

National Bank Holdings Corp
Form 10-Q
November 07, 2014

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

OR

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

For the transition period from _____ to _____

Commission File Number: 001-35654

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

Delaware 27-0563799
(State or other jurisdiction of (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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

As of November 6, 2014, NBHC had outstanding 38,922,279 shares of Class A voting common stock and 867,774 shares of Class B non-voting common stock, each with \$0.01 par value per share, excluding 1,116,046 shares of restricted Class A common stock issued but not yet vested.

| | Page |
|---|-----------|
| <u>Part I. Financial Information</u> | |
| Item 1. <u>Financial Statements</u> | <u>3</u> |
| <u>Unaudited Consolidated Statements of Financial Condition as of September 30, 2014 and December 31, 2013</u> | <u>3</u> |
| <u>Unaudited Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2014 and 2013</u> | <u>4</u> |
| <u>Unaudited Consolidated Statements of Comprehensive Income (Loss) for the Three and Nine Months Ended September 30, 2014 and 2013</u> | <u>5</u> |
| <u>Unaudited Consolidated Statements of Changes in Shareholders' Equity for the Nine Months Ended September 30, 2014 and 2013</u> | <u>6</u> |
| <u>Unaudited Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2014 and 2013</u> | <u>7</u> |
| <u>Notes to Unaudited Consolidated Financial Statements</u> | <u>8</u> |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>42</u> |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u> | <u>79</u> |
| Item 4. <u>Controls and Procedures</u> | <u>79</u> |
| <u>Part II. Other Information</u> | |
| Item 1. <u>Legal Proceedings</u> | <u>80</u> |
| Item 1A. <u>Risk Factors</u> | <u>80</u> |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>80</u> |
| Item 5. <u>Other Information</u> | <u>81</u> |
| Item 6. <u>Exhibits</u> | <u>81</u> |

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,” “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 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;
- the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters;
- continued consolidation in the financial services industry;
- our ability to maintain or increase market share and control expenses;
- costs and effects of changes in laws and regulations and of other legal and regulatory developments, including, but not limited to, changes in regulation that affect the fees that we charge, the resolution of legal proceedings or regulatory or other governmental inquiries, and the results of regulatory examinations, reviews or other inquiries.
- technological changes;
- the timely development and acceptance of new products and services and perceived overall value of these products and services by our clients;
- changes in our management personnel and our continued ability to hire and retain qualified personnel;
- ability to implement and/or improve operational management and other internal risk controls and processes and our reporting system and procedures;

- regulatory limitations on dividends from our bank subsidiary;
- changes in estimates of future loan reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements;
- widespread natural and other disasters, dislocations, political instability, acts of war or terrorist activities, cyberattacks or international hostilities through impacts on the economy and financial markets generally or on us or our counterparties specifically;
- impact of reputational risk on such matters as business generation and retention;

• other risks and uncertainties listed from time to time in the Company's reports and documents filed with the Securities and Exchange Commission; and

• our success at managing the risks involved in the foregoing items.

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

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, 2014 | December 31, 2013 |
|--|-----------------------|----------------------|
| ASSETS | | |
| Cash and due from banks | \$58,525 | \$67,420 |
| Due from Federal Reserve Bank of Kansas City | 50,092 | 107,894 |
| Interest bearing bank deposits | 10,042 | 14,146 |
| Cash and cash equivalents | 118,659 | 189,460 |
| Investment securities available-for-sale (at fair value) | 1,553,641 | 1,785,528 |
| Investment securities held-to-maturity (fair value of \$557,593 and \$636,405 at September 30, 2014 and December 31, 2013, respectively) | 557,464 | 641,907 |
| Non-marketable securities | 21,640 | 31,663 |
| Loans (including covered loans of \$219,468 and \$309,397 at September 30, 2014 and December 31, 2013, respectively) | 2,171,372 | 1,854,094 |
| Allowance for loan losses | (16,591 |) (12,521 |
| Loans, net | 2,154,781 | 1,841,573 |
| Loans held for sale | 5,252 | 5,787 |
| Federal Deposit Insurance Corporation ("FDIC") indemnification asset, net | 44,413 | 64,447 |
| Other real estate owned | 45,885 | 70,125 |
| Premises and equipment, net | 108,100 | 115,219 |
| Goodwill | 59,630 | 59,630 |
| Intangible assets, net | 18,220 | 22,229 |
| Other assets | 125,122 | 86,547 |
| Total assets | \$4,812,807 | \$4,914,115 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Liabilities: | | |
| Deposits: | | |
| Non-interest bearing demand deposits | \$724,186 | \$674,989 |
| Interest bearing demand deposits | 369,917 | 386,762 |
| Savings and money market | 1,307,285 | 1,280,871 |
| Time deposits | 1,396,070 | 1,495,687 |
| Total deposits | 3,797,458 | 3,838,309 |
| Securities sold under agreements to repurchase | 109,946 | 99,547 |
| Due to FDIC | 35,120 | 41,882 |
| Other liabilities | 61,321 | 36,585 |
| Total liabilities | 4,003,845 | 4,016,323 |
| Shareholders' equity: | | |
| Common stock, par value \$0.01 per share: 400,000,000 shares authorized; 52,405,241 and 52,289,347 shares issued; 39,862,824 and 44,918,336 shares outstanding at September 30, 2014 and December 31, 2013, respectively | 512 | 512 |
| Additional paid in capital | 992,587 | 990,216 |
| Retained earnings | 40,197 | 39,966 |
| Treasury stock of 11,392,009 and 6,306,551 shares at September 30, 2014 and December 31, 2013, respectively, at cost | (226,230 |) (126,146 |
| Accumulated other comprehensive income (loss), net of tax | 1,896 | (6,756 |
| Total shareholders' equity | 808,962 | 897,792 |

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

| | | |
|--|-------------|-------------|
| Total liabilities and shareholders' equity | \$4,812,807 | \$4,914,115 |
|--|-------------|-------------|

See accompanying notes to the unaudited consolidated interim financial statements.

3

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations (Unaudited)

(In thousands, except share and per share data)

| | For the three months ended | | For the nine months ended | |
|--|----------------------------|-----------|---------------------------|------------|
| | September 30, | | September 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| Interest and dividend income: | | | | |
| Interest and fees on loans | \$33,403 | \$35,328 | \$99,704 | \$105,783 |
| Interest and dividends on investment securities | 11,749 | 13,539 | 37,523 | 40,383 |
| Dividends on non-marketable securities | 245 | 388 | 904 | 1,170 |
| Interest on interest-bearing bank deposits | 95 | 267 | 251 | 762 |
| Total interest and dividend income | 45,492 | 49,522 | 138,382 | 148,098 |
| Interest expense: | | | | |
| Interest on deposits | 3,563 | 3,965 | 10,625 | 12,647 |
| Interest on borrowings | 34 | 42 | 92 | 80 |
| Total interest expense | 3,597 | 4,007 | 10,717 | 12,727 |
| Net interest income before provision for loan losses | 41,895 | 45,515 | 127,665 | 135,371 |
| Provision for loan losses | 1,515 | 437 | 4,944 | 3,524 |
| Net interest income after provision for loan losses | 40,380 | 45,078 | 122,721 | 131,847 |
| Non-interest income: | | | | |
| FDIC indemnification asset amortization | (6,252) |) (4,208) |) (19,819) |) (11,843) |
| FDIC loss sharing (expense) income | (943) |) (1,191) |) (2,549) |) 3,278 |
| Service charges | 4,148 | 4,334 | 11,558 | 11,944 |
| Bank card fees | 2,615 | 2,482 | 7,548 | 7,509 |
| Gain on sales of mortgages, net | 264 | 345 | 674 | 1,125 |
| Gain on previously charged-off acquired loans | 147 | 224 | 675 | 1,118 |
| OREO related write-ups and other income | 799 | 727 | 2,777 | 2,713 |
| Other non-interest income | 836 | 625 | 2,557 | 1,969 |
| Total non-interest income | 1,614 | 3,338 | 3,421 | 17,813 |
| Non-interest expense: | | | | |
| Salaries and benefits | 21,058 | 22,639 | 62,260 | 69,363 |
| Occupancy and equipment | 6,155 | 6,556 | 18,838 | 18,391 |
| Telecommunications and data processing | 2,848 | 3,050 | 8,978 | 9,805 |
| Marketing and business development | 757 | 1,408 | 3,542 | 3,519 |
| FDIC deposit insurance | 1,029 | 1,021 | 3,109 | 3,074 |
| ATM/debit card expenses | 799 | 1,179 | 2,312 | 3,291 |
| Professional fees | 854 | 791 | 2,180 | 3,045 |
| Other non-interest expense | 2,540 | 3,210 | 7,698 | 9,667 |
| (Gain) loss from the change in fair value of warrant liability | (1,256) |) 441 | (2,734) |) 138 |
| Intangible asset amortization | 1,336 | 1,336 | 4,008 | 4,009 |
| Other real estate owned expenses | 594 | 459 | 3,629 | 7,675 |
| Problem loan expenses | 1,267 | 1,134 | 3,034 | 4,361 |
| Banking center closure related expenses | — | 3,389 | — | 3,389 |
| Total non-interest expense | 37,981 | 46,613 | 116,854 | 139,727 |
| Income before income taxes | 4,013 | 1,803 | 9,288 | 9,933 |
| Income tax expense | 676 | 856 | 2,391 | 4,006 |
| Net income | \$3,337 | \$947 | \$6,897 | \$5,927 |
| Income per share—basic | \$0.08 | \$0.02 | \$0.16 | \$0.11 |
| Income per share—diluted | \$0.08 | \$0.02 | \$0.16 | \$0.11 |
| Weighted average number of common shares outstanding: | | | | |

