          |              |   |
| Interest bearing liabilities:                                                    |                                               |          |              |   |                                               |          |              |   |
| Interest bearing demand, savings and money market deposits                       | \$1,744,705                                   | \$1,085  | 0.25         | % | \$1,696,972                                   | \$1,341  | 0.31         | % |
| Time deposits                                                                    | 1,561,552                                     | 2,880    | 0.73         | % | 2,063,622                                     | 5,178    | 1.00         | % |
| Securities sold under agreements to repurchase                                   | 120,654                                       | 42       | 0.14         | % | 53,073                                        | 27       | 0.20         | % |
| Total interest bearing liabilities                                               | \$3,426,911                                   | \$4,007  | 0.46         | % | \$3,813,667                                   | \$6,546  | 0.68         | % |
| Demand deposits                                                                  | 668,400                                       |          |              |   | 636,277                                       |          |              |   |
| Other liabilities                                                                | 65,219                                        |          |              |   | 107,415                                       |          |              |   |
| Total liabilities                                                                | 4,160,530                                     |          |              |   | 4,557,359                                     |          |              |   |
| Stockholders' equity                                                             | 1,037,968                                     |          |              |   | 1,097,743                                     |          |              |   |
| Total liabilities and stockholders' equity                                       | \$5,198,498                                   |          |              |   | \$5,655,102                                   |          |              |   |
| Net interest income                                                              |                                               | \$45,515 |              |   |                                               | \$49,496 |              |   |
| Interest rate spread                                                             |                                               |          | 3.68         | % |                                               |          | 3.76         | % |
| Net interest earning assets                                                      | \$1,320,349                                   |          |              |   | \$1,205,050                                   |          |              |   |
| Net interest margin                                                              |                                               |          | 3.80         | % |                                               |          | 3.92         | % |
| Ratio of average interest earning assets to average interest bearing liabilities | 138.53                                        | %        |              |   | 131.60                                        | %        |              |   |

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

Non 310-30 loans include loans held-for-sale. Average balances during the three months ended September 30, (2)2013 and 2012 were \$6.1 million and \$7.2 million, and interest income was \$101 thousand and \$102 thousand for the same periods respectively.

Net interest income totaled \$45.5 million for the three months ended September 30, 2013 and declined \$4.0 million from \$49.5 million during the same period in 2012. The net interest margin narrowed 12 basis points from the same period a year ago to 3.80% and the interest rate spread narrowed eight basis points to 3.68%. The year-over-year narrowing of the net interest margin was primarily driven by a 5.41% decrease in average interest earning assets which was largely attributable to \$435.9 million in declining average balances on loans accounted for under ASC 310-30 as we continued to actively exit the non-strategic loan portfolio.

Average loans comprised \$1.7 billion, or 35.9%, of total average interest earning assets during the three months ended September 30, 2013, compared to \$2.0 billion, or 39.0%, of total average interest earning assets during the three months ended September 30, 2012. Loan balances at the beginning of 2012 were reflective of our failed bank acquisitions in the latter-half of 2011 and the decline in average balances is reflective of our exit strategy with respect to the non-strategic loans. The yield on the ASC 310-30 loan portfolio was 14.14% during the three months ended September 30, 2013, compared to 9.64% during the same period the prior year. This 4.5% increase was attributable to the effects of the favorable life-to-date transfers of non-

accretable difference to accretable yield that are being accreted to interest income over the remaining life of these loans, coupled with the early payoff of one loan pool, which resulted in an immediate one-time recognition of \$2.5 million of accretable yield during the quarter and added 0.21% to the net interest margin of 3.80%.

Average investment securities comprised 55.4% of total interest earning assets during the three months ended September 30, 2013 compared to 48.4% during the three months ended September 30, 2012, as we have steadily reinvested excess cash into our investment securities portfolio. The continued low interest rate environment and lower re-investment yields have resulted in a 0.44% basis point decline in yields earned on the total investment portfolio during the three months ended September 30, 2013 compared to the same period of the prior year.

Average balances of interest earning liabilities declined \$386.8 million from the three months ended September 30, 2012 to the three months ended September 30, 2013, driven by a \$502.1 million decline in average time deposits. Since the acquisition of our four problem banks, we have continued to focus our deposit base on clients who are interested in market rate deposits and developing a banking relationship, rather than the highly rate-sensitive time deposit clients of the predecessor banks. The net interest margin benefited from a 0.22% decrease in the cost of interest bearing liabilities as we continued our strategy of transitioning high-priced time deposits to lower-cost transaction accounts. During the three months ended September 30, 2013, total interest expense related to interest bearing liabilities was \$4.0 million compared to \$6.5 million during the three months ended September 30, 2012, or an average cost of 0.46% and 0.68% during the respective periods. The largest component of interest expense in each period was related to time deposits, which carried an average rate of 0.73% and 1.00% during the three months ended September 30, 2013 and 2012, respectively.

