National Bank Holdings Corp
Form 10-Q
May 14, 2013
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

OR

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

For the transition period from _________ to _________

Commission File Number: 001-35654

NATIONAL BANK HOLDINGS CORPORATION

(Exact name of registrant as specified in its charter)

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

5570 DTC Parkway, Greenwood Village, Colorado, 80111

(Address of principal executive offices) (Zip Code)

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

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

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

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

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

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 May 10, 2013 NBHC had outstanding 46,298,876 shares of Class A voting common stock, and 5,967,619 shares of Class B non-voting common stock, each with $0.01 par value per share.

Table of Contents

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements. 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, believes, can, would, should, could, may, predicts, potential, shou plans, projects, continuing, ongoing, expects, intends and similar words or phrases. These statements are only predictions and involve est known and unknown risks, assumptions and uncertainties. Our actual results could differ materially from those expressed in or contemplated by such forward-looking statements as a result of a variety of factors, some of which are more fully described in Part II under the caption Risk Factors.

Any or all of our forward-looking statements in this report may turn out to be inaccurate. The inclusion of such forward-looking statements should not be regarded as a representation by us that we will achieve the results expressed in or contemplated by such forward-looking statements. We have based these forward-looking 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. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed in or contemplated by the forward looking statements, including, but not limited to:

- ability to execute our business strategy;
- changes in the regulatory environment, including changes in regulation that affect the fees that we charge;
- economic, market, operational, liquidity, credit and interest rate risks associated with our business;
- our ability to identify potential candidates for, obtain regulatory approval, and consummate, acquisitions of banking franchises 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 banking franchises;
- our ability to achieve organic loan and deposit growth and the composition of such growth;
- business and economic conditions generally and in the financial services industry;
- increased competition in the financial services industry, nationally, regionally or locally, resulting in, among other things, lower risk-adjusted returns;
- changes in the economy or supply-demand imbalances affecting local real estate values;
- volatility and direction of market interest rates;
- effects of any changes in trade and monetary and fiscal policies and laws, including the interest rate policies of the Federal Reserve;

the ability in certain states to amend the state constitution to impose restrictions on financial services by a simple majority of the people who actually vote;

governmental legislation and regulation, including changes in accounting regulation or standards;

failure of politicians to reach consensus on a bipartisan basis;

acts of war or terrorism, natural disasters such as tornadoes, flooding, hail storms and damaging winds, earthquakes, hurricanes or fires, or the effects of pandemic flu;

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

changes in the Company s management personnel;

continued consolidation in the financial services industry;

ability to maintain or increase market share;

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

a weakening of the economy which could materially impact credit quality trends and the ability to generate quality loans;

the impact of current economic conditions and the Company s performance, liquidity, financial condition and prospects and on its ability to obtain attractive third-party funding to meet its liquidity needs;

fluctuations in face value of investment securities due to market conditions;

changes in fiscal, monetary and related policies of the U.S. federal government, its agencies and government sponsored entities;

inability to receive dividends from our subsidiary bank and to service debt, pay dividends to our common stockholders and satisfy obligations as they become due;

costs and effects of legal and regulatory developments, including the resolution of legal proceedings or regulatory or other governmental inquiries, and the results of regulatory examinations or reviews;

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

changes in capital classification;

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

the Company s success at managing the risks involved in the foregoing items.

All forward-looking statements are necessarily only estimates of future results. Accordingly, actual results may differ materially from those expressed in or contemplated by the particular forward-looking statement, and, therefore, you are cautioned not to place undue reliance on such statements. Any forward-looking statement is qualified in its entirety by reference to the matters discussed elsewhere in this report. Further, 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.

Table of Contents

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)

	March 31, 2013	December 31, 2012
ASSETS		
Cash and due from banks	$ 57,446	$ 90,505
Due from Federal Reserve Bank of Kansas City	266,290	579,267
Federal funds sold and interest bearing bank deposits	95,457	99,408
Cash and cash equivalents	419,193	769,180
Investment securities available-for-sale (at fair value)	2,106,882	1,718,028
Investment securities held-to-maturity (fair value of $522,867 and $584,551 at March 31, 2013 and December 31, 2012, respectively)	517,017	577,486
Non-marketable securities	32,947	32,996
Loans (including covered loans of $537,096 and $608,222 at March 31, 2013 and December 31, 2012, respectively)	1,765,450	1,832,702
Allowance for loan losses	(12,889)	(15,380)
Loans, net	1,752,561	1,817,322
Loans held for sale	7,034	5,368
Federal Deposit Insurance Corporation (FDIC) indemnification asset, net	75,698	86,923
Other real estate owned	83,330	94,808
Premises and equipment, net	121,082	121,436
Goodwill	59,630	59,630
Intangible assets, net	26,239	27,575
Other assets	55,930	100,023
Total assets	$ 5,257,543	$ 5,410,775
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing demand deposits	$ 654,002	$ 677,985
Interest bearing demand deposits	487,222	529,996
Savings and money market	1,263,083	1,240,020
Time deposits	1,656,494	1,752,718
Total deposits	4,060,801	4,200,719
Securities sold under agreements to repurchase	53,110	53,685
Due to FDIC	31,011	31,271
Other liabilities	25,878	34,541
Total liabilities	4,170,800	4,320,216

Stockholders equity:		
Common stock, par value $0.01 per share: 400,000,000 million shares authorized and 53,266,577 and 53,279,579 shares issued and 52,314,909 and 52,327,672 shares outstanding at March 31, 2013 and December 31, 2012, respectively	523	523
Additional paid in capital	1,007,401	1,006,194
Retained earnings	42,692	43,273
Treasury stock of 240 shares at December 31, 2012, at cost		(4)
Accumulated other comprehensive income, net of tax	36,127	40,573
Total stockholders equity	1,086,743	1,090,559
Total liabilities and stockholders equity	$ 5,257,543	$ 5,410,775

See accompanying notes to the unaudited consolidated interim financial statements.