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

| | | | | |
|---------|------------|------------|------------|------------|
| Basic | 41,837,485 | 51,454,200 | 43,403,791 | 51,940,245 |
| Diluted | 41,841,685 | 51,501,980 | 43,423,273 | 51,973,161 |

See accompanying notes to the unaudited consolidated interim financial statements.

4

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

(In thousands)

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|----------|--|-----------|
| | 2014 | 2013 | 2014 | 2013 |
| Net income | \$3,337 | \$947 | \$6,897 | \$5,927 |
| Other comprehensive income, net of tax: | | | | |
| Securities available-for-sale: | | | | |
| Net unrealized gains (losses) arising during the period, net of tax benefit of \$1,480 and \$5,141 for the three months ended September 30, 2014 and 2013, respectively; and net of tax (expense) benefit of (\$6,824) and \$22,852 for the nine months ended September 30, 2014 and 2013, respectively. | (2,407 |) (8,214 |) 11,099 | (36,015 |
| | (2,407 |) (8,214 |) 11,099 | (36,015 |
| Net unrealized holding gains on securities transferred between available-for-sale to held-to-maturity: | | | | |
| Less: amortization of net unrealized holding gains to income, net of tax benefit of \$475 and \$738 for the three months ended September 30, 2014 and 2013, respectively; and net of tax benefit of \$1,505 and \$2,943 for the nine months ended September 30, 2014 and 2013, respectively. | (774 |) (1,178 |) (2,447 |) (4,700 |
| | (774 |) (1,178 |) (2,447 |) (4,700 |
| Other comprehensive income (loss) | (3,181 |) (9,392 |) 8,652 | (40,715 |
| Comprehensive income (loss) | \$156 | \$(8,445 |) \$15,549 | \$(34,788 |

See accompanying notes to the unaudited consolidated interim financial statements.

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

Nine Months Ended September 30, 2014 and 2013

(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, 2012 | \$523 | \$1,006,194 | \$43,273 | \$(4 |) \$ 40,573 | \$1,090,559 |
| Net income | — | — | 5,927 | — | — | 5,927 |
| Stock-based compensation | — | 4,003 | — | — | — | 4,003 |
| (Repurchase of 1,114,628 shares)/retirement of 1,114,868 treasury shares | (11 |) (20,583 |) — | 4 | — | (20,590 |
| Dividends paid (\$.15 per share) | — | — | (7,934 |) — | — | (7,934 |
| Other comprehensive loss | — | — | — | — | (40,715 |) (40,715 |
| Balance, September 30, 2013 | \$512 | \$989,614 | \$41,266 | \$— | \$ (142 |) \$1,031,250 |
| 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 under equity compensation plan | — | (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 |

See accompanying notes to the unaudited consolidated interim financial statements.

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

| | For the nine months ended September 30, | |
|---|--|-----------|
| | 2014 | 2013 |
| Cash flows from operating activities: | | |
| Net income | \$6,897 | \$5,927 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Provision for loan losses | 4,944 | 3,524 |
| Depreciation and amortization | 12,144 | 11,698 |
| Current income tax receivable | 20,364 | (11,249) |
| Deferred income tax asset | (18,445) | (10,848) |
| Discount accretion, net of premium amortization on securities | 3,828 | 6,692 |
| Loan accretion | (48,978) | (66,906) |
| Net gain on sale of mortgage loans | (674) | (1,125) |
| Origination of loans held for sale, net of repayments | (29,622) | (47,754) |
| Proceeds from sales of loans held for sale | 30,106 | 47,832 |
| Amortization of indemnification asset | 19,819 | 11,843 |
| Gain on the sale of other real estate owned, net | (2,686) | (7,384) |
| Impairment on other real estate owned | 1,789 | 9,142 |
| Impairment on fixed assets related to banking center closures | — | 2,531 |
| Gain on sale of fixed assets | (123) | — |
| Stock-based compensation | 2,750 | 4,003 |
| (Decrease) increase in due to FDIC, net | (6,762) | 693 |
| (Increase) decrease in other assets | (740) | 1,739 |
| Increase in other liabilities | 19,525 | 1,338 |
| Net cash provided by (used in) operating activities | 14,136 | (38,304) |
| Cash flows from investing activities: | | |
| Proceeds from redemption of FHLB stock | 633 | 1,271 |
| Proceeds from redemption of FRB stock | 9,390 | — |
| Maturities of investment securities held-to-maturity | 80,052 | 149,991 |
| Maturities of investment securities available-for-sale | 246,422 | 456,122 |
| Purchase of investment securities held-to-maturity | — | (244,502) |
| Purchase of investment securities available-for-sale | — | (693,977) |
| Increase in securities purchased under agreements to resell | — | (75,000) |
| Net (increase) decrease in loans | (274,575) | 91,068 |
| Purchase of premises and equipment, net | (894) | (6,069) |
| Purchase of bank-owned life insurance | (40,000) | — |
| Proceeds from sales of loans | 3,607 | 26,984 |
| Proceeds from sales of other real estate owned | 27,656 | 54,705 |
| Increase in FDIC indemnification asset | 215 | 72,634 |
| Net cash provided by (used in) investing activities | 52,506 | (166,773) |
| Cash flows from financing activities: | | |
| Net decrease in deposits | (40,851) | (249,216) |
| Increase in repurchase agreements | 10,399 | 62,786 |
| Issuance under equity compensation plan | (379) | — |
| Payment of dividends | (6,528) | (7,839) |
| Repurchase of shares | (100,084) | (20,590) |

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

| | | | |
|--|-----------|------------|---|
| Net cash used in financing activities | (137,443 |) (214,859 |) |
| Decrease in cash and cash equivalents | (70,801 |) (419,936 |) |
| Cash and cash equivalents at beginning of the year | 189,460 | 769,180 | |
| Cash and cash equivalents at end of period | \$118,659 | \$349,244 | |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid during the period for interest | \$10,168 | \$13,741 | |
| Cash paid during the period for taxes | \$489 | \$26,271 | |
| Supplemental schedule of non-cash investing activities: | | | |
| Loans transferred to other real estate owned at fair value | \$2,519 | \$32,408 | |
| FDIC indemnification asset claims transferred to other assets | \$181 | \$24,460 | |
| Loans purchased but not settled | \$29,906 | \$— | |
| See accompanying notes to the unaudited consolidated interim financial statements. | | | |

7

Table of contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
September 30, 2014

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 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.

These interim consolidated financial statements serve to update the National Bank Holdings Corporation Annual Report on Form 10-K for the year ended December 31, 2013. The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, NBH Bank, N.A. The accompanying 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 Form 10-K. The consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results presented. All such adjustments are of a normal recurring nature. All significant intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications of prior years' amounts are made whenever necessary to conform to current period presentation. The results of operations for the interim period is not necessarily indicative of the results that may be expected for the full year or any other interim period.