The table below presents the components of net interest income for the nine months ended September 30, 2013 and 2012 (in thousands):

|                                                                               | For the nine months ended September 30, 2013 |           |              |   | For the nine months ended September 30, 2012 |           |              |   |
|-------------------------------------------------------------------------------|----------------------------------------------|-----------|--------------|---|----------------------------------------------|-----------|--------------|---|
|                                                                               | Average Balance                              | Interest  | Average Rate |   | Average Balance                              | Interest  | Average Rate |   |
| Interest earning assets:                                                      |                                              |           |              |   |                                              |           |              |   |
| ASC 310-30 loans                                                              | \$669,623                                    | \$59,616  | 11.87        | % | \$1,113,860                                  | \$76,251  | 9.14         | % |
| Non 310-30 loans (1)(2)                                                       | 1,074,396                                    | 46,167    | 5.75         | % | 948,367                                      | 53,039    | 7.47         | % |
| Investment securities available-for-sale                                      | 1,980,048                                    | 26,574    | 1.79         | % | 1,822,474                                    | 34,321    | 2.52         | % |
| Investment securities held-to-maturity                                        | 578,413                                      | 13,809    | 3.18         | % | 482,466                                      | 12,429    | 3.44         | % |
| Other securities                                                              | 32,282                                       | 1,170     | 4.83         | % | 31,380                                       | 1,142     | 4.86         | % |
| Interest earning deposits and securities purchased under agreements to resell | 406,029                                      | 762       | 0.25         | % | 835,543                                      | 1,595     | 0.26         | % |
| Total interest earning assets                                                 | \$4,740,791                                  | \$148,098 | 4.18         | % | \$5,234,090                                  | \$178,777 | 4.56         | % |
| Cash and due from banks                                                       | 60,909                                       |           |              |   | 70,108                                       |           |              |   |
| Other assets                                                                  | 440,709                                      |           |              |   | 618,800                                      |           |              |   |
| Allowance for loan losses                                                     | (12,930 )                                    |           |              |   | (11,192 )                                    |           |              |   |
| Total assets                                                                  | \$5,229,479                                  |           |              |   | \$5,911,806                                  |           |              |   |
| Interest bearing liabilities:                                                 |                                              |           |              |   |                                              |           |              |   |
| Interest bearing demand, savings and money market deposits                    | \$1,736,981                                  | \$3,240   | 0.25         | % | \$1,690,942                                  | \$4,309   | 0.34         | % |
| Time deposits                                                                 | 1,629,059                                    | 9,407     | 0.77         | % | 2,313,238                                    | 19,713    | 1.14         | % |
| Securities sold under agreements to repurchase                                | 76,391                                       | 80        | 0.14         | % | 54,860                                       | 88        | 0.21         | % |
| Total interest bearing liabilities                                            | \$3,442,431                                  | \$12,727  | 0.49         | % | \$4,059,040                                  | \$24,110  | 0.79         | % |
| Demand deposits                                                               | 654,625                                      |           |              |   | 634,881                                      |           |              |   |
| Other liabilities                                                             | 65,053                                       |           |              |   | 122,751                                      |           |              |   |

Edgar Filing: National Bank Holdings Corp - Form 10-Q

|                                                                                  |              |            |        |              |            |        |
|----------------------------------------------------------------------------------|--------------|------------|--------|--------------|------------|--------|
| Total liabilities                                                                | 4,162,109    |            |        | 4,816,672    |            |        |
| Stockholders' equity                                                             | 1,067,370    |            |        | 1,095,134    |            |        |
| Total liabilities and stockholders' equity                                       | \$5,229,479  |            |        | \$5,911,806  |            |        |
| Net interest income                                                              |              | \$ 135,371 |        |              | \$ 154,667 |        |
| Interest rate spread                                                             |              |            | 3.69 % |              |            | 3.77 % |
| Net interest earning assets                                                      | \$ 1,298,360 |            |        | \$ 1,175,050 |            |        |
| Net interest margin                                                              |              |            | 3.82 % |              |            | 3.95 % |
| Ratio of average interest earning assets to average interest bearing liabilities | 137.72 %     |            |        | 128.95 %     |            |        |

70

---



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

Non 310-30 loans include loans held-for-sale. Average balances during the nine months ended September 30, 2013 (2) and 2012 were \$6.2 million and \$6.1 million, and interest income was \$262 thousand and \$256 thousand for the same periods respectively.

Net interest income totaled \$135.4 million and \$154.7 million for the nine months ended September 30, 2013 and 2012, respectively. The net interest margin narrowed 13 basis points from the same period in the prior year from 3.95% to 3.82% and the interest rate spread narrowed 8 basis points to 3.69%. The year-over-year narrowing of the net interest margin was primarily driven by an 9.4% decrease in average interest earning assets which was largely attributable to a \$444.2 million decrease in average balances of loans accounted for under ASC 310-30 as we continued to actively exit the non-strategic loan portfolio, coupled with lower yields earned on the investment portfolio and on the non 310-30 loan portfolio.

Average loans comprised \$1.7 billion, or 36.8%, of total average interest earning assets during the nine months ended September 30, 2013, compared to \$2.1 billion, or 39.4%, during the nine months ended September 30, 2012. The decline in average balances is reflective of our exit strategy of the non-strategic loans. The yield on the ASC 310-30 loan portfolio was 11.87% during the nine months ended September 30, 2013, compared to 9.14% during the same period the prior year. This 2.73% increase was attributable to the effects of the favorable life-to-date transfers of non-accretable difference to accretable yield that are being accreted to interest income over the remaining life of these loans, coupled with the early payoff of one loan pool, which resulted in an immediate recognition of \$2.5 million of accretable yield during the nine months ended September 30, 2013, and benefited the net interest margin by 0.07%.

Average investment securities comprised 54.0% of total interest earning assets during the nine months ended September 30, 2013 compared to 44.0% during the nine months ended September 30, 2012, as we have steadily reinvested excess cash into our investment securities portfolio. The continued low interest rate environment and lower re-investment yields have resulted in a 60 basis point decline in yields earned on the total investment portfolio during the nine months ended September 30, 2013 compared to the same period of the prior year.