3

Table of Contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations (Unaudited)

(In thousands, except share and per share data)

	For the three months ended, March 31, 2013	March 31, 2012
Interest and dividend income:		
Interest and fees on loans	$ 36,135	$ 46,591
Interest and dividends on investment securities	13,248	15,106
Dividends on non-marketable securities	394	381
Interest on interest-bearing bank deposits	321	812
Total interest and dividend income	50,098	62,890
Interest expense:		
Interest on deposits	4,511	9,603
Interest on borrowings	18	29
Total interest expense	4,529	9,632
Net interest income before provision for loan losses	45,569	53,258
Provision for loan losses	1,417	7,836
Net interest income after provision for loan losses	44,152	45,422
Non-interest income:		
FDIC indemnification asset accretion	(4,669)	(3,687)
FDIC loss sharing income	3,276	3,699
Service charges	3,687	4,376
Bank card fees	2,469	2,301
Gain on sales of mortgages, net	306	309
Gain on sale of securities, net		674
Gain on recoveries of previously charged-off acquired loans	443	1,533
Other non-interest income	1,639	1,065
Total non-interest income	7,151	10,270
Non-interest expense:		
Salaries and employee benefits	22,956	22,413
Occupancy and equipment	5,965	4,537
Professional fees	1,396	2,671
Telecommunications and data processing	3,469	3,731
Marketing and business development	1,379	918
Supplies and printing	356	379
Other real estate owned expenses	4,719	8,621
Problem loan expenses	2,331	1,711
Intangible asset amortization	1,336	1,336
FDIC deposit insurance	1,047	1,351
ATM/debit card expenses	1,005	775
Initial public offering related expenses		321
Acquisition related costs		855
Loss (gain) from the change in fair value of warrant liability	(627)	726
Other non-interest expense	2,552	2,628

Total non-interest expense	47,884	52,973
Income before income taxes	3,419	2,719
Income tax expense	1,337	1,076
Net income	$ 2,082	$ 1,643
Income per share basic	$ 0.04	$ 0.03
Income per share diluted	$ 0.04	$ 0.03
Weighted average number of common shares outstanding:		
Basic	52,320,622	52,176,863
Diluted	52,346,525	52,303,771

See accompanying notes to the unaudited consolidated interim financial statements.

Table of Contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

(In thousands)

	For the three months ended March 31, 2013	For the three months ended March 31, 2012
Net income	$ 2,082	$ 1,643
Other comprehensive loss, net of tax:		
Securities available-for-sale:		
Net unrealized losses arising during the period, net of tax benefit of $1,872 and $439 for the three months ended March 31, 2013 and 2012, respectively	(2,501)	(755)
Reclassification adjustment for net securities gains included in net income, net of tax expense of $0 and $263 for the three months ended March 31, 2013 and 2012, respectively		(411)
Reclassification adjustment for net unrealized holding gains on securities transferred between available-for-sale and held-to-maturity, net of tax of $0 and $15,159 for the three months ended March 31, 2013 and 2012, respectively		(23,711)
	$ (2,501)	$ (24,877)
Net unrealized holding gains on securities transferred between available-for-sale to held-to-maturity:		
Net unrealized holding gains on securities transferred, net of tax of $0 and $15,159 for the three months ended March 31, 2013 and 2012, respectively		23,711
Less: amortization of net unrealized holding gains to income, net of tax benefit of $1,218 and $0 for the three months ended March 31, 2013 and 2012	(1,945)	
	(1,945)	23,711
Other comprehensive loss	(4,446)	(1,166)
Comprehensive income (loss)	$ (2,364)	$ 477

See accompanying notes to the unaudited consolidated interim financial statements.

Table of Contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders Equity (Unaudited)

Three Months Ended March 31, 2013 and 2012

(In thousands, except share and per share data)

	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Accumulated other comprehensive income, net	Total
Balance, December 31, 2011	$ 522	$ 994,705	$ 46,480	$	$ 47,022	$ 1,088,729
Stock-based compensation		2,183				2,183
Net income			1,643			1,643
Other comprehensive loss					(1,166)	(1,166)
Balance, March 31, 2012	522	996,888	48,123		45,856	1,091,389
Balance, December 31, 2012	523	1,006,194	43,273	(4)	40,573	1,090,559
Stock-based compensation		1,441				1,441
(Purchase) /retirement of treasury shares		(234)		4		(230)
Dividends paid ($0.05 per share)			(2,663)			(2,663)
Net income			2,082			2,082
Other comprehensive loss					(4,446)	(4,446)
Balance, March 31, 2013	$ 523	$ 1,007,401	$ 42,692	$	$ 36,127	$ 1,086,743

See accompanying notes to the unaudited consolidated interim financial statements.

Table of Contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	For the three months ended March 31, 2013	For the three months ended March 31, 2012
Cash flows from operating activities:		
Net income	$ 2,082	$ 1,643
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for loan losses	1,417	7,836
Depreciation and amortization	3,812	2,498
Gain on sale of securities, net		(674)
Current income tax benefit	(6,739)	(3,102)
Deferred income tax benefit	(3,574)	(14,840)
Discount accretion, net of premium amortization	5,466	960
Loan accretion	(24,293)	(37,417)
Net gain on sale of mortgage loans	(306)	(309)
Proceeds from sales of loans held for sale	10,921	12,987
Amortization of indemnification asset	4,669	3,687
Gain on the sale of other real estate owned, net	(1,805)	(849)
Impairment on other real estate owned	4,526	5,089
Stock-based compensation	1,441	2,183
Decrease in due to FDIC, net	(260)	(323)
Decrease (increase) in other assets	409	(4,755)
Decrease in other liabilities	(3,443)	(6,561)
Net cash used in operating activities	(5,677)	(31,947)
Cash flows from investing activities:		
Sale of FHLB stock	49	30
Sales of investment securities available-for-sale		20,794
Maturities of investment securities available-for-sale	158,532	120,546
Maturities of investment securities held-to-maturity	57,599	107
Purchase and settlement of investment securities available-for-sale	(554,355)	(773,774)
Net decrease in loans	58,313	158,055
Purchase of premises and equipment	(2,122)	(31,941)
Proceeds from sales of other real estate owned	25,726	12,676
Decrease in FDIC indemnification asset	55,287	6,079
Net cash provided by investing activities	(200,971)	(487,428)
Cash flows from financing activities:		
Net decrease in deposits	(139,918)	(290,904)
Increase (decrease) in repurchase agreements	(575)	26,453
Payment of dividends	(2,616)	
Repurchase of common stock	(230)	
Net cash used in financing activities	(143,339)	(264,451)
Decrease in cash and cash equivalents	(349,987)	(783,826)
Cash and cash equivalents at beginning of period	769,180	1,628,137

Cash and cash equivalents at end of period	$ 419,193	$ 844,311
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 4,906	$ 12,897
Cash paid during the period for taxes	$ 8,580	$ 17,459
Supplemental schedule of non-cash investing activities:		
Loans transferred to other real estate owned at fair value	$ 17,043	$ 40,899
FDIC indemnification asset claims transferred to other assets	$ 9,132	$ 32,361
Available-for-sale investment securities transferred to investment securities held-to-maturity	$	$ 754,063

See accompanying notes to the unaudited consolidated interim financial statements.

