

National Bank Holdings Corp  
Form 10-Q  
November 09, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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FORM 10-Q

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(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, 2015

OR

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

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

Commission File Number: 001-35654

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NATIONAL BANK HOLDINGS CORPORATION

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices) (Zip Code)

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

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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

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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 9, 2015, the registrant had outstanding 30,327,598 shares of Class A voting common stock, each with \$0.01 par value per share, excluding 1,007,432 shares of restricted Class A common stock issued but not yet vested.

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2015 and 2014

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

- our ability to execute our business strategy, as well as changes in our business strategy or development plans;
- business and economic conditions generally and in the financial services industry;
- economic, market, operational, liquidity, credit and interest rate risks associated with our business;
- effects of any changes in trade, monetary and fiscal policies and laws, including the interest rate policies of the Federal Reserve Board;
- changes imposed by regulatory agencies to increase our capital to a level greater than the current level required for well-capitalized financial institutions (including the impact of the joint final rules promulgated by the Federal Reserve Board, Office of the Comptroller of the Currency and the FDIC revising certain regulatory capital requirements to align with the Basel III capital standards and meet certain requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act);
- effects of inflation, as well as, interest rate, securities market and monetary supply fluctuations;
- changes in the economy or supply-demand imbalances affecting local real estate values;
- changes in consumer spending, borrowings and savings habits;
- our ability to identify potential candidates for, obtain regulatory approval for, and consummate, acquisitions of financial institutions on attractive terms, or at all;
- our ability to integrate acquisitions and to achieve synergies, operating efficiencies and/or other expected benefits within expected time-frames, or at all, or within expected cost projections, and to preserve the goodwill of acquired financial institutions;
- our ability to successfully convert core operating systems, at the estimated cost, without significant business interruption and to realize the anticipated benefits;
  - our ability to achieve organic loan and deposit growth and the composition of such growth;
- changes in sources and uses of funds, including loans, deposits and borrowings;
- increased competition in the financial services industry, nationally, regionally or locally, resulting in, among other things, lower returns;
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the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters;

- the trading price of shares of the Company's stock;
- our ability to realize deferred tax assets or the need for a valuation allowance;
- 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;
- 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;

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- changes in estimates of future loan reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements;
- widespread natural and other disasters, dislocations, political instability, acts of war or terrorist activities, cyberattacks or international hostilities through impacts on the economy and financial markets generally or on us or our counterparties specifically;
- impact of reputational risk on such matters as business generation and retention;
- other risks and uncertainties listed from time to time in the Company's reports and documents filed with the Securities and Exchange Commission; and
- our success at managing the risks involved in the foregoing items.

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



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## PART I: FINANCIAL INFORMATION

## Item 1: FINANCIAL STATEMENTS

## NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Financial Condition (Unaudited)

(In thousands, except share and per share data)

	September 30, 2015	December 31, 2014
<b>ASSETS</b>		
Cash and due from banks	\$ 58,859	\$ 61,461
Due from banks	84,204	185,463
Interest bearing bank deposits	10,093	10,055
Cash and cash equivalents	153,156	256,979
Securities purchased under agreements to resell	50,000	—
Investment securities available-for-sale (at fair value)	1,244,267	1,479,214
Investment securities held-to-maturity (fair value of \$450,148 and \$534,637 at September 30, 2015 and December 31, 2014, respectively)	445,069	530,590
Non-marketable securities	27,049	27,045
Loans (including covered loans of \$155,056 and \$193,697 at September 30, 2015 and December 31, 2014, respectively)	2,523,128	2,162,409
Allowance for loan losses	(23,827)	(17,613)
Loans, net	2,499,301	2,144,796
Loans held for sale	11,246	5,146
Federal Deposit Insurance Corporation (“FDIC”) indemnification asset, net	18,155	39,082
Other real estate owned	19,034	29,120
Premises and equipment, net	104,452	106,341
Goodwill	59,630	59,630
Intangible assets, net	13,799	16,883
Other assets	142,891	124,820
Total assets	\$ 4,788,049	\$ 4,819,646
<b>LIABILITIES AND SHAREHOLDERS’ EQUITY</b>		
<b>Liabilities:</b>		
<b>Deposits:</b>		
Non-interest bearing demand deposits	\$ 820,269	\$ 732,580
Interest bearing demand deposits	408,341	386,121
Savings and money market	1,390,054	1,290,436
Time deposits	1,255,973	1,357,051
Total deposits	3,874,637	3,766,188
Securities sold under agreements to repurchase	169,488	133,552
Federal Home Loan Bank advances	40,000	40,000

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Due to FDIC	38,712	42,011
Other liabilities	44,019	43,320
Total liabilities	4,166,856	4,025,071
Shareholders' equity:		
Common stock, par value \$0.01 per share: 400,000,000 shares authorized; 52,380,124 and 52,223,460 shares issued; 30,318,684 and 38,884,953 shares outstanding at September 30, 2015 and December 31, 2014, respectively		
	513	512
Additional paid in capital	995,440	993,212
Retained earnings	36,778	40,528
Treasury stock of 21,104,160 and 12,383,109 shares at September 30, 2015 and December 31, 2014, respectively, at cost	(420,274)	(245,516)
Accumulated other comprehensive income, net of tax	8,736	5,839
Total shareholders' equity	621,193	794,575
Total liabilities and shareholders' equity	\$ 4,788,049	\$ 4,819,646

See accompanying notes to the unaudited consolidated interim financial statements.

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## NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Operations (Unaudited)

(In thousands, except share and per share data)

	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
Interest and dividend income:				
Interest and fees on loans	\$ 32,650	\$ 33,403	\$ 96,797	\$ 99,704
Interest and dividends on investment securities	9,144	11,749	29,480	37,523
Dividends on non-marketable securities	319	245	963	904
Interest on interest-bearing bank deposits	198	95	675	251
Total interest and dividend income	42,311	45,492	127,915	138,382
Interest expense:				
Interest on deposits	3,424	3,563	10,274	10,625
Interest on borrowings	205	34	625	92
Total interest expense	3,629	3,597	10,899	10,717
Net interest income before provision for loan losses	38,682	41,895	117,016	127,665
Provision for loan losses	3,710	1,515	7,021	4,944
Net interest income after provision for loan losses	34,972	40,380	109,995	122,721
Non-interest income:				
FDIC indemnification asset amortization	(5,798)	(6,252)	(20,751)	(19,819)
FDIC loss sharing income (expense)	(3)	(943)	325	(2,549)
Service charges	3,953	4,148	10,977	11,558
Bank card fees	2,808	2,615	8,057	7,548
Gain on sales of mortgages, net	628	264	1,574	674
Bank-owned life insurance income	421	—	1,217	—
Other non-interest income	475	836	2,568	2,557
Bargain purchase gain	1,048	—	1,048	—
Gain on previously charged-off acquired loans	46	147	143	675
OREO related write-ups and other income	183	799	871	2,777
Total non-interest income	3,761	1,614	6,029	3,421
Non-interest expense:				
Salaries and benefits	20,454	21,058	61,687	62,260
Occupancy and equipment	6,098	6,155	18,256	18,838
Telecommunications and data processing	2,933	2,848	8,573	8,978
Marketing and business development	1,016	757	3,277	3,542
FDIC deposit insurance	1,031	1,029	3,104	3,109
ATM/debit card expenses	924	799	2,470	2,312
Professional fees	924	854	3,006	2,180

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Other non-interest expense	2,831	2,540	7,566	7,698
Other real estate owned expenses	468	594	456	3,629
Problem loan expenses	1,115	1,267	2,637	3,034
Intangible asset amortization	1,359	1,336	4,031	4,008
Gain from the change in fair value of warrant liability	(476)	(1,256)	(358)	(2,734)
Banking center closure related expenses	—	—	1,089	—
Total non-interest expense	38,677	37,981	115,794	116,854
Income before income taxes	56	4,013	230	9,288
Income tax (benefit) expense	(1,580)	676	(1,311)	2,391
Net income	\$ 1,636	\$ 3,337	\$ 1,541	\$ 6,897
Income per share—basic	\$ 0.05	\$ 0.08	\$ 0.04	\$ 0.16
Income per share—diluted	\$ 0.05	\$ 0.08	\$ 0.04	\$ 0.16
Weighted average number of common shares outstanding:				
Basic	32,681,181	41,837,485	35,605,180	43,403,791
Diluted	32,762,516	41,841,685	35,605,701	43,423,273

See accompanying notes to the unaudited consolidated interim financial statements.

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## NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Comprehensive Income (Unaudited)

(In thousands)

	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
Net income	\$ 1,636	\$ 3,337	\$ 1,541	\$ 6,897
Other comprehensive income, net of tax:				
Securities available-for-sale:				
Net unrealized gains (losses) arising during the period, net of tax (expense) benefit of (\$2,981) and \$1,480 for the three months ended September 30, 2015 and 2014, respectively; and net of tax expense of (\$2,981) and (\$6,824) for the nine months ended, September 30, 2015 and 2014, respectively	4,848	(2,407)	4,848	11,099
Less: amortization of net unrealized holding gains to income, net of tax benefit of \$342 and \$475 for the three months ended September 30, 2015 and 2014, respectively; and net of tax benefit of \$1,120 and \$1,505 for the nine months ended September 30, 2015 and 2014, respectively	(556)	(774)	(1,951)	(2,447)
Other comprehensive income (loss)	4,292	(3,181)	2,897	8,652
Comprehensive income	\$ 5,928	\$ 156	\$ 4,438	\$ 15,549

See accompanying notes to the unaudited consolidated interim financial statements.

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## NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

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

Nine months Ended September 30, 2015 and 2014

(In thousands, except share and per share data)

	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Accumulated other comprehensive income (loss), net	Total
Balance, December 31, 2013	\$ 512	\$ 990,216	\$ 39,966	\$ (126,146)	\$ (6,756)	\$ 897,792
Net income	—	—	6,897	—	—	6,897
Stock-based compensation	—	2,750	—	—	—	2,750
Issuance of stock under equity compensation plan, including tax benefit of \$4	—	(368)	—	—	—	(368)
Change in corporate tax benefit related to stock-based compensation	—	(11)	—	—	—	(11)
Repurchase of 5,085,458 shares	—	—	—	(100,084)	—	(100,084)
Dividends paid (\$.15 per share)	—	—	(6,666)	—	—	(6,666)
Other comprehensive income	—	—	—	—	8,652	8,652
Balance, September 30, 2014	\$ 512	\$ 992,587	\$ 40,197	\$ (226,230)	\$ 1,896	\$ 808,962
Balance, December 31, 2014	\$ 512	\$ 993,212	\$ 40,528	\$ (245,516)	\$ 5,839	\$ 794,575
Net income	—	—	1,541	—	—	1,541
Stock-based compensation	—	2,514	—	—	—	2,514
Issuance of stock under purchase and equity compensation plans, including tax benefit of \$8	1	(286)	—	290	—	5
Repurchase of 8,645,836 shares	—	—	—	(175,048)	—	(175,048)
Dividends paid (\$.15 per share)	—	—	(5,291)	—	—	(5,291)
Other comprehensive income	—	—	—	—	2,897	2,897
Balance, September 30, 2015	\$ 513	\$ 995,440	\$ 36,778	\$ (420,274)	\$ 8,736	\$ 621,193

See accompanying notes to the unaudited consolidated interim financial statements.

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## NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	For the nine months ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net income	\$ 1,541	\$ 6,897
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Provision for loan losses	7,021	4,944
Depreciation and amortization	11,613	12,144
Current income tax receivable	(2,216)	20,364
Deferred income tax asset	(6,585)	(18,445)
Discount accretion, net of premium amortization on securities	3,229	3,828
Loan accretion	(38,073)	(48,978)
Net gain on sale of mortgage loans	(1,574)	(674)
Origination of loans held for sale, net of repayments	(78,760)	(29,622)
Proceeds from sales of loans held for sale	74,234	30,106
Bank-owned life insurance income	(1,217)	—
Amortization of indemnification asset	20,751	19,819
Gain on the sale of other real estate owned, net	(2,342)	(2,686)
Impairment on other real estate owned	799	1,789
Impairment on fixed assets related to banking center closures	1,089	—
Loss (gain) on sale of fixed assets	6	(123)
Bargain purchase gain	(1,048)	—
Stock-based compensation	2,514	2,750
Decrease in due to FDIC, net	(3,299)	(6,762)
Increase in other assets	(2,109)	(740)
(Decrease) increase in other liabilities	(799)	19,525
Net cash (used in) provided by operating activities	(15,225)	14,136
Cash flows from investing activities:		
Proceeds from redemption of FHLB stock	493	633
(Purchases of) proceeds from FRB stock	(238)	9,390
Proceeds from maturities of investment securities held-to-maturity	81,877	80,052
Proceeds from maturities of investment securities available-for-sale	242,159	246,422
Proceeds from sales of investment securities available-for-sale	29,748	—
Increase in securities purchased under agreements to resell	(50,000)	—
Net increase in loans	(272,019)	(274,575)
Purchase of premises and equipment, net	(3,623)	(894)
Purchase of bank-owned life insurance	—	(40,000)
Proceeds from sales of loans	11,702	3,607
Proceeds from sales of other real estate owned	14,260	27,656



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Increase in FDIC indemnification asset	176	215
Net cash activity from acquisition	22,832	—
Net cash provided by investing activities	77,367	52,506
Cash flows from financing activities:		
Net decrease in deposits	(21,694)	(40,851)
Increase in repurchase agreements	35,936	10,399
Issuance of stock under purchase and equity compensation plans	(148)	(383)
Proceeds from exercise of stock options	160	—
Excess tax benefit on stock-based compensation	8	4
Payment of dividends	(5,179)	(6,528)
Repurchase of shares	(175,048)	(100,084)
Net cash used in financing activities	(165,965)	(137,443)
Decrease in cash and cash equivalents	(103,823)	(70,801)
Cash and cash equivalents at beginning of the year	256,979	189,460
Cash and cash equivalents at end of period	\$ 153,156	\$ 118,659
Supplemental disclosure of cash flow information during the period:		
Cash paid for interest	\$ 9,913	\$ 10,168
Net tax payments	\$ 7,467	\$ 489
Supplemental schedule of non-cash investing activities:		
Loans transferred to other real estate owned at fair value	\$ 1,143	\$ 2,519
FDIC submissions transferred to (other liabilities) other assets	\$ (2,644)	\$ 181
Loans purchased but not settled	\$ —	\$ 29,906

See accompanying notes to the unaudited consolidated interim financial statements.