Average balances of interest bearing liabilities declined \$616.6 million from the nine months ended September 30, 2012 compared to the nine months ended September 30, 2013, driven by a \$684.2 million decrease in average time deposits and partially offset by a \$65.8 million increase in transaction deposits. During the nine months ended September 30, 2013, total interest expense related to interest bearing liabilities was \$12.7 million compared to \$24.1 million during the nine months ended September 30, 2012. The average cost of interest bearing liabilities has decreased 30 basis points from 0.79% during the nine months ended September 30, 2012 to 0.49% during the nine months ended September 30, 2013. The decline was largely due to a 27 basis point decrease in the average cost of deposits at September 30, 2012 of 0.69% to 0.42% at September 30, 2013, as we continued our strategy of transitioning high-priced time deposits to lower-cost transaction accounts. The largest component of interest expense in each period was related to time deposits, which carried an average rate of 0.77% and 1.14% during the nine months ended September 30, 2013 and 2012, respectively.

The following table summarizes the changes in net interest income by major category of interest earning assets and interest bearing liabilities, identifying changes related to volume and changes related to rates for the three and nine months ended September 30, 2013 compared to the three and nine months ended September 30, 2012 (in thousands):

Edgar Filing: National Bank Holdings Corp - Form 10-Q

|                                                                                  | Three months ended September 30,<br>2013<br>compared to<br>Three months ended September 30,<br>2012<br>Increase (decrease) due to |          |            | Nine months ended September 30,<br>2013<br>compared to<br>Nine months ended September 30,<br>2012<br>Increase (decrease) due to |            |             |
|----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|----------|------------|---------------------------------------------------------------------------------------------------------------------------------|------------|-------------|
|                                                                                  | Volume                                                                                                                            | Rate (3) | Net        | Volume                                                                                                                          | Rate (3)   | Net         |
| Interest income:                                                                 |                                                                                                                                   |          |            |                                                                                                                                 |            |             |
| ASC 310-30 loans                                                                 | \$(15,404 )                                                                                                                       | \$11,000 | \$(4,404 ) | \$(39,550 )                                                                                                                     | \$22,915   | \$(16,635 ) |
| Non 310-30 loans (1)(2)                                                          | 2,472                                                                                                                             | (2,845 ) | (373 )     | 5,415                                                                                                                           | (12,287 )  | (6,872 )    |
| Investment securities available-for-sale                                         | 1,053                                                                                                                             | (1,504 ) | (451 )     | 2,115                                                                                                                           | (9,862 )   | (7,747 )    |
| Investment securities held-to-maturity                                           | (252 )                                                                                                                            | (948 )   | (1,200 )   | 2,291                                                                                                                           | (911 )     | 1,380       |
| Other securities                                                                 | (16 )                                                                                                                             | 27       | 11         | 33                                                                                                                              | (5 )       | 28          |
| Interest earning deposits and securities<br>purchased under agreements to resell | (152 )                                                                                                                            | 49       | (103 )     | (806 )                                                                                                                          | (27 )      | (833 )      |
| Total interest income                                                            | \$(12,299 )                                                                                                                       | \$5,779  | \$(6,520 ) | \$(30,502 )                                                                                                                     | \$(177 )   | \$(30,679 ) |
| Interest expense:                                                                |                                                                                                                                   |          |            |                                                                                                                                 |            |             |
| Interest bearing demand, savings and<br>money market deposits                    | \$30                                                                                                                              | \$(286 ) | \$(256 )   | \$86                                                                                                                            | \$(1,155 ) | \$(1,069 )  |
| Time deposits                                                                    | (926 )                                                                                                                            | (1,372 ) | (2,298 )   | (3,951 )                                                                                                                        | (6,355 )   | (10,306 )   |
| Securities sold under agreements to<br>repurchase                                | 24                                                                                                                                | (9 )     | 15         | 23                                                                                                                              | (31 )      | (8 )        |
| Total interest expense                                                           | (872 )                                                                                                                            | (1,667 ) | (2,539 )   | (3,842 )                                                                                                                        | (7,541 )   | (11,383 )   |
| Net change in net interest income                                                | \$(11,427 )                                                                                                                       | \$7,446  | \$(3,981 ) | \$(26,660 )                                                                                                                     | \$7,364    | \$(19,296 ) |

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

(2) Non 310-30 loans include loans held-for-sale.

(3) Includes changes for difference in number of days due to the leap year in 2012.

Our acquired banks had deposit rates, particularly time deposit rates, higher than market at the time we acquired them. We have been steadily lowering deposit rates as we shift towards a more consumer-based banking strategy and focusing on lower cost transaction accounts. We have done this through a particular emphasis on lowering the cost of time deposits. Below is a breakdown of deposits and the average rates paid during the periods indicated (in thousands):

|                             | For the three months ended: |                         |                    |                         |                    |                         |                      |                         |                       |                         |
|-----------------------------|-----------------------------|-------------------------|--------------------|-------------------------|--------------------|-------------------------|----------------------|-------------------------|-----------------------|-------------------------|
|                             | September 30,<br>2013       |                         | June 30, 2013      |                         | March 31, 2013     |                         | December 31,<br>2012 |                         | September 30,<br>2012 |                         |
|                             | Average<br>Balance          | Average<br>Rate<br>Paid | Average<br>Balance | Average<br>Rate<br>Paid | Average<br>Balance | Average<br>Rate<br>Paid | Average<br>Balance   | Average<br>Rate<br>Paid | Average<br>Balance    | Average<br>Rate<br>Paid |
| Non-interest bearing demand | \$668,400                   | 0.00 %                  | \$649,323          | 0.00 %                  | \$645,904          | 0.00 %                  | \$662,763            | 0.00 %                  | \$636,277             | 0.00 %                  |
| Interest bearing demand     | 460,971                     | 0.14 %                  | 478,922            | 0.15 %                  | 486,015            | 0.17 %                  | 484,178              | 0.18 %                  | 500,240               | 0.22 %                  |
| Money market accounts       | 1,088,084                   | 0.32 %                  | 1,052,590          | 0.32 %                  | 1,057,847          | 0.32 %                  | 1,033,350            | 0.34 %                  | 1,014,793             | 0.39 %                  |
| Savings accounts            | 195,650                     | 0.11 %                  | 196,248            | 0.11 %                  | 194,548            | 0.13 %                  | 176,209              | 0.13 %                  | 181,939               | 0.14 %                  |
| Time deposits               | 1,561,552                   | 0.73 %                  | 1,628,332          | 0.77 %                  | 1,698,801          | 0.82 %                  | 1,832,790            | 0.85 %                  | 2,063,622             | 1.00 %                  |