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

March 31, 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 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 101 full-service banking centers that are predominately located in the greater Kansas City area and Colorado.

These interim financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and serve to update the National Bank Holdings Corporation Annual Report on Form 10-K for the year ended December 31, 2012. The accompanying 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 consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results presented. All such adjustments are of a normal recurring nature. All significant intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications of prior years amounts are made whenever necessary to conform to current period presentation. The results of operations for the interim 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 consolidated financial statements are disclosed in Note 2 of the audited financial statements and notes for the year ended December 31, 2012 and are contained in the Company s Annual Report on Form 10-K, referenced above. 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 deferred tax 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

Accounting for Indemnification Assets In October 2012, the Financial Accounting Standards Board (FASB) released Accounting Standards Update (ASU) 2012-06 *Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution.* This guidance clarified that any amortization of changes in the value of an indemnification asset should be limited to the contractual term of the indemnification agreement (that is, the lesser of the term of the indemnification agreement and the remaining life of the indemnified assets). This guidance resulted in no changes to the accounting for the Company s indemnification asset.

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income In February 2013, the FASB issued 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 retrospectively for the quarter ended March 31, 2013. Adoption of this update affects the presentation of the components of comprehensive income in the Company s financial statements, but did not have an impact on the Company s consolidated statements of financial condition, results of operations or liquidity.

Disclosures About Offsetting Assets and Liabilities In December 2011, the FASB issued ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities*. Under the ASU, an entity will be required to disclose both gross and net information about instruments and transactions eligible for offset in the balance sheet, as well as instruments and transactions subject to an agreement similar to a master netting agreement. In January 2013, the FASB released ASU 2013-01, *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*, which amended ASU 2011-11 to specifically include only derivatives accounted for under Topic 815, repurchase and reverse repurchase agreements, and securities borrowing and lending transactions that are either offset or subject to an enforceable master netting arrangement. The disclosure requirements are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods therein, with retrospective application required. The adoption of these accounting pronouncements did not have a material impact on the Company s consolidated financial statements.

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

March 31, 2013

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 March 31, 2013, an increase from $2.3 billion at December 31, 2012. Included in the aforementioned $2.6 billion was $2.1 billion of available-for-sale securities and $517.0 million of held-to-maturity securities.

Available-for-sale

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

	March 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Asset backed securities	$ 68,253	$ 76	$	$ 68,329
Mortgage-backed securities (MBS):				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	602,092	17,519	(1)	619,610
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	1,403,209	17,047	(1,732)	1,418,524
Other securities	419			419
Total	$ 2,073,973	$ 34,642	$ (1,733)	$ 2,106,882

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

At March 31, 2013 and December 31, 2012, mortgage-backed securities represented 96.7% 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).

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

March 31, 2013

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

	March 31, 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	$	$	$ 16	$ (1)	$ 16	$ (1)
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	432,755	(1,732)			432,755	(1,732)
Total	$ 432,755	$ (1,732)	$ 16	$ (1)	$ 432,771	$ (1,733)

	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 March 31, 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 $82.7 million at March 31, 2013 and $89.2 million December 31, 2012. The decrease of pledged available-for-sale investment securities was primarily attributable to paydowns on the underlying securities during the three months ended March 31, 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 March 31, 2013 or December 31, 2012.

The table below summarizes the contractual maturities, as of the last scheduled repayment date, of the available-for-sale investment portfolio as of March 31, 2013 (in thousands):

	Amortized Cost	Fair Value
Due in one year or less	$	$
Due after one year through five years	68,258	68,333
Due after five years through ten years	238,841	242,408
Due after ten years	1,766,455	1,795,722
Other securities	419	419
Total investment securities available-for-sale	$ 2,073,973	$ 2,106,882

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 3.6 years as of March 31, 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 March 31, 2013.

Held-to-maturity

At March 31, 2013 and December 31, 2012 the Company held $517.0 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

Table of Contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

March 31, 2013

an available-for-sale classification to the held-to-maturity classification. During the three month ended March 31, 2013 the Company has not purchased or sold any held-to-maturity securities. Held-to-maturity investment securities are summarized as follows as of the dates indicated (in thousands):

	March 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities (MBS):				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ 517,017	$ 5,850	$	$ 522,867
Total investment securities held-to-maturity	$ 517,017	$ 5,850	$	$ 522,867

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

The table below summarizes the contractual maturities, as of the last scheduled repayment date, of the held-to-maturity investment portfolio at March 31, 2013 (in thousands):

	Amortized Cost	Fair Value
Due in one year or less	$	$
Due after one year through five years		
Due after five years through ten years		
Due after ten years	517,017	522,867
Other securities		
Total investment securities held-to-maturity	$ 517,017	$ 522,867

The carrying value of held-to-maturity investment securities pledged as collateral totaled $139.1 million and $127.9 million at March 31, 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 March 31, 2013 and December 31, 2012 was 3.8 years. This estimate is based on assumptions and actual results may differ.

Note 4 Loans

The loan portfolio is comprised of loans that were acquired in connection with the Company s acquisitions of Bank of Choice and Community Banks of Colorado in 2011, Hillcrest Bank and Bank Midwest in 2010, and new loans originated by the Company. 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 30.4% of the total loan portfolio at March 31, 2013, compared to 33.2% of the total loan portfolio at December 31, 2012.