The Company's significant accounting policies followed in the preparation of the consolidated financial statements are disclosed in note 2 of the audited financial statements and notes for the year ended December 31, 2013 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, 2013. 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 those estimates.

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 will be effective for the Company for interim and annual periods beginning after December 15, 2014. Early adoption is permitted. Adoption of this amendment can be made using either a modified retrospective transition method or a prospective transition method. The adoption of this standard is

not expected to 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. The amendments are effective for interim

Table of contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 September 30, 2014

and annual periods beginning January 1, 2017 and must be applied retrospectively. The Company is in the process of evaluating the impact of the ASU's adoption on the Company's consolidated financial statements.

Note 3 Investment Securities

The Company's investment securities portfolio is comprised of available-for-sale and held-to-maturity investment securities. These investment securities totaled \$2.1 billion at September 30, 2014 and \$2.4 billion at December 31, 2013. Included in the aforementioned \$2.1 billion was \$1.6 billion of available-for-sale securities and \$0.6 billion of held-to-maturity securities.

Available-for-sale

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

| | September 30, 2014 | | | |
|--|--------------------|------------------------------|-------------------------------|---------------|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
| Asset backed securities | \$356 | \$— | \$— | \$356 |
| Mortgage-backed securities ("MBS"): | | | | |
| Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises | 419,852 | 8,089 | (814) |) 427,127 |
| Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises | 1,145,834 | 9,949 | (30,044) |) 1,125,739 |
| Other securities | 419 | — | — | 419 |
| Total | \$1,566,461 | \$18,038 | \$(30,858) |) \$1,553,641 |
| | December 31, 2013 | | | |
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
| Asset backed securities | 4,534 | 3 | — | 4,537 |
| Mortgage-backed securities ("MBS"): | | | | |
| Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises | 490,321 | 7,670 | (3,001) |) 494,990 |
| Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises | 1,320,998 | 10,764 | (46,180) |) 1,285,582 |
| Other securities | 419 | — | — | 419 |
| Total | \$1,816,272 | \$18,437 | \$(49,181) |) \$1,785,528 |

At September 30, 2014 and December 31, 2013, mortgage-backed securities represented 99.9% and 99.7%, respectively, of the Company's available-for-sale investment portfolio and all mortgage-backed securities were backed by government sponsored enterprises ("GSE") collateral such as Federal Home Loan Mortgage Corporation ("FHLMC") and Federal National Mortgage Association ("FNMA"), and the government sponsored agency Government National Mortgage Association ("GNMA").

Table of contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 September 30, 2014

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

| | September 30, 2014 | | | | | |
|--|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
| | Less than 12 months | | 12 months or more | | Total | |
| | Fair value | Unrealized losses | Fair value | Unrealized losses | Fair value | Unrealized losses |
| Mortgage-backed securities ("MBS"): | | | | | | |
| Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises | \$75,906 | \$(274) | \$110,728 | \$(540) | \$186,634 | \$(814) |
| Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises | 107,699 | (3,038) | 672,803 | (27,006) | 780,502 | (30,044) |
| Total | \$183,605 | \$(3,312) | \$783,531 | \$(27,546) | \$967,136 | \$(30,858) |

| | December 31, 2013 | | | | | |
|--|---------------------|-------------------|-------------------|-------------------|-------------|-------------------|
| | Less than 12 months | | 12 months or more | | Total | |
| | Fair value | Unrealized losses | Fair value | Unrealized losses | Fair value | Unrealized losses |
| Mortgage-backed securities ("MBS"): | | | | | | |
| Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises | \$283,177 | \$(3,000) | \$13 | \$(1) | \$283,190 | \$(3,001) |
| Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises | 876,225 | (44,101) | 40,740 | (2,079) | 916,965 | (46,180) |
| Total | \$1,159,402 | \$(47,101) | \$40,753 | \$(2,080) | \$1,200,155 | \$(49,181) |

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, 2014 or December 31, 2013. The unrealized losses in the Company's investments issued or guaranteed by U.S. government agencies or sponsored enterprises at September 30, 2014 were caused by changes in interest rates. The Company had no intention to sell these securities before recovery of their amortized cost and believes it will not be required to sell the securities before the recovery of their amortized cost.

The Company pledges certain securities as collateral for public deposits, securities sold under agreements to repurchase and to secure borrowing capacity at the Federal Reserve Bank, if needed. The fair value of available-for-sale investment securities pledged as collateral totaled \$272.1 million at September 30, 2014 and \$177.6 million December 31, 2013. The increase in pledged available-for-sale investment securities was primarily attributable to an increase in average deposit account balances during the nine months ended September 30, 2014, an increase in pledged securities for derivative instruments, and well as an increase in securities pledged to the Federal Reserve Bank. Certain investment securities may also be pledged as collateral should the Company utilize its line of credit at the FHLB of Des Moines; however, no investment securities were pledged for this purpose at September 30, 2014 or December 31, 2013.

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 3.6 years as of September 30, 2014 and 3.9 years as of December 31, 2013. This estimate is based on assumptions and actual results may differ. Other securities of \$0.4 million have no stated contractual maturity date as of September 30, 2014.

Held-to-maturity

At September 30, 2014 and December 31, 2013 the Company held \$557.5 million and \$641.9 million of held-to-maturity investment securities, respectively. Held-to-maturity investment securities are summarized as follows as of the dates indicated

Table of contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 September 30, 2014

(in thousands):

| | September 30, 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 | \$444,104 | \$3,774 | \$(454) |) \$447,424 |
| Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises | 113,360 | 202 | (3,393) |) 110,169 |
| Total investment securities held-to-maturity | \$557,464 | \$3,976 | \$(3,847) |) \$557,593 |

| | December 31, 2013 | | | |
|--|-------------------|------------------------------|-------------------------------|-------------|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
| Mortgage-backed securities ("MBS"): | | | | |
| Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises | \$513,090 | \$175 | \$(1,776) |) \$511,489 |
| Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises | 128,817 | 104 | (4,005) |) 124,916 |
| Total investment securities held-to-maturity | \$641,907 | \$279 | \$(5,781) |) \$636,405 |

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

| | September 30, 2014 | | | | | |
|--|---------------------|----------------------|-------------------|----------------------|---------------|----------------------|
| | Less than 12 months | | 12 months or more | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Mortgage-backed securities ("MBS"): | | | | | | |
| Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises | \$— | \$— | \$37,164 | \$(454) |) \$37,164 | \$(454) |
| Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises | 10,289 | (91) |) 82,866 | (3,302) |) 93,155 | (3,393) |
| Total | \$10,289 | \$(91) |) \$120,030 | \$(3,756) |) \$130,319 | \$(3,847) |

Table of contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 September 30, 2014

| | December 31, 2013 | | 12 months or more | | Total | |
|--|-------------------|-------------------|-------------------|-------------------|------------|-------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Mortgage-backed securities (“MBS”): | | | | | | |
| Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises | \$472,973 | \$(1,776) | \$— | \$— | \$472,973 | \$(1,776) |
| Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises | 105,124 | (4,005) | — | — | 105,124 | (4,005) |
| Total | \$578,097 | \$(5,781) | \$— | \$— | \$578,097 | \$(5,781) |

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, 2014 or December 31, 2013. The unrealized losses in the Company's investments issued or guaranteed by U.S. government agencies or sponsored enterprises at September 30, 2014 were caused by changes in interest rates. The Company had no intention to sell these securities before recovery of their amortized cost and believes it will not be required to sell the securities before the recovery of their amortized cost.

The carrying value of held-to-maturity investment securities pledged as collateral totaled \$63.6 million and \$68.5 million at September 30, 2014 and December 31, 2013, 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, 2014 and December 31, 2013 was 3.5 years and 3.8 years, respectively. This estimate is based on assumptions and actual results may differ.

Note 4 Loans

The loan portfolio is comprised of loans originated by the Company and loans that were acquired in connection with the Company's acquisitions of Bank of Choice and Community Banks of Colorado in 2011, and Hillcrest Bank and Bank Midwest in 2010. The majority of the loans acquired in the Hillcrest Bank and Community Banks of Colorado transactions are covered by loss sharing agreements with the FDIC, and covered loans are presented separately from non-covered loans due to the FDIC loss sharing agreements associated with these loans. Covered loans comprised 10.1% of the total loan portfolio at September 30, 2014, compared to 16.7% of the total loan portfolio at December 31, 2013.