Total  
average deposits \$3,974,657 0.40 % \$4,005,415 0.42 % \$4,083,115 0.45 % \$4,189,290 0.48 % \$4,396,871 0.59 %

#### Provision for Loan Losses

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

Losses incurred on covered loans are reimbursable at the applicable loss share percentages in accordance with the loss-sharing agreements with the FDIC. Accordingly, any provisions made that relate to covered loans are partially offset by a

corresponding increase to the FDIC indemnification asset and FDIC loss sharing income in non-interest income. Below is a summary of the provision for loan losses for the periods indicated (in thousands):

|                                                                              | For the three months ended<br>September 30, |           | For the nine months ended<br>September 30, |          |
|------------------------------------------------------------------------------|---------------------------------------------|-----------|--------------------------------------------|----------|
|                                                                              | 2013                                        | 2012      | 2013                                       | 2012     |
| Provision for (reversals) impairment on loans accounted for under ASC 310-30 | \$(313                                      | ) \$3,663 | \$999                                      | \$17,398 |
| Provision for loan losses                                                    | 750                                         | 1,600     | 2,525                                      | 7,927    |
| Total provision for loan losses                                              | \$437                                       | \$5,263   | \$3,524                                    | \$25,325 |

Through the re-measurement process, we recouped \$0.3 million of provision and recorded \$3.7 million of provision for loans accounted for under ASC 310-30 during the three months ended September 30, 2013 and 2012, respectively. For the nine months ended September 30, 2013 and 2012, we recorded \$1.0 million and \$17.4 million, respectively, of provision for loans accounted for under ASC 310-30. The net provisions on the loans accounted for under ASC 310-30 reflect \$0.9 million and \$1.3 million of provision reversals as a result of increased cash flows across several pools for the three and nine months ended September 30, 2013, respectively. These provision reversals, when coupled with decreased expected future cash flows primarily driven by our commercial, residential real estate, and agriculture pools, resulted in the net provision for the three and nine months ended September 30, 2013, respectively. The decreases in expected future cash flows are reflected immediately in our financial statements. Increases in expected future cash flows are reflected through an increase in accretable yield that is accreted to income in future periods.

#### Non-Interest Income

The table below details the components of non-interest income during the three and nine months ended September 30, 2013 and 2012, respectively (in thousands):

|                                               | For the three months ended<br>September 30, |            | For the nine months ended<br>September 30, |            |
|-----------------------------------------------|---------------------------------------------|------------|--------------------------------------------|------------|
|                                               | 2013                                        | 2012       | 2013                                       | 2012       |
| FDIC indemnification asset accretion          | \$(4,208                                    | ) \$(2,832 | ) \$(11,843                                | ) \$(9,165 |
| FDIC loss sharing income (expense)            | (1,191                                      | ) 1,503    | 3,278                                      | 9,278      |
| Service charges                               | 4,334                                       | 4,466      | 11,944                                     | 13,170     |
| Bank card fees                                | 2,482                                       | 2,484      | 7,509                                      | 7,168      |
| Gain on sale of mortgages, net                | 345                                         | 283        | 1,125                                      | 886        |
| Gain on sale of securities, net               | —                                           | —          | —                                          | 674        |
| Gain on previously charged-off acquired loans | 224                                         | 837        | 1,118                                      | 2,627      |
| Other non-interest income                     | 1,352                                       | 1,322      | 4,682                                      | 3,744      |
| Total non-interest income                     | \$3,338                                     | \$8,063    | \$17,813                                   | \$28,382   |

Non-interest income for the three and nine months ended September 30, 2013 totaled \$3.3 million and \$17.8 million, respectively, compared to \$8.1 million and \$28.4 million during the three and nine months ended September 30, 2012. We recognized negative accretion of \$4.2 million and \$11.8 million during the three and nine months ended September 30, 2013, respectively, related to the FDIC indemnification asset. The negative accretion resulted from an increase in actual and expected cash flows on the underlying covered assets, resulting in lower expected reimbursements from the FDIC. The increase in expected cash flows from these underlying assets is reflected in increased accretion rates on covered loans and is being recognized over the remaining expected lives of the underlying covered loans as an adjustment to yield.

FDIC loss sharing income represents the income recognized in connection with the actual reimbursement of costs/recoveries of resolution of covered assets from the FDIC. The primary drivers of the FDIC loss sharing income are the FDIC reimbursements of the costs of resolving covered assets.