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

March 31, 2013

The carrying value of loans are net of discounts on loans excluded from Accounting Standards Codification (ASC) Topic 310-30 *Receivables Loans and Debt Securities Acquired with Deteriorated Credit Quality*, and fees and costs of $16.3 million and $20.4 million as of March 31, 2013 and December 31, 2012, respectively. The table below shows the loan portfolio composition including carrying value by segment of loans accounted for under ASC Topic 310-30 and loans covered by the FDIC loss sharing agreements as of March 31, 2013 and December 31, 2012 (in thousands):

	March 31, 2013			
	ASC 310-30 Loans	Non ASC 310-30 Loans	Total Loans	% of Total
Commercial	$ 78,928	$ 185,802	$ 264,730	15.0%
Commercial real estate	490,608	256,132	746,740	42.3%
Agriculture	46,580	118,157	164,737	9.3%
Residential real estate	101,386	446,185	547,571	31.0%
Consumer	12,747	28,925	41,672	2.4%
Total	$ 730,249	$ 1,035,201	$ 1,765,450	100.0%
Covered	$ 466,677	$ 70,419	$ 537,096	30.4%
Non-covered	263,572	964,782	1,228,354	69.6%
Total	$ 730,249	$ 1,035,201	$ 1,765,450	100.0%

	December 31, 2012			
	ASC 310-30 Loans	Non ASC 310-30 Loans	Total Loans	% of Total
Commercial	$ 83,169	$ 187,419	$ 270,588	14.8%
Commercial real estate	566,035	238,964	804,999	43.9%
Agriculture	47,733	125,674	173,407	9.5%
Residential real estate	106,100	427,277	533,377	29.1%
Consumer	18,984	31,347	50,331	2.7%
	$ 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. Loans accounted for under ASC Topic 310-30 were not classified as non-performing assets at the respective acquisition dates, at March 31, 2013 or at December 31, 2012 as the carrying value of the respective pools cash flows were considered estimable and probable of collection. Therefore, interest income, through accretion of the difference between the carrying value of the loans and the expected cash flows, was recognized on all acquired loans accounted for under ASC Topic 310-30.

Table of Contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

March 31, 2013

Pooled loans accounted for under ASC Topic 310-30 that are 90 days or more past due and still accreting are considered to be performing and are included in loans 90 days or more past due and still accruing. At March 31, 2013 and December 31, 2012, $18.0 million and $23.1 million, respectively, of loans accounted for outside the scope of ASC Topic 310-30 were on non-accrual. Loan delinquency for all loans is shown in the following tables at March 31, 2013 and December 31, 2012, respectively (in thousands):

	Total Loans March 31, 2013							
	30-59 days past due	60-89 days past due	Greater than 90 days past due	Total past due	Current	Total loans	Loans > 90 days past due and still accruing	Non-accrual
Loans excluded from ASC 310-30								
Commercial	$ 327	$ 1,751	$ 498	$ 2,576	$ 183,226	$ 185,802	$	$ 2,887
Commercial real estate								
Construction			131	131	6,942	7,073	131	
Acquisition/development	47		14	61	9,662	9,723		15
Multifamily					12,679	12,679		191
Owner-occupied	95		209	304	62,408	62,712		850
Non owner-occupied	1,130	243	5,123	6,496	157,449	163,945		7,834
Total commercial real estate	1,272	243	5,477	6,992	249,140	256,132	131	8,890
Agriculture	1,216			1,216	116,941	118,157		227
Residential real estate								
Sr lien	1,884	327	1,238	3,449	392,683	396,132		5,418
Jr lien	405	9	146	560	49,493	50,053	42	274
Total residential real estate	2,289	336	1,384	4,009	442,176	446,185	42	5,692
Consumer	392	24	3	419	28,506	28,925	3	269
Total loans excluded from ASC 310-30	5,496	2,354	7,362	15,212	1,019,989	1,035,201	176	17,965
Covered loans excluded from ASC 310-30	186	1,751	472	2,409	68,010	70,419		4,082
Non-covered loans excluded from ASC 310-30	5,310	603	6,890	12,803	951,979	964,782	176	13,883
Total loans excluded from ASC 310-30	5,496	2,354	7,362	15,212	1,019,989	1,035,201	176	17,965
Loans accounted for under ASC 310-30								
Commercial	668	523	6,239	7,430	71,498	78,928	6,239	
Commercial real estate	13,047	8,999	97,950	119,996	370,612	490,608	97,950	
Agriculture	656		2,637	3,293	43,287	46,580	2,637	

Residential real estate	3,396	721	5,052	9,169	92,217	101,386	5,052	
Consumer	171	18	597	786	11,961	12,747	597	
Total loans accounted for under ASC 310-30	17,938	10,261	112,475	140,674	589,575	730,249	112,475	
Covered loans accounted for under ASC 310-30	10,502	8,546	88,361	107,409	359,268	466,677	88,361	
Non-covered loans accounted for under ASC 310-30	7,436	1,715	24,114	33,265	230,307	263,572	24,114	
Total loans accounted for under ASC 310-30	17,938	10,261	112,475	140,674	589,575	730,249	112,475	
Total loans	$ 23,434	$ 12,615	$ 119,837	$ 155,886	$ 1,609,564	$ 1,765,450	$ 112,651	$ 17,965
Covered loans	$ 10,688	$ 10,297	$ 88,833	$ 109,818	$ 427,278	$ 537,096	$ 88,361	$ 4,082
Non-covered loans	12,746	2,318	31,004	46,068	1,182,286	1,228,354	24,290	13,883
Total loans	$ 23,434	$ 12,615	$ 119,837	$ 155,886	$ 1,609,564	$ 1,765,450	$ 112,651	$ 17,965

Table of Contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

March 31, 2013

	Total Loans December 31, 2012							
	30-59 days past due	60-89 days past due	Greater than 90 days past due	Total past due	Current	Total loans	Loans > 90 days past due and still accruing	Non-accrual
Loans excluded from ASC 310-30								
Commercial	$ 846	$ 148	$ 1,122	$ 2,116	$ 185,303	$ 187,419	$	$ 4,500
Commercial real estate								
Construction					3,915	3,915		
Acquisition development	1,948			1,948	8,485	10,433		75
Multifamily			34	34	13,387	13,421		237
Owner-occupied	97	106	1,074	1,277	56,490	57,767		3,365
Non owner-occupied		122	5,123	5,245	148,183	153,428		7,992
Total commercial real estate	2,045	228	6,231	8,504	230,460	238,964		11,669
Agriculture	33	40	11	84	125,590	125,674		251
Residential real estate								
Sr lien	1,261	119	1,825	3,205	373,243	376,448	22	5,815
Jr 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	
Total loans accounted for under ASC 310-30	13,372	5,041	146,761	165,174	656,847	822,021	146,761	
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)