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, 2014 and December 31, 2013. The carrying value of loans are net of discounts on loans excluded from Accounting Standards Codification (“ASC”) Topic 310-30, and fees and costs of \$11.7 million and \$13.3 million as of September 30, 2014 and December 31, 2013, respectively (in thousands):

| | September 30, 2014 | | Total loans | % of total | |
|-------------|--------------------|------------------|-------------|------------|---|
| | ASC 310-30 loans | Non 310-30 loans | | | |
| Commercial | \$37,665 | \$717,507 | \$755,172 | 34.8 | % |
| Agriculture | 20,071 | 142,801 | 162,872 | 7.5 | % |

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

| | | | | | |
|-------------------------|-----------|-------------|-------------|-------|---|
| Commercial real estate | 213,871 | 380,445 | 594,316 | 27.4 | % |
| Residential real estate | 43,979 | 579,420 | 623,399 | 28.7 | % |
| Consumer | 5,007 | 30,606 | 35,613 | 1.6 | % |
| Total | \$320,593 | \$1,850,779 | \$2,171,372 | 100.0 | % |
| Covered | \$183,486 | \$35,982 | \$219,468 | 10.1 | % |
| Non-covered | 137,107 | 1,814,797 | 1,951,904 | 89.9 | % |
| Total | \$320,593 | \$1,850,779 | \$2,171,372 | 100.0 | % |

12

Table of contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 September 30, 2014

| | December 31, 2013 | | Total loans | % of total | |
|-------------------------|---------------------|---------------------|-------------|------------|---|
| | ASC 310-30 loans | Non 310-30 loans | | | |
| Commercial | \$61,511 | \$421,984 | \$483,495 | 26.1 | % |
| Agriculture | 27,000 | 132,952 | 159,952 | 8.6 | % |
| Commercial real estate | 291,198 | 283,022 | 574,220 | 31.0 | % |
| Residential real estate | 63,011 | 536,913 | 599,924 | 32.3 | % |
| Consumer | 8,160 | 28,343 | 36,503 | 2.0 | % |
| Total | \$450,880 | \$1,403,214 | \$1,854,094 | 100.0 | % |
| Covered | \$259,364 | \$50,033 | \$309,397 | 16.7 | % |
| Non-covered | 191,516 | 1,353,181 | 1,544,697 | 83.3 | % |
| Total | \$450,880 | \$1,403,214 | \$1,854,094 | 100.0 | % |

Loans are considered past due or delinquent when the contractual principal or interest due in accordance with the terms of the loan agreement remains unpaid after the due date of the scheduled payment. During 2013, the Company determined that the cash flows of one covered commercial and industrial loan pool were no longer reasonably estimable, and in accordance with the guidance in ASC 310-30, this pool was put on non-accrual status. During the nine months ended September 30, 2014, this loan pool was returned to accrual status due to improved performance and predictability of cash flows within that pool. At September 30, 2014, this loan pool had a carrying value of \$13.2 million. Interest income is recognized on all accruing loans accounted for under ASC 310-30 through accretion of the difference between the carrying value of the loans and the expected cash flows.

Table of contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 September 30, 2014

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. At September 30, 2014 and December 31, 2013, \$18.9 million and \$9.5 million, respectively, of loans excluded from the scope of ASC 310-30 were on non-accrual and \$14.8 million of loans accounted for under ASC 310-30 were on non-accrual status at December 31, 2013. Loan delinquency for all loans is shown in the following tables at September 30, 2014 and December 31, 2013, respectively (in thousands):

| | Total Loans September 30, 2014 | | | | Current | Total loans | Loans > 90 | |
|--|--------------------------------|---------------------|-------------------------------|----------------|-------------|-------------|----------------------------------|-------------|
| | 30-59 days past due | 60-89 days past due | Greater than 90 days past due | Total past due | | | days past due and still accruing | Non-accrual |
| Loans excluded from ASC 310-30 | | | | | | | | |
| Commercial | \$2,063 | \$314 | \$189 | \$2,566 | \$714,941 | \$717,507 | \$77 | \$12,203 |
| Agriculture | 67 | — | — | 67 | 142,734 | 142,801 | — | 515 |
| Commercial real estate | | | | | | | | |
| Construction | — | — | — | — | 11,835 | 11,835 | — | — |
| Acquisition/development | 42 | — | — | 42 | 4,553 | 4,595 | — | — |
| Multifamily | — | — | 95 | 95 | 15,784 | 15,879 | 94 | 144 |
| Owner-occupied | 78 | 89 | 289 | 456 | 122,023 | 122,479 | — | 946 |
| Non owner-occupied | 1,961 | — | 203 | 2,164 | 223,493 | 225,657 | — | 203 |
| Total commercial real estate | 2,081 | 89 | 587 | 2,757 | 377,688 | 380,445 | 94 | 1,293 |
| Residential real estate | | | | | | | | |
| Senior lien | 764 | 279 | 807 | 1,850 | 525,722 | 527,572 | 48 | 4,277 |
| Junior lien | 269 | 112 | 18 | 399 | 51,449 | 51,848 | — | 417 |
| Total residential real estate | 1,033 | 391 | 825 | 2,249 | 577,171 | 579,420 | 48 | 4,694 |
| Consumer | 135 | 24 | 6 | 165 | 30,441 | 30,606 | 6 | 231 |
| Total loans excluded from ASC 310-30 | \$5,379 | \$818 | \$1,607 | \$7,804 | \$1,842,975 | \$1,850,779 | \$225 | \$18,936 |
| Covered loans excluded from ASC 310-30 | \$78 | \$188 | \$30 | \$296 | \$35,686 | \$35,982 | \$— | \$1,540 |
| Non-covered loans excluded from ASC 310-30 | 5,301 | 630 | 1,577 | 7,508 | 1,807,289 | 1,814,797 | 225 | 17,396 |
| Total loans excluded from ASC 310-30 | \$5,379 | \$818 | \$1,607 | \$7,804 | \$1,842,975 | \$1,850,779 | \$225 | \$18,936 |
| Loans accounted for under ASC 310-30 | | | | | | | | |
| Commercial | \$400 | \$— | \$4,981 | \$5,381 | \$32,284 | \$37,665 | \$4,981 | \$— |
| Agriculture | — | 288 | 171 | 459 | 19,612 | 20,071 | 171 | — |
| Commercial real estate | 3,878 | 25,013 | 35,870 | 64,761 | 149,110 | 213,871 | 35,870 | — |
| Residential real estate | 879 | 156 | 1,757 | 2,792 | 41,187 | 43,979 | 1,757 | — |
| Consumer | 147 | — | 151 | 298 | 4,709 | 5,007 | 151 | — |
| | \$5,304 | \$25,457 | \$42,930 | \$73,691 | \$246,902 | \$320,593 | \$42,930 | \$— |

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

| | | | | | | | | |
|--|----------|----------|----------|----------|-------------|-------------|----------|----------|
| Total loans accounted for under ASC 310-30 | | | | | | | | |
| Covered loans accounted for under ASC 310-30 | \$3,791 | \$23,783 | \$34,497 | \$62,071 | \$121,415 | \$183,486 | \$34,497 | \$— |
| Non-covered loans accounted for under ASC 310-30 | 1,513 | 1,674 | 8,433 | 11,620 | 125,487 | 137,107 | 8,433 | — |
| Total loans accounted for under ASC 310-30 | \$5,304 | \$25,457 | \$42,930 | \$73,691 | \$246,902 | \$320,593 | \$42,930 | \$— |
| Total loans | \$10,683 | \$26,275 | \$44,537 | \$81,495 | \$2,089,877 | \$2,171,372 | \$43,155 | \$18,936 |
| Covered loans | \$3,869 | \$23,971 | \$34,527 | \$62,367 | \$157,101 | \$219,468 | \$34,497 | \$1,540 |
| Non-covered loans | 6,814 | 2,304 | 10,010 | 19,128 | 1,932,776 | 1,951,904 | 8,658 | 17,396 |
| Total loans | \$10,683 | \$26,275 | \$44,537 | \$81,495 | \$2,089,877 | \$2,171,372 | \$43,155 | \$18,936 |