Aside from the negative accretion recognized on the FDIC indemnification asset, FDIC loss sharing income activity during the three and nine months ended September 30, 2013 and 2012 was as follows (in thousands):

|                                                                        | For the three months ended<br>September 30, |           | For the nine months ended<br>September 30, |            |
|------------------------------------------------------------------------|---------------------------------------------|-----------|--------------------------------------------|------------|
|                                                                        | 2013                                        | 2012      | 2013                                       | 2012       |
| Clawback liability amortization                                        | \$(314                                      | ) \$(355  | ) \$(937                                   | ) \$(1,066 |
| Clawback liability remeasurement                                       | (405                                        | ) (820    | ) 244                                      | 247        |
| Reimbursement to FDIC for gain on sale of and income from covered OREO | (2,514                                      | ) (1,842  | ) (4,615                                   | ) (1,408   |
| Reimbursement to FDIC for recoveries                                   | —                                           | (2        | ) (22                                      | ) (3       |
| FDIC reimbursement of costs of resolution of covered assets            | 2,042                                       | 4,522     | 8,608                                      | 11,508     |
| Total                                                                  | \$(1,191                                    | ) \$1,503 | \$3,278                                    | \$9,278    |

Other FDIC loss sharing income in our statement of operations was primarily comprised of FDIC reimbursements of costs of resolution of covered assets of \$2.0 million and \$8.6 million, during the three and nine months ended September 30, 2013, respectively, offset with reimbursements to the FDIC for gains on sales of and income from covered OREO of \$2.5 million and \$4.6 million, respectively. The activity in the FDIC loss sharing income line fluctuates based on specific loan and OREO workout circumstances and may not be consistent from period to period.

Service charges represent various fees charged to clients for banking services, including fees such as non-sufficient funds (“NSF”) charges and service charges on deposit accounts. Service charges decreased \$0.1 million and \$1.2 million, or 3.0% and 9.3%, during the three and nine months ended September 30, 2013 compared to the three and nine months ended September 30, 2012, respectively. The decrease was largely due to declines in NSF charges.

Bank card fees are comprised primarily of interchange fees on the debit cards that we have issued to our clients. Bank card fees totaled \$2.5 million and \$7.5 million during the three and nine months ended September 30, 2013, and \$2.5 million and \$7.2 million during the three and nine months ended September 30, 2012, respectively.

Gain on previously charged-off acquired loans represents recoveries on loans that were previously charged-off by the predecessor bank prior to takeover by the FDIC. During the three and nine months ended September 30, 2013, these gains were \$0.2 million and \$1.1 million, respectively, compared to \$0.8 million and \$2.6 million during the same periods in the prior year.

Other non-interest income for the three and nine months ended September 30, 2013 totaled \$1.4 million and \$4.7 million, respectively, compared to \$1.3 million and \$3.7 million for the three and nine months ended September 30, 2012. The increase in other non-interest income from the nine months ended September 30, 2012 to the nine months ended September 30, 2013 was primarily due to an increase in OREO related income.

## Non-Interest Expense

Our operating strategy is to capture the efficiencies available by consolidating the operations of our acquisitions and several of our key operating objectives affect our non-interest expense. We completed the conversion of the Community Banks of Colorado and Bank of Choice acquisitions to our new data processing platform in May 2012 and July 2012, respectively. The table below details non-interest expense for the periods presented (in thousands):

|                                                            | For the three months ended<br>September 30, |          | For the nine months ended<br>September 30, |           |
|------------------------------------------------------------|---------------------------------------------|----------|--------------------------------------------|-----------|
|                                                            | 2013                                        | 2012     | 2013                                       | 2012      |
| Salaries and employee benefits                             | \$22,639                                    | \$27,182 | \$69,363                                   | \$72,226  |
| Occupancy and equipment                                    | 6,556                                       | 5,570    | 18,391                                     | 14,845    |
| Professional fees                                          | 791                                         | 2,669    | 3,045                                      | 8,612     |
| Telecommunications and data processing                     | 3,050                                       | 4,475    | 9,805                                      | 11,694    |
| Marketing and business development                         | 1,408                                       | 1,760    | 3,519                                      | 4,290     |
| Supplies and printing                                      | 326                                         | 1,288    | 1,180                                      | 2,495     |
| Other real estate owned expenses                           | 459                                         | 3,468    | 7,675                                      | 12,152    |
| Problem loan expenses                                      | 1,134                                       | 2,267    | 4,361                                      | 6,704     |
| Intangible asset amortization                              | 1,336                                       | 1,353    | 4,009                                      | 4,020     |
| FDIC deposit insurance                                     | 1,021                                       | 1,152    | 3,074                                      | 3,664     |
| ATM/debit card expenses                                    | 1,179                                       | 1,102    | 3,291                                      | 3,100     |
| Banking center closure related expenses                    | 3,389                                       | —        | 3,389                                      | —         |
| Initial public offering related expenses                   | —                                           | 7,566    | —                                          | 7,974     |
| Acquisition related costs                                  | —                                           | —        | —                                          | 870       |
| Loss (gain) from change in fair value of warrant liability | 441                                         | (1,154)  | 138                                        | (1,017)   |
| Other non-interest expense                                 | 2,884                                       | 1,259    | 8,487                                      | 6,602     |
| Total non-interest expense                                 | \$46,613                                    | \$59,957 | \$139,727                                  | \$158,231 |

The largest component of non-interest operating expense is salaries and employee benefits. Salaries and employee benefits totaled \$22.6 million and \$69.4 million for the three and nine months ended September 30, 2013, respectively, compared to \$27.2 million and \$72.2 million for the three and nine months ended September 30, 2012, respectively. The decrease is primarily due to decreases in stock-based compensation expense of \$5.3 million and \$6.9 million for the three and nine months ended, September 30, 2013, respectively. Stock-based compensation expense during the three and nine months ended September 30, 2012 was elevated because we incurred \$4.9 million of stock-based compensation expense related to our initial public offering.

Occupancy and equipment expense totaled \$6.6 million and \$18.4 million for the three and nine months ended September 30, 2013, respectively, an increase of \$1.0 million and \$3.5 million over the three and nine months ended September 30, 2012, respectively. The increase was driven by an increase in depreciation expense as a result of the purchase and subsequent depreciation of the premises and equipment purchased from the FDIC in the first half of 2012 related to our Bank of Choice and Community Banks of Colorado acquisitions.