March 31, 2013

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

	Total Loans March 31, 2013				
	Pass	Special Mention	Substandard	Doubtful	Total
Loans excluded from ASC 310-30					
Commercial	$ 148,360	$ 1,500	$ 34,643	$ 1,299	$ 185,802
Commercial real estate					
Construction	7,073				7,073
Acquisition/development	3,652		6,071		9,723
Multifamily	7,791	3,727	1,121	40	12,679
Owner-occupied	51,767	988	9,957		62,712
Non owner-occupied	120,233	27,726	15,663	323	163,945
Total commercial real estate	190,516	32,441	32,812	363	256,132
Agriculture	98,659	16,262	3,236		118,157
Residential real estate					
Sr lien	386,217	2,163	7,086	666	396,132
Jr lien	47,813	209	2,032	(1)	50,053
Total residential real estate	434,030	2,372	9,118	665	446,185
Consumer	28,650		264	11	28,925
Total loans excluded from ASC 310-30	900,215	52,575	80,073	2,338	1,035,201
Covered loans excluded from ASC 310-30	36,063	935	31,602	1,819	70,419
Non-covered loans excluded from ASC 310-30	864,152	51,640	48,471	519	964,782
Total loans excluded from ASC 310-30	900,215	52,575	80,073	2,338	1,035,201
Loans accounted for under ASC 310-30					
Commercial	29,098	2,074	46,516	1,240	78,928
Commercial real estate	152,416	57,672	279,329	1,191	490,608
Agriculture	34,321	1,510	10,749		46,580
Residential real estate	55,855	6,522	39,009		101,386
Consumer	10,928	634	1,185		12,747
Total loans accounted for under ASC 310-30	282,618	68,412	376,788	2,431	730,249
Covered loans accounted for under ASC 310-30	154,705	53,610	257,128	1,234	466,677
Non-covered loans accounted for under ASC 310-30	127,913	14,802	119,660	1,197	263,572

Total loans accounted for under ASC 310-30	282,618	68,412	376,788	2,431	730,249
Total loans	$ 1,182,833	$ 120,987	$ 456,861	$ 4,769	$ 1,765,450
Total covered	$ 190,768	$ 54,545	$ 288,730	$ 3,053	$ 537,096
Total non-covered	992,065	66,442	168,131	1,716	1,228,354
Total loans	$ 1,182,833	$ 120,987	$ 456,861	$ 4,769	$ 1,765,450

15

Table of Contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

March 31, 2013

	Total Loans December 31, 2012				
	Pass	Special Mention	Substandard	Doubtful	Total
Loans excluded from ASC 310-30					
Commercial	$ 137,537	$ 9,776	$ 38,696	$ 1,410	$ 187,419
Commercial real estate					
Construction	3,915				3,915
Acquisition/development	6,727		3,706		10,433
Multifamily	8,409	3,798	1,201	13	13,421
Owner-occupied	44,129	4,006	9,632		57,767
Non owner-occupied	104,307	29,394	19,411	316	153,428
Total commercial real estate	167,487	37,198	33,950	329	238,964
Agriculture	120,471	1,359	3,844		125,674
Residential real estate					
Sr lien	365,571	2,240	8,106	531	376,448
Jr 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 Topic 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 on non-accrual status and troubled debt

16

restructurings (TDR s) 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. As of March 31, 2013, the Company has measured $20.4 million of impaired loans using discounted cash flows and the loan s initial contractual effective interest rate and $7.9 million of impaired loans based on the fair value of the collateral less selling costs. $8.4 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. Inclusive of TDR s, the Company s unpaid principal balance of impaired loans was $44.2 million and $51.5 million at March 31, 2013 and December 31, 2012, respectively**.**

At March 31, 2013, the Company s unpaid principal balance and recorded investment of impaired loans was $44.2 million and $36.6 million, respectively. The commercial, commercial real estate and residential real estate segments held the largest concentrations of recorded investments related to impaired loans at March 31, 2013. The commercial and commercial real estate loan segments held the largest concentrations of impaired loans of $14.3 million and $13.4 million, respectively. Of the $14.3 million of recorded investment in the commercial real estate segment, $11.9 million was not covered by the FDIC loss sharing agreements, leaving $2.4 million covered by the FDIC loss sharing agreements. The $11.9 million of commercial real estate loans not covered by the FDIC loss sharing agreements were primarily comprised of four loans with a recorded investment totaling $9.2 million. In the commercial loan segment, $7.2 million of the $13.4 million total recorded investment was not covered by the FDIC loss sharing agreements and $6.1 million was covered by the FDIC loss sharing agreements. The non-covered recorded investment of the commercial segment was primarily the result of one loan with a recorded investment of $6.0 million. The residential real estate segment had impaired loans with a recorded investment of $8.2 million at March 31, 2013, of which $6.7 million were not covered by the FDIC loss sharing agreements and $1.5 million were covered by the FDIC loss sharing agreements. The consumer loan segment held eight loans, none of which were covered by the loss sharing agreements, with a recorded investment of principal balance of $0.5 million. These loans had a collective related allowance for loan losses allocated to them of $2.2 million at March 31, 2013. The table below shows additional information regarding impaired loans at March 31, 2013 (in thousands):