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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

September 30, 2015

Note 1 Basis of Presentation

National Bank Holdings Corporation ("NBHC" or the "Company") is a bank holding company that was incorporated in the State of Delaware in June 2009 with the intent to acquire and operate financial services franchises and other complementary businesses in targeted markets. The Company is headquartered immediately south of Denver, in Greenwood Village, Colorado, and its primary operations are conducted through its wholly owned subsidiary, NBH Bank, N.A. (the "Bank"). The Company provides a variety of banking products to both commercial and consumer clients through a network of 97 banking centers located in Colorado, the greater Kansas City area and Texas, and through on-line and mobile banking products.

The accompanying interim unaudited consolidated financial statements serve to update the National Bank Holdings Corporation Annual Report on Form 10-K for the year ended December 31, 2014 and include the accounts of the Company and the Bank. The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and where applicable, with general practices in the banking industry or guidelines prescribed by bank regulatory agencies. However, they may not include all information and notes necessary to constitute a complete set of financial statements under GAAP applicable to annual periods and accordingly should be read in conjunction with the financial information contained in the Company's most recent Form 10-K. The unaudited consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results presented. All such adjustments are of a normal recurring nature. All significant intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications of prior years' amounts are made whenever necessary to conform to current period presentation. The results of operations for the interim period is not necessarily indicative of the results that may be expected for the full year or any other interim period. All amounts are in thousands, except share data, or as otherwise noted.

GAAP requires management to make estimates that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. By their nature, estimates are based on judgment and available information. Management has made significant estimates in certain areas, such as the amount and timing of expected cash flows from assets, the valuation of 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 valuation of stock-based compensation, the fair values of financial instruments, the allowance for loan losses ("ALL"), and contingent liabilities. Because of the inherent uncertainties associated with any estimation process and future changes in market and economic conditions, it is possible that actual results could differ significantly from these estimates.

The Company's significant accounting policies followed in the preparation of the unaudited consolidated financial statements are disclosed in note 2 of the audited financial statements and notes for the year ended December 31, 2014 and are contained in the Company's Annual Report on Form 10-K. There have not been any significant changes to the application of significant accounting policies since December 31, 2014, with the exception of the following:

Income taxes - For the three and nine months ended September 30, 2015, the Company has utilized the discrete effective tax rate method, as allowed by Accounting Standards Codification (“ASC”) 740-270-30-18, “Income Taxes-Interim Reporting,” to calculate its interim income tax provision. The discrete method is applied when the application of the estimated annual effective tax rate is impractical because it is not possible to reliably estimate the annual effective tax rate. The discrete method treats the year to date period as if it was the annual period and determines the income tax expense or benefit on that basis. The Company believes that, at this time, the use of this discrete method is more appropriate than the annual effective tax rate method as the estimated annual effective tax rate method is not reliable due to (1) the levels of tax-exempt income in relation to pre-tax income, (2) the impact of the warrant liability which is non-taxable and (3) the impact and variability of FDIC Indemnification amortization on our pre-tax income.

The income tax rate for the three and nine months ended September 30, 2015 was (2,821.4)% and (570.0)%, respectively, based on application of the discrete approach. The quarterly tax rate differs from the federal statutory rate primarily due to interest income from tax-exempt lending, tax-exempt bank-owned life insurance income, non-taxable warrant liability fair value adjustment and the relationship of each of these items to pre-tax income. The three and nine month tax rates for 2015 are lower than prior period tax rates primarily because of the lower levels of pre-tax income in relation to the larger amounts of non-taxable income. Increased amounts from tax-exempt lending, bank-owned life insurance income, the change in the fair value of the warrant liability, and the bargain

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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

September 30, 2015

purchase gain for financial reporting purposes together exceeded the amount of pre-tax income and generated the tax benefit for the three and nine months ended September 30, 2015.

We are currently in an open IRS examination for the tax year 2012.

Note 2 Recent Accounting Pronouncements

Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure - In January 2014, the FASB issued Accounting Standards Update ("ASU") 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. This update amends ASC Topic 310-40 and clarifies that an "in substance repossession or foreclosure" has occurred upon the creditor obtaining either legal title to the property upon completion of foreclosure, or the borrower conveying all interest in the property through completion of a deed in lieu of foreclosure. Upon occurrence, the creditor derecognizes the loan receivable and recognizes the collateralized real estate property. The amendments in the ASU became effective for the Company for interim and annual periods beginning after December 15, 2014. Early adoption was permitted. The adoption of this standard did not have a material impact on the Company's consolidated financial statements, results of operations or liquidity.

Revenue from Contracts with Customers - In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." This update supersedes revenue recognition requirements in Topic 605, Revenue Recognition, including most industry-specific revenue recognition guidance in the FASB Accounting Standards Codification. The new guidance stipulates that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides specific steps that entities should apply in order to achieve this principle. In July 2015, the FASB voted to approve deferring the effective date by one year (i.e., interim and annual reporting periods beginning after December 15, 2017). Early adoption is permitted, but not before the original effective date (i.e., interim and annual reporting periods beginning after December 15, 2016). The Company is in the process of evaluating the impact of the ASU's adoption on the Company's consolidated financial statements.

Simplifying the Accounting for Measurement-Period Adjustments - In September 2015, the FASB issued ASU 2015-16, Simplifying the Accounting for Measurement-Period Adjustments. This update amends ASC Topic 805-10 and clarifies that an acquirer must recognize adjustments to provisional amounts that are identified during the

measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this ASU will become effective for the Company for interim and annual periods beginning after December 15, 2015. Early adoption is permitted. The Company adopted this ASU on September 30, 2015 with no material impact to the consolidated financial statements.

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## Note 3 Acquisition Activities

On August 1, 2015, the Company completed the acquisition of Pine River Bank Corporation (“Pine River”) for \$9.5 million cash. The Company determined that this acquisition constitutes a business combination as defined in ASC Topic 805, Business Combinations. Accordingly, as of the date of the acquisition, the Company recorded the assets acquired and liabilities assumed at fair value. The Company determined fair values in accordance with the guidance provided in ASC Topic 820, Fair Value Measurements and Disclosures. Fair value is established by discounting the expected future cash flows with a market discount rate for like maturities and risk instruments. The estimation of expected future cash flows, market conditions and other future events and actual results could differ materially. The determination of the initial fair values of fixed assets, loans, and OREO involve a high degree of judgment and complexity. The Company has made the determination of fair value using the best information available at the time; however, the assumptions used are subject to change and if changed, could have a material effect on the Company's financial position and results of operations.

The table below summarizes the net assets acquired (at fair value) and consideration transferred in connection with the Pine River acquisition:

Assets:	
Cash and due from banks	\$ 32,314
Investment securities available-for-sale (at fair value)	31,866
Non-marketable securities	259
Loans, net	64,279
Other real estate owned	1,488
Premises and equipment, net	3,164
Core deposit intangible asset	948
Other assets	7,749
Total assets acquired	\$ 142,067
Liabilities:	
Deposits:	
Non-interest bearing demand deposits	\$ 41,432
Interest bearing demand deposits	19,632
Savings and money market	35,460
Time deposits	33,619

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Total deposits	130,143
Other liabilities	1,394
Total liabilities assumed	\$ 131,537
Identifiable net assets acquired	\$ 10,530
Consideration:	
Cash	\$ 9,482
Gain on bargain purchase	\$ 1,048

In connection with the Pine River acquisition, the Company recognized approximately \$1.0 million of bargain purchase gain and a \$0.9 million core deposit intangible. The core deposit intangible will be amortized on a straight-line basis over seven years. The bargain purchase gain of \$1.0 million, recorded at the date of acquisition, represents the amount by which the acquisition-date fair value of the net identifiable assets acquired exceeded the fair value of the consideration transferred.

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The fair value of the acquired assets and liabilities noted in the table may change during the provisional period, which may last up to twelve months subsequent to the acquisition date. The Company may obtain additional information to refine the valuation of the acquired assets and liabilities and adjust the recorded fair value, although such adjustments are not expected to be significant. Adjustments recorded to the acquired assets and liabilities will be applied prospectively in accordance with ASU 2015-16.

At the date of acquisition, none of the loans were accounted for under the guidance of ASC Topic 310-30, and the gross contractual amounts receivable, inclusive of all principal and interest, was \$79.0 million. The Company's best estimate of the contractual cash flows for loans not expected to be collected was \$1.4 million and recorded fair value was \$64.3 million.

The results of Pine River are included in the results of the Company subsequent to the acquisition date. Included in other non-interest expenses in the Company's consolidated statements of operations for the nine months ending September 30, 2015 were \$0.5 million of one-time expenses related to the acquisition of Pine River.

The following pro forma information combines the historical results of Pine River and the Company. The pro forma financial information does not include the potential impacts of possible business model changes, current market conditions, revenue enhancements, expense efficiencies, or other factors. The pro forma information below reflects adjustments made to exclude the impact of the bargain purchase gain of \$1.0 million, acquisition-related expenses of \$0.5 million, amortization and accretion of purchase discounts and premiums of \$75 thousand, and amortization of acquired identifiable intangibles of \$23 thousand during the nine month period ended September 30, 2015. The pro forma information is theoretical in nature and not necessarily indicative of future consolidated results of operations of the Company or the consolidated results of operations which would have resulted had the Company acquired Pine River during the periods presented.

If the Pine River acquisition had been completed on January 1, 2014, total revenue would have been approximately \$136.7 million and \$146.2 million for the nine months ended September 30, 2015 and September 30, 2014, respectively. Net income would have been approximately \$0.9 million and \$6.6 million, respectively, for the same periods. Basic and dilutive earnings per share would have been \$0.03 and \$0.15, respectively, for the same periods.



The Company has determined that it is impractical to report the amounts of revenue and earnings of legacy Pine River since the acquisition date due to the integration of operations shortly after the acquisition date. Accordingly, reliable and separate complete revenue and earnings information is no longer available. In addition, such amounts would require significant estimates related to the proper allocation of merger cost savings that cannot be objectively made.

#### Note 4 Investment Securities

The Company's investment securities portfolio is comprised of available-for-sale and held-to-maturity investment securities. These investment securities totaled \$1.7 billion at September 30, 2015 and were comprised of \$1.2 billion of available-for-sale securities and \$0.5 billion of held-to-maturity securities. At December 31, 2014, investment securities totaled \$2.0 billion and were comprised of \$1.5 billion of available-for-sale securities and \$0.5 billion of held-to-maturity securities.

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## NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

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## Available-for-sale

Available-for-sale investment securities are summarized as follows as of the dates indicated:

	September 30, 2015			
	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	\$ 327,281	\$ 9,091	\$ —	\$ 336,372
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	911,902	6,015	(12,560)	905,357
Other securities	2,538	—	—	2,538
Total	\$ 1,241,721	\$ 15,106	\$ (12,560)	\$ 1,244,267

	December 31, 2014			
	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	\$ 395,244	\$ 9,014	\$ (43)	\$ 404,215
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	1,088,834	7,464	(21,718)	1,074,580
Other securities	419	—	—	419
Total	\$ 1,484,497	\$ 16,478	\$ (21,761)	\$ 1,479,214

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At September 30, 2015 and December 31, 2014, mortgage-backed securities represented primarily all of the Company's available-for-sale investment portfolio and all mortgage-backed securities were backed by government sponsored enterprises ("GSE") collateral such as Federal Home Loan Mortgage Corporation ("FHLMC") and Federal National Mortgage Association ("FNMA"), and the government sponsored agency Government National Mortgage Association ("GNMA").

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

	September 30, 2015				Total Fair value	Unrealized losses
	Less than Fair value	12 months Unrealized losses	12 months Fair value	or more Unrealized losses		
Mortgage-backed securities ("MBS"):						
Residential mortgage 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	—	—	623,372	(12,560)	623,372	(12,560)
Total	\$ —	\$ —	\$ 623,372	\$ (12,560)	\$ 623,372	\$ (12,560)

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## NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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	December 31, 2014				Total	
	Less than 12 months Fair value	Unrealized losses	12 months or more 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	\$ —	\$ 89,749	\$ (43)	\$ 89,766	\$ (43)
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	88,854	(2,053)	667,368	(19,665)	756,222	(21,718)
Total	\$ 88,871	\$ (2,053)	\$ 757,117	\$ (19,708)	845,988	\$ (21,761)

Management evaluated all of the available-for-sale securities in an unrealized loss position and concluded that no other-than-temporary impairment existed at September 30, 2015 or December 31, 2014. The unrealized losses in the Company's investments issued or guaranteed by U.S. government agencies or sponsored enterprises at September 30, 2015 were caused by changes in interest rates. The portfolio included 52 securities, having an aggregate fair value of \$0.6 billion, which were in an unrealized loss position at September 30, 2015, compared to 62 securities, with a fair value of \$0.8 billion, at December 31, 2014.

The Company has 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.

Available-for-sale securities acquired from the Pine River acquisition totaled \$31.9 million at the date of acquisition. Shortly after the acquisition date, the Company sold \$29.8 million of the acquired securities and recorded no gain or loss.