Professional fees totaled \$0.8 million and \$3.0 million during the three and nine months ended September 30, 2013 and decreased \$1.9 million and \$5.6 million from the three and nine months ended September 30, 2012, respectively. Professional fees were elevated during the three and nine months ended September 30, 2012 primarily due to professional fees incurred in conjunction with our acquisitions of Bank of Choice in the third quarter of 2011 and Community Banks of Colorado during the fourth quarter of 2011. Additionally, we have outsourced fewer professional functions as we have built out our internal management functions.

Marketing and business development expense totaled \$1.4 million and \$3.5 million for the three and nine months ended September 30, 2013, respectively, compared to \$1.8 million and \$4.3 million during the three and nine months ended September 30, 2012, respectively. These decreases were primarily due to consulting and advertising expenses, which were elevated during the three and nine months ended September 30, 2012 after the acquisitions of Bank of Choice during the third quarter of 2011 and Community Banks of Colorado during the fourth quarter of 2011.



Significant components of our non-interest expense are our problem loan expenses and OREO related expenses. We incur these expenses in connection with the resolution process of our acquired troubled loan portfolios. During the three and nine months ended September 30, 2013, we incurred \$0.5 million and \$7.7 million, respectively, of OREO related expenses and \$1.1 million and \$4.4 million, respectively, of problem loan expenses. Of the \$1.6 million and \$12.0 million in collective OREO and problem loan expenses incurred during the three and nine months ended September 30, 2013, \$1.2 million and \$7.9 million, respectively, were covered by loss sharing agreements with the FDIC. The losses on covered assets that are reimbursable from the FDIC are based on the book value of the related covered assets as determined by the FDIC at the date of acquisition, and the FDIC's book value does not necessarily correlate with our book value of the same assets. This difference is primarily because we recorded the OREO at fair value at the date of acquisition in accordance with applicable accounting guidance. Any losses recorded after the acquisition date are recorded at the full-loss value in other non-interest expense, and any related reimbursement from the FDIC is recorded in non-interest income as FDIC loss sharing income.

On September 30, 2013 the Company announced plans to integrate 32 limited-service retirement center locations and exit four banking centers. Included in the three and nine months ended September 30, 2013 operating results are \$3.4 million of expenses in connection with the closures, including \$3.3 million related to facilities expense. Valuation adjustments to banking center properties and fixed assets account for \$2.5 million of the facilities expense and \$0.8 million of the facilities expense relates to lease costs. The Company anticipates annualized expense savings of approximately \$2.4 million as a result of the closures.

#### Income taxes

Income tax expense totaled \$0.9 million for the three months ended September 30, 2013, as compared with \$0.2 million for the three months ended September 30, 2012. These amounts equate to effective tax rates of 47.5% and 3.0% for the respective periods. Income tax expense for the nine months ended September 30, 2013 and 2012 totaled \$4.0 million and \$3.0 million, respectively, equating to effective tax rates of 40.3% and 599.4%.

The decrease in the effective tax rate for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012, is primarily attributable to our initial public offering during September 2012. The effective tax rate for the nine months ended September 30, 2012 is elevated because we incurred \$8.0 million of expenses associated with the initial public offering of our stock, during September 2012, which are non-deductible for income tax purposes. This amount represents a significant portion of the loss before income taxes for the nine months ended September 30, 2012 and no income tax benefit is recorded on these expenses. Additional information regarding income taxes can be found in note 22 of our audited consolidated financial statements in our 2012 Annual Report on Form 10-K.

#### Liquidity and Capital Resources

Liquidity is monitored and managed to ensure that sufficient funds are available to operate our business and pay our obligations to depositors and other creditors, while providing ample available funds for opportunistic and strategic investments. Liquidity is represented by our cash and cash equivalents, securities purchased under agreements to resell and pledgeable investment securities, and is detailed in the table below as of September 30, 2013 and December 31, 2012 (in thousands):

|                                                 | September 30,<br>2013 | December 31,<br>2012 |
|-------------------------------------------------|-----------------------|----------------------|
| Cash and due from banks                         | \$69,185              | \$90,505             |
| Due from Federal Reserve Bank of Kansas City    | 254,456               | 579,267              |
| Interest bearing bank deposits                  | 25,603                | 99,408               |
| Securities purchased under agreements to resell | 75,000                | —                    |
| Pledgeable investment securities, at fair value | 2,312,291             | 2,084,046            |
| Total                                           | \$2,736,535           | \$2,853,226          |

Total on-balance sheet liquidity decreased \$116.7 million from December 31, 2012 to September 30, 2013. The decrease was largely due to a decrease in balances at the Federal Reserve Bank, offset by purchases of mortgage-backed securities.



Aside from the deployment of our capital and cash received from acquisitions, our primary sources of funds are deposits from clients, prepayments and maturities of loans and investment securities, the sale of investment securities, reimbursement of covered asset losses from the FDIC and the funds provided from operations. During the nine months ended September 30, 2013, we entered into a master repurchase agreement with a large financial institution and we anticipate that, through this agreement, we would have access to a significant amount of liquidity.