Table of contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 September 30, 2014

| | Total Loans December 31, 2013 | | | | Current | Total loans | Loans > 90 | |
|--|-------------------------------|---------------------|-------------------------------|----------------|-------------|-------------|----------------------------------|-------------|
| | 30-59 days past due | 60-89 days past due | Greater than 90 days past due | Total past due | | | days past due and still accruing | Non-accrual |
| Loans excluded from ASC 310-30 | | | | | | | | |
| Commercial | \$897 | \$156 | \$555 | \$1,608 | \$420,376 | \$421,984 | \$115 | \$1,280 |
| Agriculture | 188 | 7 | — | 195 | 132,757 | 132,952 | — | 153 |
| Commercial real estate | | | | | | | | |
| Construction | 316 | — | — | 316 | 5,023 | 5,339 | — | — |
| Acquisition/development | 45 | — | — | 45 | 7,975 | 8,020 | — | 1 |
| Multifamily | 1,003 | — | — | 1,003 | 9,681 | 10,684 | — | 1,096 |
| Owner-occupied | 52 | 7 | 21 | 80 | 93,367 | 93,447 | — | 692 |
| Non owner-occupied | 329 | — | 203 | 532 | 165,000 | 165,532 | — | 203 |
| Total commercial real estate | 1,745 | 7 | 224 | 1,976 | 281,046 | 283,022 | — | 1,992 |
| Residential real estate | | | | | | | | |
| Senior lien | 733 | 415 | 1,062 | 2,210 | 482,381 | 484,591 | — | 5,326 |
| Junior lien | 204 | — | 80 | 284 | 52,038 | 52,322 | — | 519 |
| Total residential real estate | 937 | 415 | 1,142 | 2,494 | 534,419 | 536,913 | — | 5,845 |
| Consumer | 191 | 21 | 23 | 235 | 28,108 | 28,343 | 14 | 247 |
| Total loans excluded from ASC 310-30 | \$3,958 | \$606 | \$1,944 | \$6,508 | \$1,396,706 | \$1,403,214 | \$129 | \$9,517 |
| Covered loans excluded from ASC 310-30 | 194 | 60 | 155 | 409 | 49,624 | 50,033 | 115 | 1,944 |
| Non-covered loans excluded from ASC 310-30 | 3,764 | 546 | 1,789 | 6,099 | 1,347,082 | 1,353,181 | 14 | 7,573 |
| Total loans excluded from ASC 310-30 | \$3,958 | \$606 | \$1,944 | \$6,508 | \$1,396,706 | \$1,403,214 | \$129 | \$9,517 |
| Loans accounted for under ASC 310-30 | | | | | | | | |
| Commercial | \$582 | \$322 | \$4,505 | \$5,409 | \$56,102 | \$61,511 | \$4,505 | \$14,827 |
| Agriculture | 714 | — | 296 | 1,010 | 25,990 | 27,000 | 296 | — |
| Commercial real estate | 1,902 | 5,179 | 49,228 | 56,309 | 234,889 | 291,198 | 49,227 | — |
| Residential real estate | 977 | 977 | 1,817 | 3,771 | 59,240 | 63,011 | 1,817 | — |
| Consumer | 327 | 265 | 19 | 611 | 7,549 | 8,160 | 19 | — |
| Total loans accounted for under ASC 310-30 | \$4,502 | \$6,743 | \$55,865 | \$67,110 | \$383,770 | \$450,880 | \$55,864 | \$14,827 |
| Covered loans accounted for under ASC 310-30 | \$1,471 | \$4,949 | \$42,356 | \$48,776 | \$210,588 | \$259,364 | \$42,355 | \$14,827 |
| Non-covered loans accounted for under ASC 310-30 | 3,031 | 1,794 | 13,509 | 18,334 | 173,182 | 191,516 | 13,509 | — |
| Total loans accounted for under ASC 310-30 | \$4,502 | \$6,743 | \$55,865 | \$67,110 | \$383,770 | \$450,880 | \$55,864 | \$14,827 |

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

| | | | | | | | | |
|-------------------|---------|---------|----------|----------|-------------|-------------|----------|----------|
| Total loans | \$8,460 | \$7,349 | \$57,809 | \$73,618 | \$1,780,476 | \$1,854,094 | \$55,993 | \$24,344 |
| Covered loans | \$1,665 | \$5,009 | \$42,511 | \$49,185 | \$260,212 | \$309,397 | \$42,470 | \$16,771 |
| Non-covered loans | 6,795 | 2,340 | 15,298 | 24,433 | 1,520,264 | 1,544,697 | 13,523 | 7,573 |
| Total loans | \$8,460 | \$7,349 | \$57,809 | \$73,618 | \$1,780,476 | \$1,854,094 | \$55,993 | \$24,344 |

Table of contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 September 30, 2014

Credit exposure for all loans as determined by the Company's internal risk rating system was as follows as of September 30, 2014 and December 31, 2013, respectively (in thousands):

| | Total Loans September 30, 2014 | | | | |
|--|--------------------------------|--------------------|-------------|----------|-------------|
| | Pass | Special mention | Substandard | Doubtful | Total |
| Loans excluded from ASC 310-30 | | | | | |
| Commercial | \$686,475 | \$2,973 | \$28,022 | \$37 | \$717,507 |
| Agriculture | 132,749 | 92 | 9,960 | — | 142,801 |
| Commercial real estate | | | | | |
| Construction | 11,835 | — | — | — | 11,835 |
| Acquisition/development | 4,595 | — | — | — | 4,595 |
| Multifamily | 15,735 | — | 128 | 16 | 15,879 |
| Owner-occupied | 117,256 | 161 | 5,062 | — | 122,479 |
| Non owner-occupied | 204,212 | 17,788 | 3,647 | 10 | 225,657 |
| Total commercial real estate | 353,633 | 17,949 | 8,837 | 26 | 380,445 |
| Residential real estate | | | | | |
| Senior lien | 521,525 | 103 | 5,758 | 186 | 527,572 |
| Junior lien | 50,513 | — | 1,335 | — | 51,848 |
| Total residential real estate | 572,038 | 103 | 7,093 | 186 | 579,420 |
| Consumer | 30,376 | — | 230 | — | 30,606 |
| Total loans excluded from ASC 310-30 | \$1,775,271 | \$21,117 | \$54,142 | \$249 | \$1,850,779 |
| Covered loans excluded from ASC 310-30 | \$21,300 | \$2,404 | \$12,154 | \$124 | \$35,982 |
| Non-covered loans excluded from ASC 310-30 | 1,753,971 | 18,713 | 41,988 | 125 | 1,814,797 |
| Total loans excluded from ASC 310-30 | \$1,775,271 | \$21,117 | \$54,142 | \$249 | \$1,850,779 |
| Loans accounted for under ASC 310-30 | | | | | |
| Commercial | \$13,101 | \$348 | \$23,682 | \$534 | \$37,665 |
| Agriculture | 17,598 | 203 | 2,270 | — | 20,071 |
| Commercial real estate | 87,361 | 4,067 | 118,453 | 3,990 | 213,871 |
| Residential real estate | 30,066 | 1,447 | 12,466 | — | 43,979 |
| Consumer | 4,310 | 114 | 583 | — | 5,007 |
| Total loans accounted for under ASC 310-30 | \$152,436 | \$6,179 | \$157,454 | \$4,524 | \$320,593 |
| Covered loans accounted for under ASC 310-30 | \$54,336 | \$3,452 | \$121,176 | \$4,522 | \$183,486 |
| Non-covered loans accounted for under ASC 310-30 | 98,100 | 2,727 | 36,278 | 2 | 137,107 |
| Total loans accounted for under ASC 310-30 | \$152,436 | \$6,179 | \$157,454 | \$4,524 | \$320,593 |
| Total loans | \$1,927,707 | \$27,296 | \$211,596 | \$4,773 | \$2,171,372 |
| Total covered | \$75,636 | \$5,856 | \$133,330 | \$4,646 | \$219,468 |
| Total non-covered | 1,852,071 | 21,440 | 78,266 | 127 | 1,951,904 |
| Total loans | \$1,927,707 | \$27,296 | \$211,596 | \$4,773 | \$2,171,372 |