Certain securities are pledged 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 \$0.3 billion at September 30, 2015 and \$0.3 billion at December 31, 2014. The increase in pledged available-for-sale investment securities was primarily attributable to an increase in average deposit account balances and client repurchase account balances during the nine months ended September 30, 2015. Certain investment securities may also be pledged as collateral for the line of credit at the Federal Home Loan Bank ("FHLB") of Des Moines; however, no investment securities were pledged for this purpose at September 30, 2015 or December 31, 2014.

Mortgage-backed securities do not have a single maturity date and actual maturities 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 3.5 years as of September 30, 2015 and 3.5 years as of December 31, 2014. This estimate is based on assumptions and actual results may differ. Other securities of \$1.7 million have a maturity date between October 2015 and October 2017. Other securities of \$0.8 million have no stated contractual maturity date as of September 30, 2015.

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## NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

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## Held-to-maturity

At September 30, 2015 and December 31, 2014, the Company held \$445.1 million and \$530.6 million of held-to-maturity investment securities, respectively. Held-to-maturity investment securities are summarized as follows as of the dates indicated:

	September 30, 2015			Fair value
	Amortized cost	Gross unrealized gains	Gross unrealized losses	
Mortgage-backed securities ("MBS"):				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	\$ 353,026	\$ 5,801	\$ (15)	\$ 358,812
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	92,043	358	(1,065)	91,336
Total investment securities held-to-maturity	\$ 445,069	\$ 6,159	\$ (1,080)	\$ 450,148

	December 31, 2014			Fair value
	Amortized cost	Gross unrealized gains	Gross unrealized losses	
Mortgage-backed securities ("MBS"):				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	\$ 422,622	\$ 5,773	\$ (72)	\$ 428,323
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	107,968	217	(1,871)	106,314
Total investment securities held-to-maturity	\$ 530,590	\$ 5,990	\$ (1,943)	\$ 534,637

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

	September 30, 2015					
	Less than 12 months		12 months or more		Total	Unrealized Losses
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	
Mortgage-backed securities (“MBS”):						
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	\$ 973	\$ (3)	\$ 1,046	\$ (12)	\$ 2,019	\$ (15)
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	—	—	48,258	(1,065)	48,258	(1,065)
Total	\$ 973	\$ (3)	\$ 49,304	\$ (1,077)	\$ 50,277	\$ (1,080)

	December 31, 2014					
	Less than 12 months		12 months or more		Total	Unrealized Losses
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	
Mortgage-backed securities (“MBS”):						
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	\$ —	\$ —	\$ 35,139	\$ (72)	\$ 35,139	\$ (72)
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	—	—	75,139	(1,871)	75,139	(1,871)
Total	\$ —	\$ —	\$ 110,278	\$ (1,943)	\$ 110,278	\$ (1,943)

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The portfolio included 7 securities, having an aggregate fair value of \$50.3 million, which were in an unrealized loss position at September 30, 2015, compared to 12 securities, with a fair value of \$110.3 million, at December 31, 2014.

Management evaluated all of the held-to-maturity securities in an unrealized loss position and concluded that no other-than-temporary impairment existed at September 30, 2015 or December 31, 2014. The unrealized losses in the Company's investments issued or guaranteed by U.S. government agencies or sponsored enterprises at September 30, 2015 were caused by changes in interest rates. The Company has 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 carrying value of held-to-maturity investment securities pledged as collateral totaled \$120.1 million and \$88.3 million at September 30, 2015 and December 31, 2014, 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, 2015 and December 31, 2014 was 3.5 years and 3.4 years, respectively. This estimate is based on assumptions and actual results may differ.

Note 5 Loans

The loan portfolio is comprised of 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, Hillcrest Bank and Bank Midwest in 2010, and Pine River in 2015. The loans acquired from Pine River totaled \$64.3 million and were accounted for in accordance with ASC 805, and classified as non-covered, non 310-30 loans. 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. Covered loans are presented separately from non-covered loans due to the FDIC loss sharing agreements associated with these loans. Covered loans comprised 6.1% of the total loan portfolio at September 30, 2015, compared to 9.0% of the total loan portfolio at December 31, 2014.



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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, 2015 and December 31, 2014. The carrying value of loans are net of discounts, fees and costs on loans excluded from ASC 310-30 of \$8.6 million and \$10.5 million as of September 30, 2015 and December 31, 2014, respectively:

	September 30, 2015		Total loans	%	
	ASC 310-30 loans	Non-ASC 310-30 loans			
Commercial	\$ 19,226	\$ 999,400	\$ 1,018,626	40.4	%
Agriculture	17,908	131,119	149,027	5.9	
Commercial real estate	153,546	480,709	634,255	25.1	
Residential real estate	26,975	659,475	686,450	27.2	
Consumer	3,237	31,533	34,770	1.4	
Total	\$ 220,892	\$ 2,302,236	\$ 2,523,128	100.0	%
Covered	\$ 128,289	\$ 26,767	\$ 155,056	6.1	%
Non-covered	92,603	2,275,469	2,368,072	93.9	
Total	\$ 220,892	\$ 2,302,236	\$ 2,523,128	100.0	%

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	December 31, 2014		Total loans	% of total	
	ASC 310-30 loans	Non-ASC 310-30 loans			
Commercial	\$ 22,956	\$ 772,440	\$ 795,396	36.8	%
Agriculture	19,063	118,468	137,531	6.4	
Commercial real estate	192,330	369,264	561,594	26.0	
Residential real estate	40,761	591,939	632,700	29.2	
Consumer	4,535	30,653	35,188	1.6	
Total	\$ 279,645	\$ 1,882,764	\$ 2,162,409	100.0	%
Covered	\$ 160,876	\$ 32,821	\$ 193,697	9.0	%
Non-covered	118,769	1,849,943	1,968,712	91.0	
Total	\$ 279,645	\$ 1,882,764	\$ 2,162,409	100.0	%

Included in commercial loans are \$147.5 million and \$161.8 million of energy-related loans at September 30, 2015 and December 31, 2014, respectively. Energy prices declined significantly during 2014 and remain at cyclically low levels; prolonged or further pricing pressure could increase stress on energy clients and ultimately the credit quality of this portfolio. However, loans have been structured to mitigate credit loss under a variety of circumstances, including the impact on energy loans as a result of depressed oil prices for a sustained period. Also included in the commercial segment are tax exempt loans totaling \$311.0 million and \$112.6 million at September 30, 2015 and December 31, 2014, respectively.

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. 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. Non-accrual loans include troubled debt restructurings on non-accrual status. Total non-accrual loans excluded from the scope of ASC 310-30 totaled \$28.6 million and \$10.8 million at September 30, 2015 and December 31, 2014, respectively. Loan delinquency for all loans is shown in the following tables at September 30, 2015 and December 31, 2014, respectively:

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## NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

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	Total Loans September 30, 2015					Total loans	Loans > 90 days past due and still accruing	Non- accrual
	30-59 days past due	60-89 days past due	Greater than 90 days past due	Total past due	Current			
Loans excluded from ASC 310-30								
Commercial	\$ 231	\$ 50	\$ 1,044	\$ 1,325	\$ 998,075	\$ 999,400	\$ 92	\$ 20,339
Agriculture	59	1,289	34	1,382	129,737	131,119	—	2,123
Commercial real estate								
Construction	34	—	—	34	24,607	24,641	—	58
Acquisition/development	—	—	—	—	3,681	3,681	—	—
Multifamily	—	—	—	—	17,216	17,216	—	—
Owner-occupied	—	—	94	94	170,915	171,009	—	756
Non owner-occupied	100	—	829	929	263,233	264,162	—	876
Total commercial real estate	134	—	923	1,057	479,652	480,709	—	1,690
Residential real estate								
Senior lien	1,117	676	1,549	3,342	601,372	604,714	92	3,999
Junior lien	209	123	142	474	54,287	54,761	82	464
Total residential real estate	1,326	799	1,691	3,816	655,659	659,475	174	4,463
Consumer	91	10	—	101	31,432	31,533	—	30
Total loans excluded from ASC 310-30	\$ 1,841	\$ 2,148	\$ 3,692	\$ 7,681	\$ 2,294,555	\$ 2,302,236	\$ 266	\$ 28,645
Covered loans excluded from ASC 310-30	\$ —	\$ —	\$ 978	\$ 978	\$ 25,790	\$ 26,768	\$ —	\$ 1,088
Non-covered loans excluded from ASC 310-30	1,841	2,148	2,714	6,703	2,268,765	2,275,468	266	27,557
Total loans excluded from ASC 310-30	\$ 1,841	\$ 2,148	\$ 3,692	\$ 7,681	\$ 2,294,555	\$ 2,302,236	\$ 266	\$ 28,645
Loans accounted for under ASC 310-30								
Commercial	\$ 298	\$ —	\$ 311	\$ 609	\$ 18,617	\$ 19,226	\$ 311	\$ —
Agriculture	133	944	152	1,229	16,679	17,908	152	—
Commercial real estate	522	—	16,287	16,809	136,737	153,546	16,286	—

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Residential real estate	85	—	2,171	2,256	24,719	26,975	2,172	—
Consumer	54	—	21	75	3,162	3,237	21	—
Total loans accounted for under ASC 310-30	\$ 1,092	\$ 944	\$ 18,942	\$ 20,978	\$ 199,914	\$ 220,892	\$ 18,942	\$ —
Covered loans accounted for under ASC 310-30	\$ 845	\$ 944	\$ 17,816	\$ 19,605	\$ 108,683	\$ 128,288	\$ 17,816	\$ —
Non-covered loans accounted for under ASC 310-30	247	—	1,126	1,373	91,231	92,604	1,126	—
Total loans accounted for under ASC 310-30	\$ 1,092	\$ 944	\$ 18,942	\$ 20,978	\$ 199,914	\$ 220,892	\$ 18,942	\$ —
Total loans	\$ 2,933	\$ 3,092	\$ 22,634	\$ 28,659	\$ 2,494,469	\$ 2,523,128	\$ 19,208	\$ 28,645
Covered loans	\$ 845	\$ 944	\$ 18,794	\$ 20,583	\$ 134,473	\$ 155,056	\$ 17,816	\$ 1,088
Non-covered loans	2,088	2,148	3,840	8,076	2,359,996	2,368,072	1,392	27,557
Total loans	\$ 2,933	\$ 3,092	\$ 22,634	\$ 28,659	\$ 2,494,469	\$ 2,523,128	\$ 19,208	\$ 28,645

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

September 30, 2015

	Total Loans December 31, 2014					Total loans	Loans > 90 days past due and still accruing	Non- accrual
	30-59 days past due	60-89 days past due	Greater than 90 days past due	Total past due	Current			
Loans excluded from ASC 310-30								
Commercial	\$ 83	\$ 97	\$ 318	\$ 498	\$ 771,942	\$ 772,440	\$ 215	\$ 4,215
Agriculture	47	—	10	57	118,411	118,468	10	495
Commercial real estate								
Construction	—	—	—	—	11,748	11,748	—	—
Acquisition/development	41	—	—	41	4,532	4,573	—	—
Multifamily	—	—	—	—	10,856	10,856	(1)	—
Owner-occupied	336	78	101	515	119,710	120,225	—	843
Non owner-occupied	158	—	222	380	221,482	221,862	—	222
Total commercial real estate	535	78	323	936	368,328	369,264	(1)	1,065
Residential real estate								
Senior lien	378	1,403	732	2,513	537,022	539,535	—	4,335
Junior lien	133	1	101	235	52,169	52,404	—	476
Total residential real estate	511	1,404	833	2,748	589,191	591,939	—	4,811
Consumer	266	21	39	326	30,327	30,653	39	227
Total loans excluded from ASC 310-30	\$ 1,442	\$ 1,600	\$ 1,523	\$ 4,565	\$ 1,878,199	\$ 1,882,764	\$ 263	\$ 10,813
Covered loans excluded from ASC 310-30	\$ 17	\$ 1,016	\$ 152	\$ 1,185	\$ 31,636	\$ 32,821	\$ 75	\$ 1,317
Non-covered loans excluded from ASC 310-30	1,425	584	1,371	3,380	1,846,563	1,849,943	188	9,496
Total loans excluded from ASC 310-30	\$ 1,442	\$ 1,600	\$ 1,523	\$ 4,565	\$ 1,878,199	\$ 1,882,764	\$ 263	\$ 10,813
Loans accounted for under ASC 310-30								
Commercial	\$ 152	\$ —	\$ 1,755	\$ 1,907	\$ 21,049	\$ 22,956	\$ 1,754	\$ —
Agriculture	—	—	367	367	18,696	19,063	367	—
Commercial real estate	564	92	31,013	31,669	160,661	192,330	31,013	—
Residential real estate	2,014	3,826	646	6,486	34,275	40,761	646	—
Consumer	369	—	54	423	4,112	4,535	54	—

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Total loans accounted for under ASC 310-30	\$ 3,099	\$ 3,918	\$ 33,835	\$ 40,852	\$ 238,793	\$ 279,645	\$ 33,834	\$ —
Covered loans accounted for under ASC 310-30	\$ 576	\$ 3,892	\$ 31,239	\$ 35,707	\$ 125,169	\$ 160,876	\$ 31,238	\$ —
Non-covered loans accounted for under ASC 310-30	2,523	26	2,596	5,145	113,624	118,769	2,596	—
Total loans accounted for under ASC 310-30	\$ 3,099	\$ 3,918	\$ 33,835	\$ 40,852	\$ 238,793	\$ 279,645	\$ 33,834	\$ —
Total loans	\$ 4,541	\$ 5,518	\$ 35,358	\$ 45,417	\$ 2,116,992	\$ 2,162,409	\$ 34,097	\$ 10,813
Covered loans	\$ 593	\$ 4,908	\$ 31,391	\$ 36,892	\$ 156,805	\$ 193,697	\$ 31,313	\$ 1,317
Non-covered loans	3,948	610	3,967	8,525	1,960,187	1,968,712	2,784	9,496
Total loans	\$ 4,541	\$ 5,518	\$ 35,358	\$ 45,417	\$ 2,116,992	\$ 2,162,409	\$ 34,097	\$ 10,813