Table of Contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

March 31, 2013

	Impaired Loans March 31, 2013				
	Unpaid principal balance	Recorded investment	Allowance for loan losses allocated	Average recorded investment	Interest income recognized
With no related allowance recorded:					
Commercial	$ 10,596	$ 10,266	$	$ 11,033	$ 128
Commercial real estate					
Construction					
Acquisition/development					
Multifamily					
Owner-occupied	5,156	5,011		5,036	80
Non-owner occupied	2,040	1,842		1,862	5
Total commercial real estate	7,196	6,853		6,898	85
Agriculture					
Residential real estate					
Sr. lien 1-4 family closed end	371	364		364	1
Jr. lien 1-4 family closed end					
Total residential real estate	371	364		364	1
Consumer					
Total impaired loans with no related allowance recorded	18,163	17,483		18,295	214
With a related allowance recorded:					
Commercial	8,175	3,115	1,125	3,172	3
Commercial real estate					
Construction					
Acquisition/development	15	15		15	
Multifamily	194	191	40	196	
Owner-occupied	958	743	5	763	4
Non-owner occupied	7,434	6,512	326	6,544	3
Total commercial real estate	8,601	7,461	371	7,518	7
Agriculture	248	227	1	240	
Residential real estate					
Sr. lien 1-4 family closed end	7,439	6,757	710	6,791	21
Jr. lien 1-4 family open end	1,112	1,093	11	1,096	11
Total residential real estate	8,551	7,850	721	7,887	32
Consumer	488	469	13	479	4

Total impaired loans with a related allowance recorded	26,063	19,122	2,231	19,296	46
Total impaired loans	$ 44,226	$ 36,605	$ 2,231	$ 37,591	$ 260

At March 31, 2012, the Company s unpaid principal balance and recorded investment of impaired loans was $48.8 million and $36.9 million, respectively. The commercial real estate and commercial loan segments held the largest concentrations of impaired loans of $20.5 million and $12.2 million, respectively. Of the $20.5 million of recorded investment in the commercial real estate segment, $18.4 million was not covered by the FDIC loss sharing agreements, leaving $2.1 million covered by the FDIC loss sharing agreements. The $18.4 million of commercial real estate loans not covered by the FDIC loss sharing agreements were primarily comprised of 5 loans with an unpaid principal balance of $13.5 million. In the commercial loan segment, $8.7 million of the $12.2 million total recorded investment was not covered by the FDIC loss sharing agreements and $3.5 million was covered by the FDIC loss sharing agreements. The non-covered recorded investment of the commercial segment was primarily the result of one loan with a

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

March 31, 2013

recorded investment of $5.8 million, while the covered recorded investment of the commercial segment was primarily one loan with a recorded investment of $1.1 million. The residential real estate segment had impaired loans with a recorded investment of $4.1 million at March 31, 2012, of which $2.6 million were not covered by the FDIC loss sharing agreements and $1.6 million were covered by the FDIC loss sharing agreements. These loans had a collective related allowance for loan losses allocated to them of $0.8 million at March 31, 2012. The table below shows additional information regarding impaired loans at March 31, 2012 (in thousands):

	Impaired Loans March 31, 2012				
	Unpaid principal balance	Recorded investment	Allowance for loan losses allocated	Average recorded investment	Interest income recognized
With no related allowance recorded:					
Commercial	$ 20,904	$ 10,757	$	$ 13,003	$ 100
Commercial real estate					
Construction					
Acquisition/development	6,493	6,207		6,129	84
Multifamily	203	195			
Owner-occupied	3,064	2,797		2,608	14
Non owner-occupied	10,820	9,926		10,049	17
Total commercial real estate	20,580	19,125		18,786	115
Agriculture	32	31			
Residential real estate					
Sr. lien 1-4 family closed end	2,488	2,326		389	17
Jr. lien 1-4 family closed end	338	242			
Total residential real estate	2,826	2,568		389	17
Consumer	10	10			
Total impaired loans with no related allowance recorded	44,352	32,491		32,178	232
With a related allowance recorded:					
Commercial	1,492	1,492	277	2,206	26
Commercial real estate					
Construction					
Acquisition/development					
Multifamily					
Owner-occupied					
Non owner-occupied	1,394	1,334	81	1,358	
Total commercial real estate	1,394	1,334	81	1,358	
Agriculture					
Residential real estate					
Sr. lien 1-4 family closed end	1,587	1,579	426	1,603	
Jr. lien 1-4 family closed end					

Total residential real estate	1,587	1,579	426	1,603	
Consumer					
Total impaired loans with a related allowance recorded	4,473	4,405	784	5,167	26
Total impaired loans	$ 48,825	$ 36,896	$ 784	$ 37,345	$ 258

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

19

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

March 31, 2013

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 March 31, 2013 and December 31, 2012, the Company had $18.6 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, $5.9 million and $5.0 million, respectively, were covered by FDIC loss sharing agreements. Accruing TDR s in the commercial loan segment at March 31, 2013 were primarily comprised of nine loans with a recorded investment of $6.5 million that were not covered by FDIC loss sharing agreements and two loans with a recorded investment of $4.0 million that were covered by the FDIC loss sharing agreements. The commercial real estate TDR s were comprised of six non-covered loans with a recorded investment of $3.5 million and two covered TDR s with a recorded investment of $1.9 million. TDR s in the residential real estate segment included 41 loans not covered by loss sharing agreements with a recorded investment of $2.5 million. The remaining accruing TDR s were primarily made up of five loans from the consumer segment, with a recorded investment of $0.2 million, none of which were covered by the FDIC loss sharing agreements.

Non-accruing TDR s at March 31, 2013 and December 31, 2012 totaled $10.8 million and $12.9 million, respectively. Of these, $2.5 million were covered by the FDIC loss sharing agreements as of March 31, 2013 and $3.6 million were covered by the FDIC loss sharing agreements as of December 31, 2012. At March 31, 2013 the non-accruing commercial real estate segment was primarily comprised of five loans not covered by the FDIC loss sharing agreements with a recorded investment of $6.8 million and two loans covered by the FDIC loss sharing agreements with a recorded investment of $0.3 million. The residential real estate segment held five non-accruing TDR s not covered by the FDIC loss sharing agreements with a recorded investment of $0.6 million and two non-accruing TDR s covered by the FDIC loss sharing agreements with a recorded investment of $1.5 million. The commercial loan segment held non-accruing TDR s, which included two loans covered by the FDIC loss sharing agreements with a recorded investment of $0.8 million and four loans not covered by the FDIC loss sharing agreements with a recorded investment of $0.6 million. The remaining non-accruing TDR balance was primarily from the consumer segment, which included one loan not covered by the FDIC loss sharing agreements with a recorded investment of $0.3 million.