Table of contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 September 30, 2014

| | Total Loans December 31, 2013 | | | | Total |
|--|-------------------------------|-----------------|-------------|----------|-------------|
| | Pass | Special mention | Substandard | Doubtful | |
| Loans excluded from ASC 310-30 | | | | | |
| Commercial | \$374,281 | \$9,882 | \$37,414 | \$407 | \$421,984 |
| Agriculture | 123,216 | 9,049 | 687 | — | 132,952 |
| Commercial real estate | | | | | |
| Construction | 5,339 | — | — | — | 5,339 |
| Acquisition/development | 1,366 | 2,247 | 4,407 | — | 8,020 |
| Multifamily | 9,588 | — | 1,068 | 28 | 10,684 |
| Owner-occupied | 87,984 | 169 | 5,294 | — | 93,447 |
| Non owner-occupied | 142,159 | 18,536 | 4,837 | — | 165,532 |
| Total commercial real estate | 246,436 | 20,952 | 15,606 | 28 | 283,022 |
| Residential real estate | | | | | |
| Senior lien | 475,041 | 1,495 | 7,620 | 435 | 484,591 |
| Junior lien | 49,874 | 200 | 2,248 | — | 52,322 |
| Total residential real estate | 524,915 | 1,695 | 9,868 | 435 | 536,913 |
| Consumer | 28,092 | — | 251 | — | 28,343 |
| Total loans excluded from ASC 310-30 | \$1,296,940 | \$41,578 | \$63,826 | \$870 | \$1,403,214 |
| Covered loans excluded from ASC 310-30 | \$22,175 | \$3,439 | \$24,005 | \$414 | \$50,033 |
| Non-covered loans excluded from ASC 310-30 | 1,274,765 | 38,139 | 39,821 | 456 | 1,353,181 |
| Total loans excluded from ASC 310-30 | \$1,296,940 | \$41,578 | \$63,826 | \$870 | \$1,403,214 |
| Loans accounted for under ASC 310-30 | | | | | |
| Commercial | \$23,129 | \$3,221 | \$34,440 | \$721 | \$61,511 |
| Agriculture | 21,900 | 1,117 | 3,983 | — | 27,000 |
| Commercial real estate | 115,903 | 12,493 | 157,748 | 5,054 | 291,198 |
| Residential real estate | 43,904 | 1,098 | 18,009 | — | 63,011 |
| Consumer | 6,921 | 244 | 995 | — | 8,160 |
| Total loans accounted for under ASC 310-30 | \$211,757 | \$18,173 | \$215,175 | \$5,775 | \$450,880 |
| Covered loans accounted for under ASC 310-30 | \$100,050 | \$8,498 | \$145,041 | \$5,775 | \$259,364 |
| Non-covered loans accounted for under ASC 310-30 | 111,707 | 9,675 | 70,134 | — | 191,516 |
| Total loans accounted for under ASC 310-30 | \$211,757 | \$18,173 | \$215,175 | \$5,775 | \$450,880 |
| Total loans | \$1,508,697 | \$59,751 | \$279,001 | \$6,645 | \$1,854,094 |
| Total covered | \$122,225 | \$11,937 | \$169,046 | \$6,189 | \$309,397 |
| Total non-covered | 1,386,472 | 47,814 | 109,955 | 456 | 1,544,697 |
| Total loans | \$1,508,697 | \$59,751 | \$279,001 | \$6,645 | \$1,854,094 |

Table of contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
September 30, 2014

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 and troubled debt restructurings (“TDRs”) described below. If a specific allowance is warranted based on the borrower’s overall financial condition, the specific allowance is calculated based on discounted cash flows using the loan’s initial contractual effective interest rate or the fair value of the collateral less selling costs for collateral dependent loans. At September 30, 2014, the Company measured \$24.5 million of impaired loans using discounted cash flows and the loan’s initial contractual effective interest rate and \$14.2 million of impaired loans based on the fair value of the collateral less selling costs. Impaired loans totaling \$8.6 million that individually were less than \$250 thousand each, were measured through our general ALL reserves due to their relatively small size. At September 30, 2014 and December 31, 2013, the Company’s recorded investments in impaired loans was \$47.2 million and \$21.6 million, respectively, of which \$11.8 million and \$7.7 million were covered by loss sharing agreements, for the aforementioned periods. The increase in impaired loans was primarily in the commercial loan segment, and largely the result of two relationships, the first of which totaled \$11.5 million and was fully secured and current as to principal and interest payments as of September 30, 2014. The second relationship totaled \$7.4 million, is covered by loss-share and also current as to principal and interest payments as of September 30, 2014. Impaired loans had a collective related allowance for loan losses allocated to them of \$0.3 million and \$0.9 million at September 30, 2014 and December 31, 2013, respectively. Additional information regarding impaired loans at September 30, 2014 and December 31, 2013 is set forth in the table below (in thousands):

Table of contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 September 30, 2014

| | Impaired Loans September 30, 2014 | | | December 31, 2013 | | |
|---|--------------------------------------|------------------------|--|--------------------------------|------------------------|--|
| | 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 | \$25,111 | \$24,974 | \$— | \$4,981 | \$4,981 | \$— |
| Agriculture | 9,314 | 9,310 | — | — | — | — |
| Commercial real estate | | | | | | |
| Construction | — | — | — | — | — | — |
| Acquisition/development | — | — | — | — | — | — |
| Multifamily | — | — | — | 987 | 929 | — |
| Owner-occupied | 1,746 | 1,514 | — | 1,872 | 1,655 | — |
| Non-owner occupied | — | — | — | 561 | 488 | — |
| Total commercial real estate | 1,746 | 1,514 | — | 3,420 | 3,072 | — |
| Residential real estate | | | | | | |
| Senior lien | 376 | 363 | — | 506 | 494 | — |
| Junior lien | — | — | — | — | — | — |
| Total residential real estate | 376 | 363 | — | 506 | 494 | — |
| Consumer | — | — | — | — | — | — |
| Total impaired loans with no related allowance recorded | \$36,547 | \$36,161 | \$— | \$8,907 | \$8,547 | \$— |
| With a related allowance recorded: | | | | | | |
| Commercial | \$1,030 | \$801 | \$39 | \$2,529 | \$2,379 | \$416 |
| Agriculture | 181 | 150 | — | 191 | 173 | 1 |
| Commercial real estate | | | | | | |
| Construction | — | — | — | — | — | — |
| Acquisition/development | — | — | — | — | 1 | — |
| Multifamily | 161 | 144 | 16 | 178 | 168 | 28 |
| Owner-occupied | 848 | 606 | 3 | 825 | 607 | 4 |
| Non-owner occupied | 1,142 | 1,061 | 12 | 640 | 628 | 4 |
| Total commercial real estate | 2,151 | 1,811 | 31 | 1,643 | 1,404 | 36 |
| Residential real estate | | | | | | |
| Senior lien | 7,479 | 6,575 | 210 | 8,147 | 7,266 | 474 |
| Junior lien | 1,697 | 1,477 | 10 | 1,815 | 1,605 | 16 |
| Total residential real estate | 9,176 | 8,052 | 220 | 9,962 | 8,871 | 490 |
| Consumer | 280 | 250 | 3 | 290 | 273 | 3 |
| Total impaired loans with a related allowance recorded | \$12,818 | \$11,064 | \$293 | \$14,615 | \$13,100 | \$946 |
| Total impaired loans | \$49,365 | \$47,225 | \$293 | \$23,522 | \$21,647 | \$946 |

Table of contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 September 30, 2014