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September 30, 2015

The Company's commercial substandard loans excluded from ASC 310-30 totaled \$48.9 million and \$19.3 million at September 30, 2015 and December 31, 2014, respectively. The increase was primarily due to four loan relationships totaling \$28.8 million at September 30, 2015. Migration to special mention and substandard ratings during 2015 has been driven by a small number of agricultural clients, pressure in the energy sector, and isolated weakening in a small number of commercial and industrial clients. Two of these substandard loans were energy related and totaled \$12.0 million at September 30, 2015. Credit exposure for all loans as determined by the Company's internal risk rating system was as follows as of September 30, 2015 and December 31, 2014, respectively:

	Total Loans September 30, 2015				
	Pass	Special mention	Substandard	Doubtful	Total
Loans excluded from ASC 310-30					
Commercial	\$ 904,627	\$ 42,795	\$ 48,906	\$ 3,072	\$ 999,400
Agriculture	120,138	8,524	2,457	—	131,119
Commercial real estate					
Construction	21,113	3,049	479	—	24,641
Acquisition/development	3,681	—	—	—	3,681
Multifamily	17,216	—	—	—	17,216
Owner-occupied	161,637	4,507	4,865	—	171,009
Non owner-occupied	250,768	9,388	4,002	4	264,162
Total commercial real estate	454,415	16,944	9,346	4	480,709
Residential real estate					
Senior lien	598,228	482	5,826	178	604,714
Junior lien	53,230	26	1,505	—	54,761
Total residential real estate	651,458	508	7,331	178	659,475
Consumer	31,388	69	76	—	31,533
Total loans excluded from ASC 310-30	\$ 2,162,026	\$ 68,840	\$ 68,116	\$ 3,254	\$ 2,302,236
Covered loans excluded from ASC 310-30	\$ 15,579	\$ 159	\$ 10,916	\$ 114	\$ 26,768
Non-covered loans excluded from ASC 310-30	2,146,447	68,681	57,200	3,140	2,275,468
Total loans excluded from ASC 310-30	\$ 2,162,026	\$ 68,840	\$ 68,116	\$ 3,254	\$ 2,302,236
Loans accounted for under ASC 310-30					
Commercial	\$ 9,060	\$ 391	\$ 9,775	\$ —	\$ 19,226
Agriculture	10,053	5,069	2,786	—	17,908
Commercial real estate	68,753	2,138	78,886	3,769	153,546
Residential real estate	19,438	1,673	5,864	—	26,975
Consumer	2,774	96	367	—	3,237

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Total loans accounted for under ASC 310-30	\$ 110,078	\$ 9,367	\$ 97,678	\$ 3,769	\$ 220,892
Covered loans accounted for under ASC 310-30	\$ 35,474	\$ 6,773	\$ 82,272	\$ 3,769	\$ 128,288
Non-covered loans accounted for under ASC 310-30	74,604	2,594	15,406	—	92,604
Total loans accounted for under ASC 310-30	\$ 110,078	\$ 9,367	\$ 97,678	\$ 3,769	\$ 220,892
Total loans	\$ 2,272,104	\$ 78,207	\$ 165,794	\$ 7,023	\$ 2,523,128
Total covered	\$ 51,053	\$ 6,932	\$ 93,188	\$ 3,883	\$ 155,056
Total non-covered	2,221,051	71,275	72,606	3,140	2,368,072
Total loans	\$ 2,272,104	\$ 78,207	\$ 165,794	\$ 7,023	\$ 2,523,128



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	Total Loans December 31, 2014				
	Pass	Special mention	Substandard	Doubtful	Total
Loans excluded from ASC 310-30					
Commercial	\$ 742,944	\$ 10,166	\$ 19,250	\$ 80	\$ 772,440
Agriculture	114,642	85	3,741	—	118,468
Commercial real estate					
Construction	11,748	—	—	—	11,748
Acquisition/development	4,573	—	—	—	4,573
Multifamily	10,856	—	—	—	10,856
Owner-occupied	115,178	158	4,889	—	120,225
Non owner-occupied	199,817	17,607	4,430	8	221,862
Total commercial real estate	342,172	17,765	9,319	8	369,264
Residential real estate					
Senior lien	533,630	23	5,744	138	539,535
Junior lien	51,059	—	1,345	—	52,404
Total residential real estate	584,689	23	7,089	138	591,939
Consumer	30,426	—	227	—	30,653
Total loans excluded from ASC 310-30	\$ 1,814,873	\$ 28,039	\$ 39,626	\$ 226	\$ 1,882,764
Covered loans excluded from ASC 310-30	\$ 21,240	\$ 171	\$ 11,301	\$ 109	\$ 32,821
Non-covered loans excluded from ASC 310-30	1,793,633	27,868	28,325	117	1,849,943
Total loans excluded from ASC 310-30	\$ 1,814,873	\$ 28,039	\$ 39,626	\$ 226	\$ 1,882,764
Loans accounted for under ASC 310-30					
Commercial	\$ 11,038	\$ 282	\$ 11,092	\$ 544	\$ 22,956
Agriculture	16,854	30	2,179	—	19,063
Commercial real estate	82,603	3,770	101,966	3,991	192,330
Residential real estate	29,069	1,403	10,289	—	40,761
Consumer	3,641	105	789	—	4,535
Total loans accounted for under ASC 310-30	\$ 143,205	\$ 5,590	\$ 126,315	\$ 4,535	\$ 279,645
Covered loans accounted for under ASC 310-30	\$ 49,856	\$ 3,036	\$ 103,451	\$ 4,533	\$ 160,876
Non-covered loans accounted for under ASC 310-30	93,349	2,554	22,864	2	118,769
Total loans accounted for under ASC 310-30	\$ 143,205	\$ 5,590	\$ 126,315	\$ 4,535	\$ 279,645
Total loans	\$ 1,958,078	\$ 33,629	\$ 165,941	\$ 4,761	\$ 2,162,409
Total covered	\$ 71,096	\$ 3,207	\$ 114,752	\$ 4,642	\$ 193,697

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Total non-covered	1,886,982	30,422	51,189	119	1,968,712
Total loans	\$ 1,958,078	\$ 33,629	\$ 165,941	\$ 4,761	\$ 2,162,409

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. Impaired loans are comprised of loans excluded from ASC 310-30 on non-accrual status, accruing troubled debt restructurings (“TDRs”), loans in the process of bankruptcy, and restructured loans that are in compliance with their modified terms for one year or longer and are current as to principal and interest payments. 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, 2015, the Company measured \$9.9 million of impaired loans using discounted cash flows, the loan’s initial contractual effective interest rate and observable market valuations and \$31.5 million of impaired loans based on the fair value of the collateral less selling costs. Impaired loans that individually were less than \$250 thousand were measured through the general allowance reserves due to their relatively small size totaled \$9.1 million and \$8.9 million at September 30, 2015 and December 31, 2014, respectively.

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September 30, 2015

At September 30, 2015 and December 31, 2014, the Company's recorded investments in impaired loans were \$50.5 million and \$32.1 million, respectively, of which \$10.9 million and \$11.1 million, respectively, were covered by loss sharing agreements, for the aforementioned periods. The increase in impaired loans during the nine months ended September 30, 2015, was primarily due to three relationships totaling \$19.0 million that were deemed impaired during the period. All three of the relationships were in the commercial and industrial segment, were non-covered, and on non-accrual status at September 30, 2015. Impaired loans had a collective related allowance for loan losses allocated to them of \$3.3 million and \$0.3 million at September 30, 2015 and December 31, 2014, respectively. Additional information regarding impaired loans at September 30, 2015 and December 31, 2014 is set forth in the table below:

	Impaired Loans September 30, 2015			December 31, 2014		
	Unpaid principal balance	Recorded investment	Allowance for loan losses allocated	Unpaid principal balance	Recorded investment	Allowance for loan losses allocated
With no related allowance recorded:						
Commercial	\$ 20,776	\$ 20,582	\$ —	\$ 16,953	\$ 16,771	\$ —
Agriculture	1,977	1,978	—	3,065	3,061	—
Commercial real estate						
Construction	—	—	—	—	—	—
Acquisition/development	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
Owner-occupied	1,789	1,595	—	1,164	970	—
Non-owner occupied	829	829	—	—	—	—
Total commercial real estate	2,618	2,424	—	1,164	970	—
Residential real estate						
Senior lien	343	304	—	694	248	—
Junior lien	—	—	—	—	—	—
Total residential real estate	343	304	—	694	248	—
Consumer	—	—	—	—	—	—
Total impaired loans with no related allowance recorded	\$ 25,714	\$ 25,288	\$ —	\$ 21,876	\$ 21,050	\$ —
With a related allowance recorded:						
Commercial	\$ 15,255	\$ 14,980	\$ 3,065	\$ 894	\$ 693	\$ 82
Agriculture	257	229	1	177	145	—
Commercial real estate						
Construction	—	—	—	—	—	—

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Acquisition/development	—	—	—	—	—	—
Multifamily	38	38	—	—	—	—
Owner-occupied	1,595	1,191	2	1,321	1,024	5
Non-owner occupied	927	823	5	1,140	1,060	9
Total commercial real estate	2,560	2,052	7	2,461	2,084	14
Residential real estate						
Senior lien	7,083	6,441	169	7,360	6,359	172
Junior lien	1,702	1,438	10	1,768	1,515	9
Total residential real estate	8,785	7,879	179	9,128	7,874	181
Consumer	79	78	1	277	245	2
Total impaired loans with a related allowance recorded	\$ 26,936	\$ 25,218	\$ 3,253	\$ 12,937	\$ 11,041	\$ 279
Total impaired loans	\$ 52,650	\$ 50,506	\$ 3,253	\$ 34,813	\$ 32,091	\$ 279

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

September 30, 2015

The table below shows additional information regarding the average recorded investment and interest income recognized on impaired loans for the periods presented:

	For nine months ended		September 30, 2014	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
With no related allowance recorded:				
Commercial	\$ 21,200	\$ 772	\$ 25,947	\$ 342
Agriculture	1,978	—	9,045	217
Commercial real estate				
Construction	—	—	—	—
Acquisition/development	—	—	—	—
Multifamily	—	—	—	—
Owner-occupied	1,635	59	1,578	63
Non-owner occupied	829	—	—	—
Total commercial real estate	2,464	59	1,578	63
Residential real estate				
Senior lien	312	12	391	8
Junior lien	—	—	—	—
Total residential real estate	312	12	391	8
Consumer	—	—	—	—
Total impaired loans with no related allowance recorded	\$ 25,954	\$ 843	\$ 36,961	\$ 630
With a related allowance recorded:				
Commercial	\$ 15,096	\$ 72	\$ 987	\$ 6
Agriculture	345	3	165	—
Commercial real estate				
Construction	—	—	—	—
Acquisition/development	—	—	—	—
Multifamily	39	1	156	—
Owner-occupied	1,260	20	627	10
Non-owner occupied	852	39	1,086	42
Total commercial real estate	2,151	60	1,869	52
Residential real estate				
Senior lien	6,621	89	6,738	81
Junior lien	1,478	39	1,515	45
Total residential real estate	8,099	128	8,253	126

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Consumer	82	1	266	1
Total impaired loans with a related allowance recorded	\$ 25,773	\$ 264	\$ 11,540	\$ 185
Total impaired loans	\$ 51,727	\$ 1,107	\$ 48,501	\$ 815

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 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 TDR. At September 30, 2015 and December 31, 2014, the Company had \$11.0 million and \$19.3 million, respectively, of accruing TDRs that had been restructured from the original terms in order to facilitate repayment. Of these, \$1.7 million and \$9.8 million were covered by FDIC loss sharing agreements as of September 30, 2015 and December 31, 2014, respectively. Approximately \$10.0 million of loans reported as TDRs at December 31, 2014 were in compliance with their modified terms at September 30, 2015, and therefore, are no longer reportable as TDRs at September 30, 2015.

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Non-accruing TDRs at September 30, 2015 and December 31, 2014 totaled \$21.4 million and \$7.0 million, respectively. Of these, \$1.0 million and \$1.2 million were covered by the FDIC loss sharing agreements as of September 30, 2015 and December 31, 2014, respectively.

During the nine months ended September 30, 2015, the Company restructured fourteen loans with a recorded investment of \$20.4 million to facilitate repayment. Substantially all of the loan modifications were a reduction of the principal payment, a reduction in interest rate, or an extension of term. Loan modifications to loans accounted for under ASC 310-30 are not considered TDRs. The table below provides additional information related to accruing TDRs at September 30, 2015 and December 31, 2014:

	Accruing TDRs September 30, 2015			
	Recorded investment	Average year-to- date recorded investment	Unpaid principal balance	Unfunded commitments to fund TDRs
Commercial	\$ 8,381	\$ 9,038	\$ 8,582	\$ 1,943
Agriculture	84	85	87	—
Commercial real estate	388	396	392	—
Residential real estate	2,161	2,214	2,209	—
Consumer	13	15	13	—
Total	\$ 11,027	\$ 11,748	\$ 11,283	\$ 1,943

	Accruing TDRs December 31, 2014			
	Recorded	Average year-to- date recorded	Unpaid principal	Unfunded commitments to fund

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	investment	investment	balance	TDRs
Commercial	\$ 13,249	\$ 12,496	\$ 13,249	\$ 375
Agriculture	2,711	3,110	2,715	—
Commercial real estate	610	627	622	—
Residential real estate	2,687	2,767	2,714	2
Consumer	18	20	18	—
Total	\$ 19,275	\$ 19,020	\$ 19,318	\$ 377

The following table summarizes the Company's carrying value of non-accrual TDRs as of September 30, 2015 and December 31, 2014:

	Non - Accruing TDRs			
	September 30, 2015		December 31, 2014	
	Covered	Non-covered	Covered	Non-covered
Commercial	\$ 99	\$ 19,596	\$ 1	\$ 3,993
Agriculture	81	34	201	164
Commercial real estate	—	—	94	364
Residential real estate	852	693	910	1,056
Consumer	—	2	—	190
Total	\$ 1,032	\$ 20,325	\$ 1,206	\$ 5,767

Accrual of interest is resumed on loans that were on non-accrual only after the loan has performed sufficiently. The Company had no TDRs that were modified within the past 12 months and had defaulted on their restructured terms during the nine months ended September 30, 2015.