Additionally, we anticipate having access to other third party funding sources, including the ability to raise funds through the issuance of shares of our common stock or other equity or

equity-related securities, incurrence of debt, and federal funds purchased, that may also be a source of liquidity. We anticipate that these sources of liquidity will provide adequate funding and liquidity for at least a 12 month period. Our primary uses of funds are loan originations, investment security purchases, withdrawals of deposits, settlement of repurchase agreements, capital expenditures, operating expenses and debt payments, particularly subsequent to acquisitions. For additional information regarding our operating, investing, and financing cash flows, see our consolidated statements of cash flows in the accompanying unaudited consolidated interim financial statements. Exclusive from the investing activities related to acquisitions, our primary investing activities are originations and pay-offs and pay downs of loans and sales and purchases of investment securities. At September 30, 2013, pledgeable investment securities represented our largest source of liquidity. Our available-for-sale investment securities are carried at fair value and our held-to-maturity securities are carried at amortized cost. Our collective investment securities portfolio totaled \$2.6 billion at September 30, 2013 inclusive of pre-tax net unrealized losses of \$21.6 million on the available-for-sale securities portfolio. Additionally, our held-to-maturity securities portfolio had \$0.1 million of unrealized losses at September 30, 2013. The gross unrealized gains and losses are detailed in note 3 of our unaudited consolidated interim financial statements for the nine months ended September 30, 2013. As of September 30, 2013, our investment securities portfolio consisted primarily of mortgage-backed securities, all of which were issued or guaranteed by U.S. Government agencies or sponsored enterprises, and prime auto asset-backed securities. The anticipated repayments and marketability of these securities offer substantial resources and flexibility to meet new loan demand, reinvest in the investment securities portfolio, or provide optionality for reductions in our deposit funding base.

At present, financing activities are limited to changes in repurchase agreements, time deposits, and the clawback liability. Maturing time deposits, and holders of \$82.6 million of time deposits assumed in the Hillcrest Bank, Bank of Choice and Community Banks of Colorado acquisitions that have not yet accepted new terms, represent a potential use of funds, as these depositors have the option to move the funds without penalty. As of September 30, 2013, \$1.1 billion of time deposits were scheduled to mature within 12 months. Based on the current interest rate environment, market conditions, and our consumer banking strategy focusing on both lower cost transaction accounts and term deposits, we expect to replace a significant portion of those maturing time deposits with transaction deposits and market-rate time deposits.

As the Company matures, we expect that our liquidity at the holding company will subsequently decrease as we continue to deploy available capital and until such time that our subsidiary bank is permitted to pay, and does pay, dividends up to the holding company.

NBH Bank is currently prohibited from paying dividends to the holding company under the Operating Agreement with the OCC. However, in October 2013, NBH Bank received approval and a waiver from the OCC under the Operating Agreement to permanently reduce the bank's capital by \$313.0 million. As a result, the bank paid a \$313.0 million cash dividend to the holding company. At September 30, 2013, the holding company sources of funds were limited to cash and cash equivalents on hand, which totaled \$69.4 million. Taking into account the October 2013 dividend from the bank, the holding company had \$382.4 million in cash and cash equivalents at September 30, 2013 on a pro forma basis. See note 18 of our unaudited consolidated interim financial statements for additional information. The holding company may seek to borrow funds and raise capital in the future, the success and terms of which will be subject to market conditions and other factors.

Our stockholders' equity is impacted by the retention of earnings, changes in unrealized gains on securities, net of tax, share repurchases and the payment of dividends. We have agreed to maintain capital levels of at least 10% tier 1 leverage ratio, 11% tier 1 risk-based capital ratio and 12% total risk-based capital ratio at NBH Bank until at least the fourth quarter of 2013. At September 30, 2013 and December 31, 2012, NBH Bank and the consolidated holding company exceeded all capital requirements to which they were subject.

During the nine months ended September 30, 2013, we repurchased 1,114,628 shares of our common stock under the \$25 million share repurchase previously authorized by our Board of Directors. Under this authorization through September 30, 2013, we have repurchased 1,114,868 shares at a weighted average price of \$18.45 per share, and all shares have been retired.

On November 7, 2013, the Board of Directors authorized a new program to repurchase up to \$35 million of our common stock through December 31, 2014. We completed our previously authorized \$25 million stock repurchase program in November 2013, repurchasing \$21.3 million of the Company's common stock and replacing the remaining buyback authorization of \$3.7 million with the new program. Under the new program, the shares will be acquired from time to time either in the open market or in privately negotiated transactions in accordance with applicable regulations of the Securities and Exchange Commission. Also on November 7, 2013, our Board of Directors declared a quarterly dividend of \$0.05 per share, payable on December 13, 2013 to shareholders of record on November 29, 2013.

### Asset/Liability Management and Interest Rate Risk

The principal objective of the Company's asset and liability management function is to evaluate the interest rate risk within the balance sheet and pursue a controlled assumption of interest rate risk while maximizing earnings and preserving adequate levels of liquidity and capital. The asset and liability management function is under the guidance of the Asset Liability Committee from direction of the Board of Directors. The Asset Liability Committee meets monthly to review, among other things, the sensitivity of the Company's assets and liabilities to interest rate changes, local and national market conditions and rates. The Asset Liability Committee also reviews the liquidity, capital, deposit mix, loan mix and investment positions of the Company.

Management and the Board of Directors are responsible for managing interest rate risk and employing risk management policies that monitor and limit this exposure. Interest rate risk is measured using net interest income simulations and market value of portfolio equity analyses. These analyses use various assumptions, including the nature and timing of interest rate changes, yield curve shape, prepayments on loans, securities and deposits, deposit decay rates, pricing decisions on loans and deposits, reinvestment/replacement of asset and liability cash flows. Instantaneous parallel rate shift scenarios are modeled and utilized to evaluate risk and establish exposure limits for acceptable changes in net interest margin. These scenarios, known as rate shocks, simulate an instantaneous change in interest rates and use various assumptions, including, but not limited to, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, reinvestment and replacement of asset and liability cash flows. We also analyze the economic value of equity as a secondary measure of interest rate risk. This is a complementary measure to net interest income where the calculated value is the result of the market value of assets less the market value of liabilities. The economic value of equity is a longer term view of interest rate risk because it measures the present value of the future cash flows. The impact of changes in interest rates on this calculation is analyzed for the risk to our future earnings and is used in conjunction with the analyses on net interest income.