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

| | For the nine months ended | | September 30, 2013 | |
|---|---------------------------|--------------------|--------------------|------------|
| | September 30, 2014 | September 30, 2013 | Average | Interest |
| | Average | Interest | Average | Interest |
| | recorded | income | recorded | income |
| | investment | recognized | investment | recognized |
| With no related allowance recorded: | | | | |
| Commercial | \$25,947 | \$342 | \$6,169 | \$276 |
| Agriculture | 9,045 | 217 | — | — |
| Commercial real estate | | | | |
| Construction | — | — | — | — |
| Acquisition/development | — | — | — | — |
| Multifamily | — | — | 958 | — |
| Owner-occupied | 1,578 | 63 | 4,031 | 226 |
| Non owner-occupied | — | — | 5,188 | 8 |
| Total commercial real estate | 1,578 | 63 | 10,177 | 234 |
| Residential real estate | | | | |
| Senior lien | 391 | 8 | 752 | 6 |
| Junior lien | — | — | — | — |
| Total residential real estate | 391 | 8 | 752 | 6 |
| Consumer | — | — | — | — |
| Total impaired loans with no related allowance recorded | \$36,961 | \$630 | \$17,098 | \$516 |
| With a related allowance recorded: | | | | |
| Commercial | \$987 | \$6 | \$2,744 | \$53 |
| Agriculture | 165 | — | 224 | — |
| Commercial real estate | | | | |
| Construction | — | — | — | — |
| Acquisition/development | — | — | 1 | — |
| Multifamily | 156 | — | 187 | — |
| Owner-occupied | 627 | 10 | 668 | 11 |
| Non owner-occupied | 1,086 | 42 | 636 | 14 |
| Total commercial real estate | 1,869 | 52 | 1,492 | 25 |
| Residential real estate | | | | |
| Senior lien | 6,738 | 81 | 7,310 | 71 |
| Junior lien | 1,515 | 45 | 1,736 | 40 |
| Total residential real estate | 8,253 | 126 | 9,046 | 111 |
| Consumer | 266 | 1 | 313 | 3 |
| Total impaired loans with a related allowance recorded | \$11,540 | \$185 | \$13,819 | \$192 |
| Total impaired loans | \$48,501 | \$815 | \$30,917 | \$708 |

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

Table of contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 September 30, 2014

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, 2014 and December 31, 2013, the Company had \$25.0 million and \$11.6 million, respectively, of accruing TDRs that had been restructured from the original terms in order to facilitate repayment. Of these, \$9.2 million and \$5.7 million, respectively, were covered by FDIC loss sharing agreements. Non-accruing TDRs at September 30, 2014 and December 31, 2013 totaled \$3.7 million and \$3.6 million, respectively. Of these, \$1.4 million and \$1.7 million were covered by the FDIC loss sharing agreements as of September 30, 2014 and December 31, 2013, respectively.

During the nine months ended September 30, 2014, the Company restructured fourteen loans with a recorded investment of \$20.4 million to facilitate repayment. Substantially all of the loan modifications were 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, 2014 and December 31, 2013 (in thousands):

| | Accruing TDRs September 30, 2014 | | | |
|-------------------------|-------------------------------------|--|--------------------------|-----------------------------------|
| | Recorded investment | Average year-to-date recorded investment | Unpaid principal balance | Unfunded commitments to fund TDRs |
| Commercial | \$12,573 | \$12,131 | \$12,573 | \$840 |
| Agriculture | 8,946 | 8,680 | 8,949 | 126 |
| Commercial real estate | 620 | 631 | 632 | — |
| Residential real estate | 2,877 | 2,932 | 2,902 | 2 |
| Consumer | 20 | 21 | 20 | — |
| Total | \$25,036 | \$24,395 | \$25,076 | \$968 |

| | Accruing TDRs December 31, 2013 | | | |
|-------------------------|------------------------------------|--|--------------------------|-----------------------------------|
| | Recorded investment | Average year-to-date recorded investment | Unpaid principal balance | Unfunded commitments to fund TDRs |
| Commercial | \$6,079 | \$7,113 | \$6,084 | \$144 |
| Agriculture | 20 | 20 | 20 | — |
| Commercial real estate | 2,484 | 2,759 | 2,743 | — |
| Residential real estate | 2,995 | 3,055 | 3,023 | 12 |
| Consumer | 27 | 30 | 27 | 12 |
| Total | \$11,605 | \$12,977 | \$11,897 | \$168 |

Table of contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 September 30, 2014

The following table summarizes the Company's carrying value of non-accrual TDRs as of September 30, 2014 and December 31, 2013 (in thousands):

| | Non - Accruing TDRs | | December 31, 2013 | |
|-------------------------|---------------------|-------------|-------------------|-------------|
| | September 30, 2014 | | Covered | Non-covered |
| | Covered | Non-covered | Covered | Non-covered |
| Commercial | \$1 | \$429 | \$— | \$535 |
| Agriculture | 201 | 180 | — | — |
| Commercial real estate | 246 | 470 | 296 | 98 |
| Residential real estate | 945 | 996 | 1,377 | 1,031 |
| Consumer | — | 199 | — | 237 |
| Total | \$1,393 | \$2,274 | \$1,673 | \$1,901 |

Accrual of interest is resumed on loans that were on non-accrual only after the loan has performed sufficiently. The Company had three TDRs that were modified within the past 12 months and had defaulted on their restructured terms during the nine months ended September 30, 2014. The defaulted TDRs consisted of a commercial loan and two consumer loans totaling \$37 thousand.

During the nine months ended September 30, 2013, the Company had two TDRs that had been modified within the past 12 months that defaulted on its restructured terms. The defaulted TDRs were a commercial loan and a consumer loan totaling \$328 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 large loans if circumstances specific to that loan warrant a prepayment assumption. No prepayments were presumed for small homogeneous commercial loans; however, prepayment assumptions are made that consider similar prepayment factors listed above for smaller homogeneous loans. The re-measurement of loans accounted for under ASC 310-30 resulted in the following changes in the carrying amount of accretable yield during the nine months ended September 30, 2014 and 2013 (in thousands):

| | September 30, 2014 | September 30, 2013 |
|---|-----------------------|-----------------------|
| Accretable yield beginning balance | \$130,624 | \$133,585 |
| Reclassification from non-accretable difference | 30,394 | 55,351 |
| Reclassification to non-accretable difference | (1,264 |) (5,234 |
| Accretion | (46,646 |) (59,616 |
| Accretable yield ending balance | \$113,108 | \$124,086 |

Below is the composition of the net book value for loans accounted for under ASC 310-30 at September 30, 2014 and December 31, 2013 (in thousands):

| | September 30, 2014 | December 31, 2013 |
|--------------------------------------|-----------------------|----------------------|
| Contractual cash flows | \$807,075 | \$984,019 |
| Non-accretable difference | (373,374 |) (402,515 |
| Accretable yield | (113,108 |) (130,624 |
| Loans accounted for under ASC 310-30 | \$320,593 | \$450,880 |

Table of contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 September 30, 2014

Note 5 Allowance for Loan Losses

The tables below detail the Company's allowance for loan losses ("ALL") and recorded investment in loans as of and for the three and nine months ended September 30, 2014 and 2013 (in thousands):

| | 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 | |

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

Table of contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 September 30, 2014

| | Nine months ended September 30, 2014 | | | | | | |
|---|--------------------------------------|-------------|---------------------------|----------------------------|----------|-------------|---|
| | Commercial | Agriculture | Commercial real estate | Residential real estate | Consumer | Total | |
| 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 | 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 | |

Table of contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 September 30, 2014

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

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 \$0.5 million net charge-offs of non 310-30 loans during the three months ended September 30, 2014 and \$0.8 million net charge-offs of non 310-30 loans during the nine months ended September 30, 2014. With the exception of a large commercial and industrial loan that was added to non-accrual status during the second quarter of 2014, strong credit quality trends of the non 310-30 loan portfolio continued during the three and nine months ended September 30, 2014, 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 during the three and nine months ended September 30, 2014, respectively.

During the nine months ended September 30, 2014, the Company re-estimated the expected cash flows of the loan pools accounted for under ASC 310-30 utilizing the same cash flow methodology used at the time of acquisition. The re-measurement resulted in net recoupment of impairment of \$191 thousand and \$335 thousand for the three and nine months ended September 30, 2014, respectively, which was comprised of recoupment 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.

Table of contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 September 30, 2014

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

The Company's re-measurement of expected future cash flows of ASC 310-30 loans resulted in net recoupment of \$0.3 million and a net impairment of \$1.0 million for the three and nine months ended September 30, 2013, respectively. During the three months ended September 30, 2013, the re-measurements resulted in a recoupment of \$0.9 million of impairment expense in the residential real estate segment and net impairments of \$0.5 million in the agriculture segment. During the nine months ended September 30, 2013, the re-measurements resulted in a recoupment of previous valuation allowances of \$1.2 million in the commercial real estate segment and net impairments of \$1.3 million, \$0.5 million and \$0.5 million in the residential real estate, agriculture, and commercial segments, respectively.