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During the nine months ended September 30, 2014, the Company had three TDRs that had been modified within the past 12 months that defaulted on their restructured terms. The defaulted TDRs consisted of a commercial loan and two consumer loans totaling \$37 thousand. For purposes of this disclosure, the Company considers “default” to mean 90 days or more past due on principal or interest.

## 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 loans if circumstances specific to that loan warrant a prepayment assumption. 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, 2015 and 2014:

	September 30, 2015	September 30, 2014
Accretable yield beginning balance	\$ 113,463	\$ 130,624
Reclassification from non-accretable difference	19,025	30,394
Reclassification to non-accretable difference	(3,745)	(1,264)
Accretion	(35,728)	(46,646)
Accretable yield ending balance	\$ 93,015	\$ 113,108

Below is the composition of the net book value for loans accounted for under ASC 310-30 at September 30, 2015 and December 31, 2014:

	September 30, 2015	December 31, 2014
Contractual cash flows	\$ 657,451	\$ 751,932
Non-accretable difference	(343,544)	(358,824)
Accretable yield	(93,015)	(113,463)
Loans accounted for under ASC 310-30	\$ 220,892	\$ 279,645

## Note 6 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, 2015 and 2014:

	Three months ended September 30, 2015					Total
	Commercial	Agriculture	Commercial real estate	Residential real estate	Consumer	
Beginning balance	\$ 10,044	\$ 1,305	\$ 3,830	\$ 4,649	\$ 413	\$ 20,241
Non 310-30 beginning balance	10,024	693	3,704	4,647	408	19,476
Charge-offs	(12)	—	—	(26)	(174)	(212)
Recoveries	7	—	11	18	52	88
Provision	2,624	124	555	192	105	3,600
Non 310-30 ending balance	12,643	817	4,270	4,831	391	22,952
ASC 310-30 beginning balance	20	612	126	2	5	765
Charge-offs	—	—	—	—	—	—
Recoveries	—	—	—	—	—	—
Provision (recoupment)	61	87	(37)	(2)	1	110
ASC 310-30 ending balance	81	699	89	—	6	875
Ending balance	\$ 12,724	\$ 1,516	\$ 4,359	\$ 4,831	\$ 397	\$ 23,827



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	Three months ended September 30, 2014					
	Commercial	Agriculture	Commercial real estate	Residential real estate	Consumer	Total
Beginning balance	\$ 6,421	\$ 1,407	\$ 2,969	\$ 4,310	\$ 465	\$ 15,572
Non 310-30 beginning balance	6,420	610	2,735	4,244	465	14,474
Charge-offs	(86)	—	—	(470)	(230)	(786)
Recoveries	189	8	16	22	55	290
Provision	859	102	166	338	241	1,706
Non 310-30 ending balance	7,382	720	2,917	4,134	531	15,684
ASC 310-30 beginning balance	1	797	234	66	—	1,098
Charge-offs	—	—	—	—	—	—
Recoveries	—	—	—	—	—	—
Provision (recoupment)	—	(184)	(7)	—	—	(191)
ASC 310-30 ending balance	1	613	227	66	—	907
Ending balance	\$ 7,383	\$ 1,333	\$ 3,144	\$ 4,200	\$ 531	\$ 16,591

	Nine months ended September 30, 2015					
	Commercial	Agriculture	Commercial real estate	Residential real estate	Consumer	Total
Beginning balance	\$ 8,598	\$ 1,009	\$ 3,819	\$ 3,771	\$ 416	\$ 17,613
Non 310-30 beginning balance	8,598	541	3,597	3,743	413	16,892
Charge-offs	(17)	(47)	(222)	(200)	(740)	(1,226)
Recoveries	55	7	135	46	190	433
Provision (recoupment)	4,007	316	760	1,242	528	6,853
Non 310-30 ending balance	12,643	817	4,270	4,831	391	22,952
ASC 310-30 beginning balance	—	468	222	28	3	721
Charge-offs	—	—	—	—	(14)	(14)
Recoveries	—	—	—	—	—	—
Provision (recoupment)	81	231	(133)	(28)	17	168
ASC 310-30 ending balance	81	699	89	—	6	875

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Ending balance	\$ 12,724	\$ 1,516	\$ 4,359	\$ 4,831	\$ 397	\$ 23,827
Ending allowance balance attributable to:						
Non 310-30 loans individually evaluated for impairment	\$ 3,065	\$ 1	\$ 8	\$ 179	\$ 1	\$ 3,254
Non 310-30 loans collectively evaluated for impairment	9,578	816	4,262	4,652	390	19,698
ASC 310-30 loans	81	699	89	—	6	875
Total ending allowance balance	\$ 12,724	\$ 1,516	\$ 4,359	\$ 4,831	\$ 397	\$ 23,827
Loans:						
Non 310-30 individually evaluated for impairment	\$ 35,562	\$ 2,207	\$ 4,477	\$ 8,183	\$ 78	\$ 50,507
Non 310-30 collectively evaluated for impairment	963,838	128,912	476,232	651,292	31,455	2,251,729
ASC 310-30 loans	19,226	17,908	153,546	26,975	3,237	220,892
Total loans	\$ 1,018,626	\$ 149,027	\$ 634,255	\$ 686,450	\$ 34,770	\$ 2,523,128

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September 30, 2015

	Nine months ended September 30, 2014					Total
	Commercial	Agriculture	Commercial real estate	Residential real estate	Consumer	
Beginning balance	\$ 4,258	\$ 1,237	\$ 2,276	\$ 4,259	\$ 491	\$ 12,521
Non 310-30 beginning balance	4,029	572	1,984	4,165	491	11,241
Charge-offs	(498)	—	—	(539)	(585)	(1,622)
Recoveries	306	8	70	197	205	786
Provision (recoupment)	3,545	140	863	311	420	5,279
Non 310-30 ending balance	7,382	720	2,917	4,134	531	15,684
ASC 310-30 beginning balance	229	665	292	94	—	1,280
Charge-offs	(2)	—	—	—	(36)	(38)
Recoveries	—	—	—	—	—	—
Provision (recoupment)	(226)	(52)	(65)	(28)	36	(335)
ASC 310-30 ending balance	1	613	227	66	—	907
Ending balance	\$ 7,383	\$ 1,333	\$ 3,144	\$ 4,200	\$ 531	\$ 16,591
Ending allowance balance attributable to:						
Non 310-30 loans individually evaluated for impairment	\$ 39	\$ —	\$ 31	\$ 220	\$ 3	\$ 293
Non 310-30 loans collectively evaluated for impairment	7,343	720	2,886	3,914	528	15,391
ASC 310-30 loans	1	613	227	66	—	907
Total ending allowance balance	\$ 7,383	\$ 1,333	\$ 3,144	\$ 4,200	\$ 531	\$ 16,591
Loans:						
Non 310-30 individually evaluated for impairment	\$ 25,776	\$ 9,460	\$ 3,325	\$ 8,415	\$ 250	\$ 47,226
Non 310-30 collectively evaluated for impairment	691,731	133,341	377,120	571,005	30,356	1,803,553
ASC 310-30 loans	37,665	20,071	213,871	43,979	5,007	320,593
Total loans	\$ 755,172	\$ 162,872	\$ 594,316	\$ 623,399	\$ 35,613	\$ 2,171,372

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 had \$0.1 million net charge-offs of non 310-30 loans during the three months ended September 30, 2015 and \$0.8 million net charge-offs of non 310-30 loans during the nine months ended September 30, 2015. Credit quality remained at acceptable levels within the non 310-30 loan portfolio during the three and nine months ended September 30, 2015, and management's evaluation resulted in a provision for loan losses on the non 310-30 loans of \$3.6 million and \$6.9 million during the three and nine months ended September 30, 2015, respectively.

During the nine months ended September 30, 2015, the Company re-estimated the expected cash flows of the loan pools accounted for under ASC 310-30. The re-measurement resulted in net provision of \$110 thousand and \$168 thousand, respectively, for the three and nine months ended September 30, 2015. The net provision was comprised primarily of a provision of \$87 thousand in the agriculture segment during the three months ended September 30, 2015 and \$231 thousand in the agriculture segment for the nine months ended September 30, 2015, and was offset by recoupments of \$133 thousand in the commercial real estate segment during the nine months ended September 30, 2015.

The Company charged off \$0.5 million and \$0.8 million, net of recoveries, of non ASC 310-30 loans during the three and nine months ended September 30, 2014, respectively. During the three and nine months ended September 30, 2014, a large commercial and

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industrial loan was added to non-accrual status, and through management's evaluation, resulted in a provision for loan losses on the non 310-30 loans of \$1.7 million and \$5.3 million, respectively.

During the nine months ended September 30, 2014, the Company remeasured 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 recoupment of previous valuation allowances of \$191 thousand and \$335 thousand for the three and nine months ended September 30, 2014, respectively, which were comprised of recoupments of previous valuation allowances of \$184 thousand during the three months ended September 30, 2014 in the agriculture segment and \$226 thousand during the nine months ended September 30, 2014 in the commercial segment.

## Note 7 FDIC Indemnification Asset

Under the terms of the purchase and assumption agreements 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. Covered assets may be resolved 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 gains or losses realized from the resolution of covered assets reduce or increase, respectively, the amount recoverable from the FDIC. Covered gains or losses that are incurred in excess of the expected reimbursements (which are reflected in the FDIC indemnification asset balance), are recognized in the consolidated statements of operations as FDIC loss sharing income (expense) in the period in which they occur.

Below is a summary of the activity related to the FDIC indemnification asset during the nine months ended September 30, 2015 and 2014:

	For the nine months ended	
	September 30, 2015	September 30, 2014
Balance at beginning of period	\$ 39,082	\$ 64,447
Amortization	(20,751)	(19,819)
FDIC portion of charge-offs exceeding fair value marks	(2,819)	(34)
Changes for FDIC loss share submissions	2,643	(181)



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Balance at end of period	\$ 18,155	\$ 44,413
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The \$20.8 million of amortization of the FDIC indemnification asset recognized during the nine months ended September 30, 2015 resulted from an overall increase in actual and expected cash flows of 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 loan pools as an adjustment to yield. The claims filed with the FDIC 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, 2015, the Company paid a net \$2.6 million to the FDIC.

During the nine months ended September 30, 2014, the Company recognized \$19.8 million of amortization on the FDIC indemnification asset. During the nine months ended September 30, 2014, the Company received a net \$181 thousand from the FDIC.

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## Note 8 Other Real Estate Owned

A summary of the activity in the OREO balances during the nine months ended September 30, 2015 and 2014 is as follows:

	For the nine months ended September 30,	
	2015	2014
Beginning balance	\$ 29,120	\$ 70,125
Purchases through acquisition, at fair value	1,488	—
Transfers from loan portfolio, at fair value	1,143	2,519
Impairments	(799)	(1,789)
Sales	(14,260)	(27,656)
Gain on sale of OREO, net	2,342	2,686
Ending balance	\$ 19,034	\$ 45,885

Of the \$19.0 million of OREO at September 30, 2015, \$11.4 million, or 60.0%, was covered by loss sharing agreements with the FDIC. At December 31, 2014, \$18.5 million, or 63.4%, of the \$29.1 million of OREO was covered by loss sharing agreements. Any losses on these assets are substantially offset by a corresponding change in the FDIC indemnification asset.

At September 30, 2015 and December 31, 2014, OREO balances excluded \$5.5 million and \$8.1 million, respectively, 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. The Company maintains a receivable in other assets for these minority interests.

## Note 9 Borrowings

As a member of the FHLB of Des Moines, the Bank has access to term financing from the FHLB. These borrowings are secured under an advance, pledge and securities agreement, which includes primarily real estate loans. Total advances at both September 30, 2015 and December 31, 2014 were \$40.0 million. All of the outstanding advances have fixed interest rates and interest expense related to FHLB advances totaled \$167 thousand and \$498 thousand for the three and nine months ended September 30, 2015, respectively. More information about FHLB advances at September 30, 2015 is detailed in the table below:

Maturity Year	September 30, 2015	Rate
2016	\$ 15,000	0.84 %
2018	\$ 10,000	1.81 %
2020	\$ 15,000	2.33 %

#### Note 10 Regulatory Capital

As a bank holding company, the Company is subject to regulatory capital adequacy requirements implemented by the Federal Reserve. In addition, the Office of the Comptroller of the Currency ("OCC") imposes capital adequacy requirements on our subsidiary bank. The federal banking agencies have risk-based capital adequacy regulations intended to provide a measure of capital adequacy that reflects the degree of risk associated with a banking organization's operations. Under these regulations, assets are assigned to one of several risk categories, and nominal dollar amounts of assets and credit equivalent amounts of off-balance-sheet items are multiplied by a risk adjustment percentage for the category.