During the three months ended March 31, 2013, the Company restructured eight loans with a recorded investment of $2.5 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 Topic 310-30 are not considered troubled debt restructurings. The table below provides additional information related to accruing TDR s at March 31, 2013 and December 31, 2012 (in thousands):

	Accruing TDR s March 31, 2013			
	Recorded investment	**Average year-to-date recorded investment**	**Unpaid principal balance**	**Unfunded commitments to fund TDR s**
Commercial	$ 10,496	$ 11,246	$ 15,855	$ 3,938
Commercial real estate	5,425	5,451	529	1,426
Agriculture				
Residential real estate	2,514	2,517	2,523	21
Consumer	199	201	199	
Total	$ 18,634	$ 19,415	$ 19,106	$ 5,385

	Accruing TDR s December 31, 2012			
	Recorded investment	Average year-to-date recorded investment	Unpaid principal balance	Unfunded commitments to fund TDR s
Commercial	$ 11,474	$ 13,171	$ 11,794	$ 6,908
Commercial real estate	3,597	3,708	3,734	
Agriculture				
Residential real estate	2,458	2,469	2,460	35
Consumer	191	195	191	
Total	$ 17,720	$ 19,543	$ 18,179	$ 6,943

20

Table of Contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

March 31, 2013

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

	Non - Accruing TDR s			
	March 31, 2013		December 31, 2012	
	Covered	Non-covered	Covered	Non-covered
Commercial	$ 769	$ 561	$ 1,736	$ 1,215
Commercial real estate	298	6,762	313	6,823
Agriculture		21		21
Residential real estate	1,478	633	1,514	958
Consumer		269		291
Total	$ 2,545	$ 8,246	$ 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 three TDR s that had been modified within the past 12 months that defaulted on their restructured terms during the three months ended March 31, 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 comprised of a commercial loan, a commercial real estate loan, and a single family residential loan totaling $2.8 million.

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 Topic 310-30 resulted in the following changes in the carrying amount of accretable yield during the three months ended March 31, 2013 and 2012 (in thousands):

	March 31, 2013	March 31, 2012
Accretable yield beginning balance	$ 133,585	$ 186,494
Reclassification from non-accretable difference	16,134	10,653
Reclassification to non-accretable difference	(1,202)	(4,130)
Accretion	(21,302)	(26,549)
Accretable yield ending balance	$ 127,215	$ 166,468

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

	March 31, 2013	December 31, 2012
Contractual cash flows	$ 1,331,205	$ 1,444,279
Non-accretable difference	(473,741)	(488,673)
Accretable yield	(127,215)	(133,585)
Loans accounted for under ASC Topic 310-30	$ 730,249	$ 822,021

21

Table of Contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

March 31, 2013

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 months ended March 31, 2013 and 2012 (in thousands):

	Three months ended March 31, 2013					
	Commercial	Commercial real estate	Agriculture	Residential real estate	Consumer	Total
Beginning balance	$ 2,798	$ 7,396	$ 592	$ 4,011	$ 583	$ 15,380
Non 310-30 beginning balance	2,798	3,056	323	4,011	540	10,728
Charge-offs	(629)	(259)		(75)	(233)	(1,196)
Recoveries	9			14	77	100
Provision	697	(305)	201	406	109	1,108
Non 310-30 ending balance	2,875	2,492	524	4,356	493	10,740
310-30 beginning balance		4,340	269		43	4,652
Charge-offs		(2,812)				(2,812)
Recoveries						
Provision	411	(1,045)		986	(43)	309
310-30 ending balance	411	483	269	986	0	2,149
Ending balance	$ 3,286	$ 2,975	$ 793	$ 5,342	$ 493	$ 12,889
Ending allowance balance attributable to:						
Non 310-30 loans individually evaluated for impairment	$ 1,125	$ 371	$ 1	$ 721	$ 13	$ 2,231
Non 310-30 loans collectively evaluated for impairment	1,750	2,121	523	3,635	480	8,509
310-30 loans	411	483	269	986		2,149
Total ending allowance balance	$ 3,286	$ 2,975	$ 793	$ 5,342	$ 493	$ 12,889
Loans:						
Non 310-30 individually evaluated for impairment	$ 13,381	$ 14,314	$ 227	$ 8,214	$ 469	$ 36,605
Non 310-30 collectively evaluated for impairment	172,421	241,818	117,930	437,971	28,456	998,596
310-30 loans	78,928	490,608	46,580	101,386	12,747	730,249
Total loans	$ 264,730	$ 746,740	$ 164,737	$ 547,571	$ 41,672	$ 1,765,450

Table of Contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

March 31, 2013

	Three months ended March 31, 2012					
	Commercial	Commercial real estate	Agriculture	Residential real estate	Consumer	Total
Beginning balance	$ 2,959	$ 3,389	$ 282	$ 4,121	$ 776	$ 11,527
Non 310-30 beginning balance	1,597	3,389	154	3,423	776	9,339
Charge-offs	(2,632)	(2,172)		(34)	(392)	(5,230)
Recoveries		118		24	273	415
Provision	2,924	1,775	12	(50)	(104)	4,557
Non 310-30 ending balance	1,889	3,110	166	3,363	553	9,081
310-30 beginning balance	1,362		128	698		2,188
Charge-offs	(39)	(1,530)		(416)		(1,985)
Recoveries	(155)					(155)
Provision	1,314	2,061	(128)		32	3,279
310-30 ending balance	2,482	531		282	32	3,327
Ending balance	$ 4,371	$ 3,641	$ 166	$ 3,645	$ 585	$ 12,408
Ending allowance balance attributable to:						
Non 310-30 loans individually evaluated for impairment	$ 277	$ 81	$	$ 426	$	$ 784
Non 310-30 loans collectively evaluated for impairment	1,612	3,029	166	2,937	553	8,297
310-30 loans	2,482	531		282	32	3,327
Total ending allowance balance	$ 4,371	$ 3,641	$ 166	$ 3,645	$ 585	$ 12,408
Loans:						
Non 310-30 individually evaluated for impairment	$ 12,136	$ 19,497	$	$ 1,941	$	$ 33,574
Non 310-30 collectively evaluated for impairment	178,939	240,753	63,868	355,414	27,769	866,743
310-30 loans	127,674	808,639	66,828	159,651	38,373	1,201,165
Total loans	$ 318,749	$ 1,068,889	$ 130,696	$ 517,006	$ 66,142	$ 2,101,482

During the three months ended March 31, 2013, the Company re-estimated the expected cash flows of the loan pools accounted for under ASC Topic 310-30 utilizing the same cash flow methodology used at the time of acquisition. The re-measurement resulted in an impairment of $0.3 million, which was primarily driven by impairments of $1.0 million in the residential real estate segment, impairments of $0.4 million in the commercial segment. As a result of gross cash flow improvements, the re-measurement resulted in a reversal of $1.0 million of impairment expense in the commercial real estate segment, primarily due to reversals of impairment expense.