Our interest rate risk model indicated that the Company was asset sensitive in terms of interest rate sensitivity at September 30, 2013. During the nine months ended September 30, 2013, we decreased our asset sensitivity as a result of the declines in cash balances relative to the size of the balance sheet. The table below illustrates the impact of an immediate and sustained 200 and 100 basis point increase and a 50 basis point decrease in interest rates on net interest income based on the interest rate risk model at September 30, 2013 and December 31, 2012:

#### Hypothetical

| Shift in Interest<br>Rates (in bps) | % Change in Projected Net Interest Income |                   |
|-------------------------------------|-------------------------------------------|-------------------|
|                                     | September 30, 2013                        | December 31, 2012 |
| 200                                 | 5.32%                                     | 12.84%            |
| 100                                 | 3.55%                                     | 7.43%             |
| -50                                 | -0.92%                                    | -2.88%            |

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

The federal funds rate is the basis for overnight funding and the market expectations for changes in the federal funds rate influence the yield curve. The federal funds rate is currently at 0.25% and has been since December 2008. Should interest rates decline further, net interest margin and net interest income would be compressed given the current mix of rate sensitive assets and liabilities.

As part of the asset/liability management strategy to manage primary market risk exposures expected to be in effect in future reporting periods, management has emphasized the origination of shorter duration loans as well as variable rate loans to limit the negative exposure to a rate increase. The strategy with respect to liabilities has been to emphasize transaction accounts, particularly non-interest or low interest bearing non-maturing deposit accounts which are less sensitive to changes in interest rates. In response to this strategy, non-maturing deposit accounts have been steadily increasing and totaled 61.2% of total deposits at September 30, 2013 compared to 58.3% at December 31, 2012. We currently have no brokered time deposits and intend to continue to focus on our strategy of increasing non-interest or low interest bearing non-maturing deposit accounts and accordingly, we have no current plans to use brokered

deposits in the near future.

78

---

#### Off-Balance Sheet Activities

In the normal course of business, we are a party to various contractual obligations, commitments and other off-balance sheet activities that contain credit, market, and operational risk that are not required to be reflected in our consolidated financial statements. The most significant of these are the loan commitments that we enter into to meet the financing needs of clients, including commitments to extend credit, commercial and consumer lines of credit and standby letters of credit. As of September 30, 2013 and December 31, 2012, we had loan commitments totaling \$320.2 million and \$305.9 million, respectively, and standby letters of credit that totaled \$8.2 million and \$10.7 million, respectively. Unused commitments do not necessarily represent future credit exposure or cash requirements, as commitments often expire without being drawn upon. We do not anticipate any material losses arising from commitments or contingent liabilities and we do not believe that there are any material commitments to extend credit that represent risks of an unusual nature.

**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

**Item 4. CONTROLS AND PROCEDURES**

Under the supervision and with the participation of the Company's management, including its principal executive officer and principal financial officer, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based upon this evaluation, the principal executive officer and principal financial officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective.

During the most recently completed fiscal quarter, there was no change made in the Company's internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II: OTHER INFORMATION

## Item 1. 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, liquidity, results of operation, cash flows or capital levels.

## Item 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012.

## Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table sets forth information about our purchases of our \$0.01 par value Class A common stock, our only class of stock registered pursuant to Section 12 of the Exchange Act, during the three months ended September 30, 2013:

| Period                           | (a) Total Number of Shares (or Units) Purchased | (b) Average Price Paid Per Share (or Unit) | (c) Total Number of (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs |                                                                                                 |
|----------------------------------|-------------------------------------------------|--------------------------------------------|------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|
|                                  |                                                 |                                            | (d) Maximum Number of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs                                | (e) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs |
| July 1 - July 31, 2013           | —                                               | —                                          | —                                                                                                                            | 7,685,817                                                                                       |
| August 1 - August 31, 2013       | 22,398                                          | 19.90                                      | 22,398                                                                                                                       | 7,240,108                                                                                       |
| September 1 - September 30, 2013 | 141,756                                         | 19.83                                      | 141,756                                                                                                                      | 4,428,611                                                                                       |
| Total                            | 164,154                                         | \$ 19.84                                   | 164,154                                                                                                                      | \$ 4,428,611                                                                                    |

On October 31, 2012, the Board of Directors authorized share repurchases of our common stock of up to \$25 million, from time to time. The stock purchases detailed above were made under this authorization.



Item 6. EXHIBITS

- 3.1 Second Amended and Restated Certificate of Incorporation (incorporated herein by reference to Exhibit 3.1 to our Form S-1 Registration Statement (Registration No. 333-177971), filed August 22, 2012)
- 3.2 Amended and Restated By-Laws (incorporated herein by reference to Exhibit 3.2 to our Form S-1 Registration Statement (Registration No. 333-177971), filed August 22, 2012)
- 10.1 Letter Agreement, dated June 5, 2013, by and among Zsolt K. Bessko and National Bank Holdings Corporation and NBH Bank, N.A.
- 31.1 Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certifications of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101 Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operation, (iii) the Consolidated Statements of Comprehensive Income (Loss), (iv) the Consolidated Statements of Changes in Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Consolidated Financial Statements, tagged as blocks of text and in detail\*
- \* This information is deemed furnished, not filed.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NATIONAL BANK HOLDINGS CORPORATION

/s/ Brian F. Lilly  
Brian F. Lilly  
Chief Financial Officer  
(Authorized Officer and Principal Financial Officer)

Date: November 12, 2013