The law requires federal bank regulatory agencies to take "prompt corrective action" with respect to FDIC-insured depository institutions that do not meet minimum capital requirements. A depository institution's treatment for purposes of the prompt corrective action provisions will depend upon how its capital levels compare to various capital measures and certain other factors, as established by regulation. Under this system, the federal banking regulators have established five capital categories, well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, in which all institutions are placed. The capital adequacy regulations require banks to maintain a common equity tier 1 capital ratio of 6.5%, a total tier 1 capital ratio of 8.0%, a total capital ratio of 10.0%, and a leverage ratio of 5.0% to be deemed "well capitalized." Federal banking regulators are required to take various mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the

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three undercapitalized categories. The severity of the action depends upon the capital category in which the institution is placed. Generally, subject to a narrow exception, the banking regulator must appoint a receiver or conservator for an institution that is critically undercapitalized. Our regulatory capital ratios and those of the Bank are in excess of the levels established for “well-capitalized” institutions.

In connection with the approval of the de novo charter for the Bank, the Company agreed to maintain capital levels of at least 10.0% tier 1 leverage ratio, 11.0% tier 1 risk-based capital ratio and 12.0% total risk-based capital ratio at our subsidiary bank. During 2015, the Bank received approval from the OCC under the OCC Operating Agreement to permanently reduce the Bank's capital by \$86.0 million. As a result, the Bank distributed \$86.0 million cash to the Company during 2015. On October 19, 2015, the operating agreement between the Bank and the OCC was terminated.

The new Basel III rules, effective January 1, 2015, changed the components of regulatory capital and changed the way in which risk ratings are assigned to various categories of bank assets. Also, a new Tier I common risk-based ratio was defined. Under the Basel III requirements, at September 30, 2015, the Company met all capital adequacy requirements and had regulatory capital ratios in excess of the levels established for well-capitalized institutions.

At September 30, 2015 and December 31, 2014, the Bank 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:

	September 30, 2015					
	Actual		Required to be considered well capitalized (1)		Required to be considered adequately capitalized	
	Ratio	Amount	Ratio	Amount	Ratio	Amount
Tier 1 leverage ratio						
Consolidated	11.5 %	\$ 547,307	N/A	N/A	4.0 %	\$ 190,328
NBH Bank, N.A.	10.9 %	515,047	10.0 %	\$ 474,026	4.0 %	189,610
Common equity tier 1 risk-based capital						
Consolidated	18.8 %	\$ 547,307	6.5 %	\$ 39,283	4.5 %	\$ 214,119

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NBH Bank, N.A.	17.8	%	515,047	6.5	%	308,117	4.5	%	213,312
Tier 1 risk-based capital ratio (2)									
Consolidated	18.8	%	\$ 547,307	8.0	%	\$ 233,467	6.0	%	\$ 175,100
NBH Bank, N.A.	17.8	%	515,047	11.0	%	319,032	6.0	%	174,018
Total risk-based capital ratio (2)									
Consolidated	19.6	%	\$ 571,495	10.0	%	\$ 291,833	8.0	%	\$ 233,467
NBH Bank, N.A.	18.6	%	539,236	12.0	%	348,035	8.0	%	232,024

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- (1) These ratio requirements for NBH Bank, N.A. are reflective of the agreements NBH Bank, N.A. made with its regulator in connection with the approval of its de novo charter. On October 19, 2015, the operating agreement between the Bank and the OCC was terminated.
- (2) Due to the conditional guarantee represented by the loss sharing agreements, the FDIC indemnification asset and the portion of assets covered by the FDIC loss sharing agreements are risk-weighted at 20% for purposes of risk-based capital computations.

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	December 31, 2014							
	Actual		Required to be		Required to be			
	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount
Tier 1 leverage ratio								
Consolidated	15.0 %	\$ 712,222	N/A	N/A	4.0 %	\$ 190,148		
NBH Bank, N.A.	12.1 %	573,934	10.0 %	\$ 473,478	4.0 %	189,391		
Tier 1 risk-based capital ratio (2)								
Consolidated	28.9 %	\$ 712,222	6.0 %	\$ 147,796	4.0 %	\$ 98,530		
NBH Bank, N.A.	23.5 %	573,934	11.0 %	268,855	4.0 %	97,766		
Total risk-based capital ratio (2)								
Consolidated	29.6 %	\$ 730,086	10.0 %	\$ 246,326	8.0 %	\$ 197,061		
NBH Bank, N.A.	24.2 %	591,799	12.0 %	293,297	8.0 %	195,531		

(1) These ratio requirements for NBH Bank, N.A. are reflective of the agreements NBH Bank, N.A. made with its regulator in connection with the approval of its de novo charter. On October 19, 2015, the operating agreement between the Bank and the OCC was terminated.

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

## Note 11 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 consolidated 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, 2015 and 2014:

For the three months ended

For the nine months ended

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	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Clawback liability amortization	\$ (384)	\$ (345)	\$ (1,131)	\$ (1,009)
Clawback liability remeasurement	(132)	(592)	(1,242)	(1,646)
Reimbursement to FDIC for gain on sale of and income from covered OREO	(142)	(1,587)	(1,128)	(3,287)
Reimbursement to FDIC for recoveries	(10)	(62)	(28)	(180)
FDIC reimbursement of covered asset resolution costs	665	1,643	3,854	3,573
Total	\$ (3)	\$ (943)	\$ 325	\$ (2,549)

Note 12 Stock-based Compensation and Benefits

The Company provides stock-based compensation in accordance with shareholder-approved plans. During the second quarter of 2014, shareholders approved the 2014 Omnibus Incentive Plan (the "2014 Plan"). The 2014 Plan replaces the NBH Holdings Corp. 2009 Equity Incentive Plan (the "Prior Plan"), pursuant to which the Company granted equity awards prior to the approval of the 2014 Plan. Pursuant to the 2014 Plan, the Compensation Committee of the Board of Directors has the authority to grant, from time to time, awards of options, stock appreciation rights, restricted stock, restricted stock units, performance units, other stock-based awards, or any combination thereof to eligible persons.

As of September 30, 2015, the aggregate number of Class A common stock available for issuance under the 2014 Plan is 5,189,159 shares. Any shares that are subject to stock options or stock appreciation rights under the 2014 Plan will be counted against the amount available for issuance as one share for every one share granted, and any shares that are subject to awards under the 2014 Plan other than stock options or stock appreciation rights will be counted against the amount available for issuance as 3.25 shares for every one

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share granted. The 2014 Plan provides for recycling of shares from both the Prior Plan and the 2014 Plan, the terms of which are further described in the Company's Proxy Statement for its 2014 Annual Meeting of Shareholders.

To date, the Company has issued stock options and restricted stock under the plans. The Compensation Committee sets the option exercise price at the time of grant but in no case is the exercise price less than the fair market value of a share of stock at the date of grant. The following table summarizes stock option activity for the nine months ended September 30, 2015:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years	Aggregate Intrinsic Value
Outstanding at December 31, 2014	3,597,111	\$ 19.90	4.46	\$ 223,211
Granted	147,042	19.14		
Forfeited	(24,422)	18.63		
Surrendered	(137,592)	19.87		
Exercised	(12,775)	19.93		
Expired	(508,700)	20.00		
Outstanding at September 30, 2015	3,060,664	\$ 19.86	4.83	\$ 2,046,799
Options fully vested and exercisable at September 30, 2015	2,715,344	\$ 19.98	4.34	\$ —
Options expected to vest	335,295	\$ 18.99	8.40	\$ 1,938,476

Stock option expense is included in salaries and benefits in the consolidated statements of operations and totaled \$0.2 million and \$0.3 million for the three months ended September 30, 2015 and 2014, respectively, and \$0.5 million and \$1.0 million for the nine months ended September 30, 2015 and 2014, respectively. At September 30, 2015, there was \$0.8 million of total unrecognized compensation cost related to non-vested stock options granted under the plans. The cost is expected to be recognized over a weighted average period of 2.1 years.

Expense related to non-vested restricted stock totaled \$0.8 million and \$0.8 million during the three months ended September 30, 2015 and 2014, respectively, and \$2.0 million and \$1.8 million during the nine months ended



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September 30, 2015 and 2014, respectively, and is included in salaries and benefits in the consolidated statements of operations. As of September 30, 2015, there was \$3.1 million of total unrecognized compensation cost related to non-vested restricted shares granted under the plans, which is expected to be recognized over a weighted average period of 2.3 years. The following table summarizes restricted stock activity for the nine months ended September 30, 2015:

	Total Restricted Shares	Weighted Average Grant- Date Fair Value
Unvested at December 31, 2014	955,398	\$ 14.61
Vested	(52,327)	18.85
Granted	175,797	19.17
Forfeited	(12,371)	18.68
Surrendered	(19,517)	18.84
Unvested at September 30, 2015	1,046,980	\$ 15.54

Note 13 Warrants

The Company had 725,750 and 830,750 outstanding warrants to purchase Company stock as of September 30, 2015 and December 31, 2014, respectively. The warrants were granted to certain lead shareholders of the Company, all with an exercise price of \$20.00 per share. The term of the warrants is for ten years from the date of grant and the expiration dates of the warrants outstanding at September 30, 2015 range from October 20, 2019 to March 23, 2020. The fair value of the warrants was estimated to be \$2.6 million and \$3.3 million at September 30, 2015, and December 31, 2014, respectively. During the quarter ended September 30, 2015, 105,000

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warrants were repurchased as a result of agreements with the underlying counterparties. The fair value of the warrants was estimated using a Black-Scholes option pricing model utilizing the following assumptions at the indicated dates:

	September 30, 2015		December 31, 2014	
Risk-free interest rate	1.22	%	1.67	%
Expected volatility	20.19	%	24.18	%
Expected term (years)	4-5		5-6	
Dividend yield	0.97	%	1.03	%

The Company's shares became publicly traded on September 20, 2012, and prior to that had limited private trading. Due to the limited historical volatility of the Company's own stock, expected volatility was calculated using a time-based weighted migration of the Company's own stock price volatility coupled with the median historical volatility, for a period commensurate with the expected term of the warrants, of those of a peer group. The risk-free rate for the expected term of the warrants was based on the U.S. Treasury yield curve and based on the expected term. The expected term was estimated based on the contractual term of the warrants.

The Company recorded a benefit of \$0.5 million and \$0.4 million for the three and nine months ended September 30, 2015, respectively, and a benefit of \$1.3 million and \$2.7 million for the three and nine months ended September 30, 2014, respectively, in the consolidated statements of operations resulting from the change in fair value of the warrant liability and the repurchase of the previously mentioned 105,000 warrants.

## Note 14 Common Stock

On February 11, 2015, the Board of Directors authorized a new share repurchase program for up to \$50.0 million from time to time in either the open market or through privately negotiated transactions. This new program replaced the previous \$50.0 million share repurchase program approved during the fourth quarter of 2014. On August 10, 2015, the Company completed a tender offer and repurchased a total of 4,651,163 shares for a total price of \$100.0 million at a weighted average price of \$21.50 per share. In total, during the three and nine months ended September 30, 2015, the Company repurchased 4,751,163 and 8,645,836 shares for \$102.0 million and \$174.3 million, at a weighted average price of \$21.47 and \$20.16 per share, respectively.

The Company had 30,318,684 shares of Class A common stock and zero shares of Class B common stock outstanding as of September 30, 2015, and 38,017,179 shares of Class A common stock and 867,774 shares of Class B common stock outstanding as of December 31, 2014. Additionally, as of September 30, 2015 and December 31, 2014, the Company had 1,046,980 and 955,398 shares, respectively, of restricted Class A common stock issued but not yet vested under the 2014 Plan and the Prior Plan that are not included in shares outstanding until such time that they are vested; however, these shares do have voting and certain dividend rights during the vesting period.

#### Note 15 Income Per Share

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

The Company had 30,318,684 and 39,862,824 shares outstanding (inclusive of Class A and B) as of September 30, 2015 and 2014, respectively, exclusive of issued non-vested restricted shares. 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, 2015.

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The following table illustrates the computation of basic and diluted income per share for the three and nine months ended September 30, 2015 and 2014:

	For the three months ended		For the nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Net income	\$ 1,636	\$ 3,337	\$ 1,541	\$ 6,897
Less: earnings allocated to participating securities	(14)	(12)	(39)	(28)
Earnings allocated to common shareholders	\$ 1,622	\$ 3,325	\$ 1,502	\$ 6,869
Weighted average shares outstanding for basic earnings per common share	32,681,181	41,837,485	35,605,180	43,403,791
Dilutive effect of equity awards	54,969	4,200	521	19,482
Dilutive effect of warrants	26,366	—	—	—
Weighted average shares outstanding for diluted earnings per common share	32,762,516	41,841,685	35,605,701	43,423,273
Basic earnings per share	\$ 0.05	\$ 0.08	\$ 0.04	\$ 0.16
Diluted earnings per share	\$ 0.05	\$ 0.08	\$ 0.04	\$ 0.16

The Company had 3,060,664 and 3,613,191 outstanding stock options to purchase common stock at weighted average exercise prices of \$19.86 and \$19.89 per share at September 30, 2015 and 2014, 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 725,750 and 830,750 outstanding warrants to purchase the Company's common stock as of September 30, 2015 and 2014, respectively. The warrants have an exercise price of \$20.00, which was in-the-money for the three months ended September 30, 2015, and out-of-the-money during the three months ended September 30, 2014, and nine months ended September 30, 2015 and 2014, for purposes of dilution calculations. The Company had 1,046,980 and 1,149,505 unvested restricted shares issued as of September 30, 2015 and 2014, respectively, which have performance, market and/or 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.

Note 16 Derivatives

Risk management objective of using derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company has established policies that neither carrying value nor fair value at risk should exceed established guidelines. The Company has designed strategies to confine these risks within the established limits and identify appropriate trade-offs in the financial structure of its balance sheet. These strategies include the use of derivative financial instruments to help achieve the desired balance sheet repricing structure while meeting the desired objectives of its clients. Currently the Company employs certain interest rate swaps that are designated as fair value hedges as well as economic hedges. The Company manages a matched book with respect to its derivative instruments in order to minimize its net risk exposure resulting from such transactions.

Fair values of derivative instrument of the balance sheet

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the consolidated statements of financial condition as of September 30, 2015 and December 31, 2014.