In evaluating the loan portfolio for an appropriate ALL level, non-impaired loans were grouped into segments based on broad characteristics such as primary use and underlying collateral. Within the segments, the portfolio was further disaggregated into classes of loans with similar attributes and risk characteristics for purposes of 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. During the three months ended March 31, 2013, the Company recorded $1.1 million of provision for loan losses for loans not accounted for under ASC Topic 310-30 primarily to provide for changes in credit risk inherent in the portfolio.

The Company charged off $1.1 million, net of recoveries, of non-ASC Topic 310-30 loans during the three months ended March 31, 2013. Commercial charge offs, net of recoveries, totaled $0.6 million, at the three months ended March 31, 2013, which was primarily the result of charge offs of $0.4 million and $0.2 million on two loans under the same relationship and the commercial real estate segment experienced $0.2 million of charge offs, net of recoveries, which was primarily due to one loan with an impairment of $0.1 million and four loans totaling an additional impairment of $0.1 million. Net charge-offs on consumer loans totaled $0.2 million, which was primarily related to overdrafts.

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

Table of Contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

March 31, 2013

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 three months ended March 31, 2013 and 2012 (in thousands):

	For the three month ended	
	March 31, 2013	March 31, 2012
Balance at beginning of period	$ 86,923	$ 223,402
Accretion	(4,669)	(3,687)
FDIC portion of charge-offs exceeding fair value marks	2,576	(218)
Reduction for claims filed	(9,132)	(32,361)
Balance at end of period	$ 75,698	$ 187,136

During the three months ended March 31, 2013, the Company recognized $4.7 million of negative accretion on the FDIC indemnification asset, and reduced the carrying value of the FDIC indemnification asset by $9.1 million as a result of claims filed with the FDIC as discussed below. 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. During the three months ended March 31, 2013, the Company submitted $9.1 million of loss share claims to the FDIC for the reimbursable portion of losses related to the Hillcrest Bank and Community Banks of Colorado covered assets incurred during the fourth quarter of 2012. 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 months ended March 31, 2013, we received $57.9 million in payments from the FDIC. Of these payments, $51.0 million were related to Community Banks of Colorado for losses incurred during the second and third quarters of 2012 and $6.9 million were related to Hillcrest Bank for losses that were incurred during the third and fourth quarters of 2012. Subsequent to March 31, 2013 the Company received $9.8 million related to claims filed during the fourth quarter of 2012 for losses incurred during the three months ended December 31, 2012 related to Community Banks of Colorado. The Company also filed loss share claims with the FDIC for $7.5 million and $8.1 million related to first quarter losses for Hillcrest Bank and Community Banks of Colorado, respectively.

Note 7 Other Real Estate Owned

A summary of the activity in the OREO balances during the three months ended March 31, 2013 and 2012 is as follows (in thousands):

	For the three months ended March 31,	
	2013	2012
Beginning balance	$ 94,808	$ 120,636
Transfers from loan portfolio, at fair value	17,043	40,899
Impairments	(4,600)	(5,089)
Sales	(25,726)	(12,676)
Gain on sale of OREO	1,805	849

Ending balance	$ 83,330	$ 144,619

The OREO balance of $83.3 million at March 31, 2013 includes the interests of several outside participating banks totaling $4.9 million, for which an offsetting liability is recorded in other liabilities and excludes $10.6 million 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 $83.3 million of OREO at March 31, 2013, $45.9 million, or 55.0%, 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 three months ended March 31, 2013, the Company sold $25.7 million of OREO and realized net gains on these sales of $1.8 million, and during the three months ended March 31, 2012, the Company sold $12.7 million of OREO and realized net gains of $849 thousand.

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

March 31, 2013

Note 8 Deposits

As of March 31, 2013 and December 31, 2012, deposits totaled $4.1 billion and $4.2 billion, respectively. Time deposits decreased slightly from $1.8 billion at December 31, 2012 to $1.7 billion at March 31, 2013. The following table summarizes the Company s time deposits, based upon contractual maturity, at March 31, 2013 and December 31, 2012, by remaining maturity (in thousands):

	March 31, 2013		December 31, 2012	
	Balance	Weighted Average Rate	Balance	Weighted Average Rate
Three months or less	$ 266,529	0.67%	$ 356,446	0.78%
Over 3 months through 6 months	320,963	0.65%	259,097	0.68%
Over 6 months through 12 months	615,791	0.63%	583,209	0.67%
Over 12 months through 24 months	274,977	0.90%	373,283	0.88%
Over 24 months through 36 months	116,044	1.66%	111,599	1.77%
Over 36 months through 48 months	39,758	1.69%	43,967	1.83%
Over 48 months through 60 months	17,249	1.44%	19,278	1.44%
Thereafter	5,183	2.03%	5,839	2.32%
Total time deposits	$ 1,656,494	0.79%	$ 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 deposit, without penalty, unless the depositor accepts new terms. At March 31, 2013 and December 31, 2012, the Company had approximately $132.9 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 March 31,	
	2013	2012
Interest bearing demand deposits	$ 199	$ 427
Money market accounts	835	1,092
Savings accounts	60	85
Time deposits	3,417	7,999
Total	$ 4,511	$ 9,603

Note 9 Regulatory Capital

At March 31, 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 (dollars in thousands):

	March 31, 2013				
	Actual		Required to be considered well capitalized (1)		Required to be considered adequately capitalized
	Ratio	Amount	Ratio	Amount	