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Information about the valuation methods used to measure fair value is provided in note 18 of the unaudited consolidated financial statements.

	Balance Sheet Location	Asset Derivatives Fair Value		Balance Sheet Location	Liability Derivatives Fair Value	
		September 30, 2015	December 31, 2014		September 30, 2015	December 31, 2014
Derivatives designated as hedging instruments						
Interest rate products	Other assets	\$ 6	\$ 10	Other liabilities	\$ 8,865	\$ 3,206
Total derivatives designated as hedging instruments		\$ 6	\$ 10		\$ 8,865	\$ 3,206
Derivatives not designated as hedging instruments						
Interest rate products	Other assets	\$ 2,798	\$ 1,418	Other liabilities	\$ 2,977	\$ 1,522
Total derivatives not designated as hedging instruments		\$ 2,798	\$ 1,418		\$ 2,977	\$ 1,522

## Fair value hedges of interest rate risk

Interest rate swaps designated as fair value hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without the exchange of the underlying notional amount. As of September 30, 2015, the Company had 27 interest rate swaps with a notional amount of \$246.9 million that were designated as fair value hedges of interest rate risk associated with the Company's fixed-rate loans. The Company had 11 outstanding interest rate swaps with a notional amount of \$68.8 million that were designated as a fair value hedge as of December 31, 2014.

For qualifying derivatives designated as fair value hedges, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in earnings. The Company includes the gain or loss on the hedged items in the same line item as the offsetting loss or gain on the related derivatives. During the three and nine months ended September 30, 2015, the Company recognized a net loss of \$522 thousand and \$255 thousand, respectively, in non-interest income related to hedge ineffectiveness. During the three and nine months ended September 30, 2014, the Company recognized a net loss of \$46 thousand and \$186 thousand, respectively, in non-interest income related to hedge ineffectiveness.

#### Non-designated hedges

Derivatives not designated as hedges are not speculative and consist of interest rate swaps with commercial banking clients that facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by offsetting interest rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. As the interest rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the client swaps and the offsetting swaps are recognized directly in earnings. As of September 30, 2015, the Company had 19 matched interest rate swap transactions with an aggregate notional amount of \$67.6 million related to this program. As of December 31, 2014, the Company had 11 matched interest rate swap transactions with an aggregate notional amount of \$35.9 million related to this program.

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## Effect of Derivative Instruments on the Consolidated Statements of Operations

The tables below present the effect of the Company's derivative financial instruments on the unaudited consolidated statements of operations for the three and nine months ended September 30, 2015 and 2014:

	Location of (loss) recognized in income on derivatives	Amount of (loss) recognized in income on derivatives			
		Three months ended September 30,		For the nine months ended September 30,	
Derivatives in fair value hedging relationships		2015	2014	2015	2014
Interest rate products	Other non-interest income	\$ (8,768)	\$ (36)	\$ (5,663)	\$ (1,371)
Total		\$ (8,768)	\$ (36)	\$ (5,663)	\$ (1,371)

	Location of gain or (loss) recognized in income on hedged items	Amount of gain or (loss) recognized in income on derivatives			
		Three months ended September 30,		For the nine months ended September 30,	
Hedged items		2015	2014	2015	2014
Interest rate products	Other non-interest income	\$ 8,246	\$ (10)	\$ 5,408	\$ 1,185
Total		\$ 8,246	\$ (10)	\$ 5,408	\$ 1,185

Derivatives not designated as hedging instruments	Location of (loss) recognized in income on derivatives	Amount of (loss) recognized in income on derivatives			
		Three months ended September 30,		For the nine months ended September 30,	
		2015	2014	2015	2014
Interest rate products	Other non-interest expense	\$ (99)	\$ (1)	\$ (73)	\$ (51)
Total		\$ (99)	\$ (1)	\$ (73)	\$ (51)



### Credit-risk-related Contingent Features

The Company has agreements with its derivative counterparties that contain a provision where if the Company defaults on any of its indebtedness for reasons other than an error or omission of an administrative or operational nature, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations.

The Company also has agreements with certain of its derivative counterparties that contain a provision where if the Company fails to maintain its status as a well/adequately capitalized institution, then the counterparty has the right to terminate the derivative positions and the Company would be required to settle its obligations under the agreements.

As of September 30, 2015 and December 31, 2014, the termination value of derivatives in a net liability position related to these agreements was \$13.5 million and \$1.9 million, respectively, which includes accrued interest but excludes any adjustment for nonperformance risk. The Company has minimum collateral posting thresholds with certain of its derivative counterparties and as of September 30, 2015 and December 31, 2014, the Company had posted \$14.4 million and \$5.5 million, respectively, in eligible collateral.

### Note 17 Commitments and Contingencies

In the normal course of business, the Company enters into various off-balance sheet commitments to help meet the financing needs of clients. These financial instruments include commitments to extend credit, commercial and consumer lines of credit and standby letters of credit. The same credit policies are applied to these commitments as the loans on the consolidated statements of financial condition; however, these commitments involve varying degrees of credit risk in excess of the amount recognized in the consolidated statements of financial condition. At September 30, 2015 and December 31, 2014, the Company had loan commitments totaling \$499.7 million and \$485.5 million, respectively, and standby letters of credit that totaled \$8.5 million and \$10.0 million, respectively. The total amounts of unused commitments do not necessarily represent future credit exposure or cash requirements, as commitments often expire without being drawn upon. However, the contractual amount of these commitments, offset by any additional collateral pledged, represents the Company's potential credit loss exposure. Amounts funded under non-cancelable commitments in effect at the date of acquisition are covered under the applicable loss sharing agreements if certain conditions are met.

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Total unfunded commitments at September 30, 2015 and December 31, 2014 were as follows:

	September 30, 2015			December 31, 2014		
	Covered	Non-covered	Total	Covered	Non-covered	Total
Commitments to fund loans:						
Residential	\$ —	\$ 6,236	\$ 6,236	\$ —	\$ 1,683	\$ 1,683
Commercial and commercial real estate	—	195,779	195,779	11	202,593	202,604
Construction and land development	—	40,131	40,131	—	35,814	35,814
Consumer	—	4,206	4,206	—	4,376	4,376
Credit card lines of credit	—	17,536	17,536	—	18,065	18,065
Unfunded commitments under lines of credit	4,648	231,167	235,815	7,645	215,305	222,950
Commercial and standby letters of credit	69	8,401	8,470	234	9,731	9,965
Total	\$ 4,717	\$ 503,456	\$ 508,173	\$ 7,890	\$ 487,567	\$ 495,457

Commitments to fund loans—Commitments to fund loans are legally binding agreements to lend to clients in accordance with predetermined contractual provisions providing there have been no violations of any conditions specified in the contract. These commitments are generally at variable interest rates and are for specific periods or contain termination clauses and may require the payment of a fee. The total amounts of unused commitments are not necessarily representative of future credit exposure or cash requirements, as commitments often expire without being drawn upon.

Credit card lines of credit—The Company extends lines of credit to clients through the use of credit cards issued by the Bank. These lines of credit represent the maximum amounts allowed to be funded, many of which will not exhaust the established limits, and as such, these amounts are not necessarily representations of future cash requirements or credit exposure.

Unfunded commitments under lines of credit—In the ordinary course of business, the Company extends revolving credit to its clients. These arrangements may require the payment of a fee.

Commercial and standby letters of credit—As a provider of financial services, the Company routinely issues commercial and standby letters of credit, which may be financial standby letters of credit or performance standby letters of credit. These are various forms of “back-up” commitments to guarantee the performance of a client to a third party. While these arrangements represent a potential cash outlay for the Company, the majority of these letters of credit will expire without being drawn upon. Letters of credit are subject to the same underwriting and credit approval process as traditional loans, and as such, many of them have various forms of collateral securing the commitment, which may include real estate, personal property, receivables or marketable securities.

## Contingencies

In the ordinary course of business, the Company and the Bank may be subject to litigation. Based upon the available information and advice from the Company’s legal counsel, management does not believe that any potential, threatened or pending litigation to which it is a party will have a material adverse effect on the Company’s liquidity, financial condition or results of operations.

## Note 18 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

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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, 2015 and 2014, 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:

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 September 30, 2015 and December 31, 2014, the Company did not

hold any level 1 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, 2015 and December 31, 2014, the Company's level 2 securities included 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.

Derivatives—The Company's derivative instruments are limited to interest rate swaps that may be accounted for as fair value hedges or non-designated hedges. The fair values of the swaps incorporate credit valuation adjustments in order to appropriately reflect nonperformance risk in the fair value measurements. The credit valuation adjustment is the dollar amount of the fair value adjustment related to credit risk and utilizes a probability weighted calculation to quantify the potential loss over the life of the trade. The credit valuation adjustments are calculated by determining the total expected exposure of the derivatives (which incorporates both the current and potential future exposure) and then applying the respective counterparties' credit spreads to the exposure offset by marketable collateral posted, if any. Certain derivative transactions are executed with counterparties who are large financial institutions ("dealers"). International Swaps and Derivative Association Master Agreements ("ISDA") and Credit Support Annexes ("CSA") are employed for all contracts with dealers. These contracts contain bilateral collateral arrangements. The fair value inputs of these financial instruments are determined using discounted cash flow analysis through the use of third-party models whose significant inputs are readily observable market parameters, primarily yield curves, with appropriate adjustments for liquidity and credit risk, and are classified as level 2.

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 using a time-based weighted migration of the Company's own stock price volatility coupled with the median historical volatility, for a period commensurate with the expected term of the warrants, of those eight

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comparable companies with publicly traded shares, and is deemed a significant unobservable input to the valuation model, as such these instruments are classified as level 3.

Clawback liability—The Company periodically measures the net present value of expected future cash payments to the FDIC that must be made within 45 days of the conclusion of the loss share agreements. 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, as such these instruments are classified as level 3.

The tables below present the financial instruments measured at fair value on a recurring basis as of September 30, 2015 and December 31, 2014 on the consolidated statements of financial condition utilizing the hierarchy structure described above:

	September 30, 2015			
	Level 1	Level 2	Level 3	Total
Assets:				
Investment securities available-for-sale:				
Mortgage-backed securities (“MBS”):				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	\$ —	\$ 336,372	\$ —	\$ 336,372
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	—	905,357	—	905,357
Other securities	—	—	2,538	2,538
Derivatives	—	2,804	—	2,804
Total assets at fair value	\$ —	\$ 1,244,533	\$ 2,538	\$ 1,247,071
Liabilities:				
Warrant liability	\$ —	\$ —	\$ 2,602	\$ 2,602
Clawback liability	—	—	38,712	38,712
Derivatives	—	11,842	—	11,842
Total liabilities at fair value	\$ —	\$ 11,842	\$ 41,314	\$ 53,156

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	December 31, 2014			Total
	Level 1	Level 2	Level 3	
Assets:				
Investment securities available-for-sale:				
Mortgage-backed securities ("MBS"):				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	\$ —	\$ 404,215	\$ —	\$ 404,215
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	—	1,074,580	—	1,074,580
Other securities	—	—	419	419
Derivatives	—	1,428	—	1,428
Total assets at fair value	\$ —	\$ 1,480,223	\$ 419	\$ 1,480,642
Liabilities:				
Warrant liability	\$ —	\$ —	\$ 3,328	\$ 3,328
Clawback liability	—	—	36,338	36,338
Derivatives	—	4,728	—	4,728
Total liabilities at fair value	\$ —	\$ 4,728	\$ 39,666	\$ 44,394

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The table below details the changes in level 3 financial instruments during the nine months ended September 30, 2015 and September 30, 2014:

	Other Securities	Warrant liability	Clawback liability
Balance at December 31, 2013	\$ 419	\$ 6,281	\$ 32,465
Change in value	—	(2,734)	1,646
Amortization	—	—	1,009
Net change in Level 3	—	(2,734)	2,655
Balance at September 30, 2014	\$ 419	\$ 3,547	\$ 35,120
Balance at December 31, 2014	\$ 419	\$ 3,328	\$ 36,338
Change in value	58	(726)	1,242
Purchases through acquisition	2,061	—	—
Amortization	—	—	1,132
Net change in Level 3	2,119	(726)	2,374
Balance at September 30, 2015	\$ 2,538	\$ 2,602	\$ 38,712

## Fair Value 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, 2015, the Company measured fourteen loans not accounted for under ASC 310-30 at fair value on a non-recurring basis. These loans carried specific reserves totaling \$3.2 million at September 30, 2015. During the nine months ended September 30, 2015, the Company added specific reserves of \$3.0 million for eleven loans with carrying balances of \$14.5 million at September 30, 2015. The Company also decreased specific reserves of \$0.1 million for four loans during the nine months ended September 30,



2015.

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.

OREO is recorded at fair value of the collateral less estimated selling costs. The estimated fair values of OREO are updated periodically and further valuation adjustments may be taken to reflect a new basis. The Company recognized \$0.8 million of OREO impairments in its unaudited consolidated statements of operations during the nine months ended September 30, 2015, of which \$0.5 million, or 65.7%, were on OREO that was covered by loss sharing agreements with the FDIC. During the nine months ended September 30, 2014, the Company recognized \$1.8 million of OREO impairments in its unaudited consolidated statements of operations, of which \$1.1 million, or 60.2%, 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.

Premises and equipment held-for-sale are written down to estimated fair value less costs to sell in the period in which the held-for-sale criteria are met. Fair value is estimated in a process which considers current local commercial real estate market conditions and the judgment of the sales agent and often involves obtaining third party appraisals from certified real estate appraisers. These fair value measurements are classified as level 3. Unobservable inputs to these measurements, which include estimates and judgments often used in conjunction with appraisals, are not readily quantifiable. The Company recognized \$1.1 million of impairments in its unaudited

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consolidated statements of operations related to banking centers classified as held-for-sale during the nine months ended September 30, 2015.

The table below provides information regarding the assets recorded at fair value on a non-recurring basis during the nine months ended September 30, 2015 and 2014:

	September 30, 2015	
	Total	Losses from fair value changes
Other real estate owned	\$ 19,034	\$ 799
Impaired loans	50,506	433
Premises and equipment	813	1,089

	September 30, 2014	
	Total	Losses from fair value changes
Other real estate owned	\$ 45,885	\$ 1,789
Impaired loans	47,225	145

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, 2015.

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, 2015. The table below excludes non-recurring fair value measurements of collateral value used for impairment measures for OREO and premise and equipment held-for-sale. These valuations utilize third party appraisal or broker price opinions, and are classified as level 3 due to the significant judgment involved:

	Fair value at September 30, 2015	Valuation Technique	Unobservable Input	Quantitative Measures
Other securities	\$ 2,538	Cash investment in private equity fund, Par value	Cash and CD investment par value	
Impaired loans	50,506	Appraised value	Appraised values	
Clawback liability	38,712	Contractually defined discounted cash flows	Discount rate Intrinsic loss estimates	0% - 25% \$323.3 million - \$405.0 million
Warrant liability	2,602	Black-Scholes	Expected credit losses Discount rate Volatility	— 4% 21% - 28%

#### Note 19 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-financial instruments from its disclosure requirements. In connection with the Hillcrest Bank, Bank Midwest, Bank of Choice, Community Banks of Colorado and Pine River acquisitions, the Company recorded all of the acquired assets and assumed liabilities at fair value at the respective dates of acquisition. The fair

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## NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

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value of financial instruments at September 30, 2015 and December 31, 2014, including methods and assumptions utilized for determining fair value of financial instruments, are set forth below:

	Level in fair value measurement hierarchy	September 30, 2015		December 31, 2014	
		Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
<b>ASSETS</b>					
Cash and cash equivalents	Level 1	\$ 153,156	\$ 153,156	\$ 256,979	\$ 256,979
Securities purchased under agreements to resell	Level 2	50,000	50,018	—	—
Mortgage-backed securities—residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises available-for-sale	Level 2	336,372	336,372	404,215	404,215
Mortgage-backed securities—other residential mortgage-backed securities issued or guaranteed by U.S. Government agencies or sponsored enterprises available-for-sale	Level 2	905,357	905,357	1,074,580	1,074,580
Other available-for-sale securities	Level 3	2,538	2,538	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	353,026	358,812	422,622	428,323
Mortgage-backed securities—other residential mortgage-backed securities issued or guaranteed by U.S. Government agencies or sponsored enterprises held-to-maturity	Level 2	92,043	91,336	107,968	106,314
Capital stock of FHLB	Level 2	7,361	7,361	7,595	7,595
Capital stock of FRB	Level 2	19,689	19,689	19,450	19,450

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Loans receivable, net	Level 3	2,523,128	2,573,651	2,144,796	2,193,222
Loans held-for-sale	Level 2	11,246	11,246	5,146	5,146
Accrued interest receivable	Level 2	13,524	13,524	11,465	11,465
Derivatives	Level 2	2,804	2,804	1,428	1,428
LIABILITIES					
Deposit transaction accounts	Level 2	2,618,664	2,618,664	2,409,137	2,409,137
Time deposits	Level 2	1,255,973	1,255,973	1,357,051	1,357,885
Securities sold under agreements to repurchase	Level 2	169,488	169,488	133,552	133,552
Federal Home Loan Bank advances	Level 2	40,000	40,937	40,000	40,465
Due to FDIC	Level 3	38,712	38,712	42,011	42,011
Warrant liability	Level 3	2,602	2,602	3,328	3,328
Accrued interest payable	Level 2	4,594	4,594	3,608	3,608
Derivatives	Level 2	11,842	11,842	4,728	4,728

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

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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 is 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 current market rates offered by the Company, at the respective measurement dates, for deposits of similar remaining maturities.

Derivative assets and liabilities

Fair values for derivative assets and liabilities are fully described in note 16 of the unaudited consolidated financial statements.



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 13 of the unaudited 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.

Note 20 Subsequent Events

On October 19, 2015, the Company announced that the operating agreement between its subsidiary, NBH Bank, N.A., and its primary regulator, the Office of the Comptroller of the Currency, was terminated. The operating agreement was entered into in December 2010 as part of the Bank's approval to operate as a de novo bank. The agreement required the Bank to maintain certain capital levels, placed restrictions on its ability to pay dividends and limited its ability to make certain other business decisions.



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On November 5, 2015, the Bank entered into an early termination agreement with the FDIC that terminated the Bank's loss share agreements with the FDIC. The Bank paid consideration of \$15.1 million to the FDIC for the termination of the agreements. The Bank expects to record a one-time after-tax gain of approximately \$2.6 million, or \$0.09 per share, in the fourth quarter of 2015. The gain results primarily from the settlement payment made to the FDIC, and the elimination of the remaining FDIC indemnification asset and the clawback payable, which totaled \$18.2 million and \$38.7 million, respectively, at September 30, 2015.

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

The following management's discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited consolidated financial statements and related notes as of and for the three and nine months ended September 30, 2015, 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, 2014, 2013, and 2012. 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. All amounts are in thousands, except share data, or as otherwise noted.

Overview

National Bank Holdings Corporation is a bank holding company formed in 2009. Through our subsidiary, NBH Bank, N.A., we provide a variety of banking products to both commercial and consumer clients through a network of 97 banking centers, located in Colorado, the greater Kansas City area and Texas, and through on-line and mobile banking products. We operate under the following brand names: Community Banks of Colorado in Colorado, Bank Midwest in Kansas and Missouri, and Hillcrest Bank in Texas.

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

As of September 30, 2015, we had \$4.8 billion in assets, \$2.5 billion in loans, \$3.9 billion in deposits and \$0.6 billion in equity. We believe that our established presence positions us well for growth opportunities in our current and complementary markets. 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 financial services franchise with a sizable presence for deposit gathering and client relationship building necessary for growth.

## Operating Highlights and Key Challenges

Our operations resulted in the following highlights as of and for the nine months ended September 30, 2015 (except as noted):

### Loan portfolio

- Grew the loan portfolio \$360.7 million, driven by \$728.8 million of originations and the acquisition of Pine River.
- Excluding Pine River, total loans grew \$297.8 million, or 18.4% annualized.
- Successfully exited \$58.4 million, or 38.7% annualized, of the remaining non-strategic loan portfolio.

### Credit quality

- Non-310-30 loans
  - o Net charge-offs on average non 310-30 loans remained low at 0.05% annualized. Non 310-30, non-performing loans increased \$17.8 million, and resulted in a non 310-30 non-performing loans to total loans ratio of 1.24%.
  - o Loss share coverage of 3.9% on non-performing, non ASC 310-30 loans.
- ASC 310-30 loans
  - o Added a net \$15.3 million to accretable yield for the acquired loans accounted for under ASC 310-30.
  - o 310-30 loans represented 8.8% of total loans at September 30, 2015, compared to 12.9% at December 31, 2014.

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Client deposit funded balance sheet

- Average transaction deposits and client repurchase agreements increased \$229.9 million, for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014, or 9.2%.
  - Transaction account balances improved to 67.6% of total deposits as of September 30, 2015 from 64.0% at December 31, 2014, driven by a \$149.3 million increase in demand deposits and savings.
- As of September 30, 2015, total deposits and client repurchase agreements made up 97.1% of our total liabilities.

Revenues and expenses

- Net interest income totaled \$117.0 million and decreased \$10.7 million, or 8.4%, from the first nine months of 2014, largely due to lower levels of higher-yielding purchased loans.
- Net interest margin narrowed to 3.55% on a fully taxable equivalent basis during the nine months ended September 30, 2015, from 3.84% during the nine months ended September 30, 2014, due to the continued resolution of the higher-yielding acquired loan portfolio and higher levels of short-term investments that were driven by an increase in client repurchase agreements.
- The average annual yield on our loan portfolio was 5.78% for the nine months ended September 30, 2015 compared to 6.67% for the nine months ended September 30, 2014, driven by the increasing originated loan balances at current market rates, coupled with declining balances of higher-yielding purchased loans.
- Banking related non-interest income totaled \$24.4 million during the nine months ended September 30, 2015, an increase of \$2.1 million, or 9.2% from the nine months ended September 30, 2014. The increase was attributable to a \$0.5 million increase in bank card fee activity, a \$0.9 million increase in the gain on sale of mortgages, and a \$1.2 million increase in the value of the bank-owned life insurance asset, and is offset by a \$0.6 million decrease in service charges.
- Total non-interest income for the nine months ended September 30, 2015 totaled \$6.0 million compared to \$3.4 million for the same period in 2014, an increase of \$2.6 million. The increase was primarily due to the aforementioned increases in banking fee income. In addition, the \$1.0 million bargain purchase gain and \$2.9 million favorable FDIC loss sharing income was offset by \$0.9 million higher FDIC indemnification asset amortization and \$2.4 million less OREO related income and gains on previously charged-off acquired loans, all totaling an additional \$0.6 million increase in non-interest income.
- Non-interest expense totaled \$115.8 million during the first nine months ended September 30, 2015, compared to \$116.9 million during the same period in 2014, a decrease of \$1.1 million, or 0.9%.
  - Our non-GAAP measure of operating expenses (excludes OREO expenses, problem loan expense, the impact from the change in the warrant liability, core system conversion-related expenses, acquisition-related one-time expenses, and banking center closure related expense accruals) totaled \$110.2 million and decreased \$2.7 million, or 2.4%, from the nine months ended September 30, 2014.
- Problem loan/OREO workout expenses totaled \$3.1 million for the nine months ended September 30, 2015, decreasing \$3.6 million, or 53.6%, from the same period in 2014 as our non-strategic problem asset balances decreased. The decrease was driven by a \$3.2 million decline in OREO expenses, and a \$0.4 million decrease in problem loan expenses.

Strong capital position

- Capital ratios are strong as capital position remains well in excess of federal bank regulatory thresholds. As of September 30, 2015, our consolidated tier 1 leverage ratio was 11.5% and our consolidated tier 1 risk-based capital and common equity tier 1 risk-based capital ratios were both 18.8%.

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- The after-tax accretable yield on ASC 310-30 loans plus the after-tax yield on the FDIC indemnification asset, net, in excess of 4.0%, an approximate yield on new loan originations, and discounted at 5%, adds \$1.11 per share to our tangible book value per share as of September 30, 2015.
- During the nine months ended September 30, 2015, we repurchased 8.6 million shares, or 22.2% of outstanding shares, at a weighted average price of \$20.16 per share. Since early 2013 and through November 9, 2015, we have repurchased 22.1 million shares, or 42.3% of outstanding shares, at an attractive weighted average price of \$19.88 per share.

## Key Challenges

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

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

Oil and gas prices declined significantly during 2014 and remained depressed through the third quarter of 2015. The full impact to the broad economy, to banks in general, and to us, is yet to be determined. Energy loans comprise 5.8% of our total loans and prolonged or further pricing pressure on oil and gas could lead to increased credit stress in our energy portfolio. Suppressed energy prices may lead to an increase in consumer spending in the short term, but the decline could have unpredictable secondary impacts such as job losses in industries tied to energy, increased spending habits, lower borrowing needs, higher transaction deposit balances or a number of other effects that are difficult to isolate or quantify.

Our total loan balances increased \$360.7 million during the nine months ended September 30, 2015, or 22.3% annualized, on the strength of \$728.8 million of loan originations, partially offset by loan paydowns, particularly in our non-strategic portfolio. Our acquired loans have produced higher yields than our originated loans due to the recognition of accretion of fair value adjustments and accretable yield. The tepid economic recovery and intense loan competition have kept interest rates low during the nine months ended September 30, 2015, limiting the yields we have been able to obtain on originated loans. During the nine months ended September 30, 2015, our weighted average yield on loan originations was 3.58% (fully taxable equivalent), which is lower than the 2014 weighted average yield of our total loan portfolio of 3.86% (fully taxable equivalent). We expect downward pressure on the



yields on our total loan portfolio to the extent that our originated loan portfolio does not provide sufficient yields to replace the high yields on the acquired loan portfolio as they pay down or pay off. Growth in our interest income will ultimately be dependent on our ability to generate sufficient volumes of high-quality originated loans.

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

#### Performance Overview

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

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Within our consolidated 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. Loans accounted for under ASC Topic 310-30 are re-measured quarterly.

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, but provide additional layers of loss protection.

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

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

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

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

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

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

Non-interest income - Non-interest income consists of service charges, bank card fees, gains on sales of mortgages, gains on sales of investment securities, gains on previously charged-off acquired loans, OREO related write-ups and other income and other non-interest income. Also included in non-interest income is FDIC indemnification asset amortization and other FDIC loss sharing income (expense), which consists of reimbursement of costs related to the resolution of covered assets, and amortization of our clawback

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liability. For additional information, see “Application of Critical Accounting Policies-Valuation of Assets Acquired and Liabilities Assumed and Acquisition Accounting Application” and note 2 in our consolidated financial statements in our 2014 Annual Report on Form 10-K. Due to fluctuations in the amortization rates on the FDIC indemnification asset and the amortization of the clawback liability and due to varying levels of expenses and income related to the resolution of covered assets, the FDIC loss sharing income is not consistent on a period-to-period basis and, is expected to decline over time as covered assets are resolved and as the FDIC loss sharing agreements expire over the next fifteen months.

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

Net income - We utilize traditional industry return ratios such as return on average assets, return on average tangible assets, return on average equity, return on average tangible 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:

	As of and for the three months ended			As of and for the nine months ended	
	September 30, 2015	December 31, 2014	September 30, 2014	September 30, 2015	September 30, 2014
Key ratios(1)					
return on average assets	0.13	% 0.19	%		