Note 6 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 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, 2014 and 2013 (in thousands):

| | For the nine months ended | |
|---|---------------------------|-----------------------|
| | September 30, 2014 | September 30, 2013 |
| Balance at beginning of period | \$64,447 | \$86,923 |
| Amortization | (19,819) | (11,843) |
| FDIC portion of (recoveries) charge-offs exceeding fair value marks | (34) | 7,466 |
| Changes for FDIC loss share submissions | (181) | (24,460) |
| Balance at end of period | \$44,413 | \$58,086 |

The \$19.8 million of amortization of the FDIC indemnification asset recognized during the nine months ended September 30, 2014 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 loans as an adjustment to yield. The loss 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, 2014, the Company received a net \$181 thousand from the FDIC.

During the nine months ended September 30, 2013, the Company recognized \$11.8 million of amortization on the FDIC indemnification asset, and further reduced the carrying value of the FDIC indemnification asset by \$24.5 million as a result of claims filed with the FDIC. During the nine months ended September 30, 2013, the Company received \$77.0 million in payments from the FDIC.

Table of contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 September 30, 2014

Note 7 Other Real Estate Owned

A summary of the activity in the OREO balances during the nine months ended September 30, 2014 and 2013 is as follows (in thousands):

| | For the nine months ended September 30, | |
|--|---|-----------|
| | 2014 | 2013 |
| Beginning balance | \$70,125 | \$94,808 |
| Transfers from loan portfolio, at fair value | 2,519 | 32,408 |
| Impairments | (1,789 |) (9,142 |
| Sales | (27,656 |) (54,705 |
| Gain on sale of OREO, net | 2,686 | 7,384 |
| Ending balance | \$45,885 | \$70,753 |

Of the \$45.9 million of OREO at September 30, 2014, \$30.1 million, or 65.7%, was covered by loss sharing agreements with the FDIC. At December 31, 2013, \$38.8 million, or 55.4%, of the \$70.1 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.

The OREO balance at December 31, 2013 includes the interests of several outside participating banks totaling \$4.2 million, for which an offsetting liability is recorded in other liabilities. At September 30, 2014, the Company did not own property that contained the interest of outside participating banks. The OREO balances exclude \$8.5 million and \$10.6 million at September 30, 2014 and December 31, 2013, 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 8 Regulatory Capital

At September 30, 2014 and December 31, 2013, NBH Bank, N.A. and the consolidated holding company exceeded all capital ratio requirements under prompt corrective action or other regulatory requirements, as is detailed in the table below (in thousands):

| | September 30, 2014 | | | | | |
|--|--------------------|-------------|---|-------------|--|-------------|
| | 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 | 15.2 | % \$729,216 | N/A | N/A | 4 | % \$191,465 |
| NBH Bank, N.A. | 11.9 | % 568,864 | 10 | % \$476,688 | 4 | % 190,675 |
| Tier 1 risk-based capital ratio ⁽²⁾ | | | | | | |
| Consolidated | 29.4 | % \$729,216 | 6 | % \$148,680 | 4 | % \$99,120 |
| NBH Bank, N.A. | 23.1 | % 568,864 | 11 | % 270,429 | 4 | % 98,338 |
| Total risk-based capital ratio ⁽²⁾ | | | | | | |
| Consolidated | 30.1 | % \$746,208 | 10 | % \$247,800 | 8 | % \$198,240 |
| NBH Bank, N.A. | 23.8 | % 585,856 | 12 | % 295,014 | 8 | % 196,676 |

Table of contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 September 30, 2014

| | December 31, 2013 | | | | | |
|--|-------------------|-------------|---|-------------|--|-------------|
| | Actual | | Required to be considered well capitalized ⁽¹⁾ | | Required to be considered adequately capitalized | |
| | Ratio | Amount | Ratio | Amount | Ratio | Amount |
| Tier 1 leverage ratio | | | | | | |
| Consolidated | 16.6 | % \$822,688 | N/A | N/A | 4 | % \$197,906 |
| NBH Bank, N.A. | 11.3 | % 556,876 | 10 | % \$491,294 | 4 | % 196,518 |
| Tier 1 risk-based capital ratio ⁽²⁾ | | | | | | |
| Consolidated | 38.9 | % \$822,688 | 6 | % \$126,865 | 4 | % \$84,577 |
| NBH Bank, N.A. | 26.6 | % 556,876 | 11 | % 230,334 | 4 | % 83,758 |
| Total risk-based capital ratio ⁽²⁾ | | | | | | |
| Consolidated | 39.5 | % \$835,810 | 10 | % \$211,442 | 8 | % \$169,153 |
| NBH Bank, N.A. | 27.2 | % 569,998 | 12 | % 251,273 | 8 | % 167,515 |

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

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

Note 9 FDIC Loss Sharing (Expense) Income

In connection with the loss sharing agreements that the Company has with the FDIC with regard to the Hillcrest Bank and Community Banks of Colorado transactions, the Company recognizes the actual reimbursement of costs of resolution of covered assets from the FDIC through the statements of operations. The table below provides additional details of the Company's FDIC loss sharing (expense) income during the three and nine months ended September 30, 2014 and 2013 (in thousands):

| | For the three months ended September 30, 2014 | | For the three months ended September 30, 2013 | | For the nine months ended September 30, 2014 | | For the nine months ended September 30, 2013 | |
|--|--|-------|--|---------|---|---------|---|-------|
| Clawback liability amortization | \$ | (345) | \$ | (314) | \$ | (1,009) | \$ | (937) |
| Clawback liability remeasurement | (592) |) | (405) |) | (1,646) |) | 244 |) |
| Reimbursement to FDIC for gain on sale of and income from covered OREO | (1,587) |) | (2,514) |) | (3,287) |) | (4,615) |) |
| Reimbursement to FDIC for recoveries | (62) |) | — |) | (180) |) | (22) |) |
| FDIC reimbursement of covered asset resolution costs | 1,643 |) | 2,042 |) | 3,573 |) | 8,608 |) |
| Total | \$ | (943) | \$ | (1,191) | \$ | (2,549) | \$ | 3,278 |

Note 10 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.

The aggregate number of Class A common stock available for issuance under the 2014 Plan is 4,519,533 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 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.

Table of contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 September 30, 2014

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 Company issued stock options and restricted stock in accordance with the plans during the nine months ended September 30, 2014. The following table summarizes stock option activity for the nine months ended September 30, 2014:

| | Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term in Years | Aggregate Intrinsic Value |
|--|-----------|--|---|---------------------------------|
| Outstanding at December 31, 2013 | 3,515,486 | \$19.92 | 6.13 | \$5,183,567 |
| Granted | 114,148 | 18.93 | | |
| Forfeited | (4,360) |) 18.36 | | |
| Surrendered | (9,705) |) 20.00 | | |
| Exercised | (295) |) 20.00 | | |
| Expired | (2,083) |) 20.00 | | |
| Outstanding at September 30, 2014 | 3,613,191 | \$19.89 | 5.53 | \$168,864 |
| Options fully vested and exercisable at September 30, 2014 | 2,957,498 | \$19.99 | 5.30 | \$— |
| Options expected to vest | 611,407 | \$19.50 | 6.39 | \$142,375 |

Stock option expense is included in salaries and benefits in the accompanying consolidated statements of operations and totaled \$0.3 million and \$0.5 million for the three months ended September 30, 2014 and 2013, respectively, and \$1.0 million and \$1.8 million for the nine months ended September 30, 2014 and 2013, respectively. At September 30, 2014, there was \$1.0 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 0.9 years.

Expense related to non-vested restricted stock totaled \$0.8 million during each of the three months ended September 30, 2014 and 2013 and \$1.8 million and \$2.2 million during the nine months ended September 30, 2014 and 2013, respectively, and is included in salaries and benefits in the Company's consolidated statements of operations. As of September 30, 2014, there was \$2.5 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 0.7 years. The following table summarizes restricted stock activity for the nine months ended September 30, 2014:

| | Total Restricted Shares | Weighted Average Grant-Date Fair Value |
|--------------------------------|-------------------------------|---|
| Unvested at December 31, 2013 | 1,064,460 | \$15.16 |
| Vested | (29,651) |) 19.50 |
| Granted | 147,086 | 18.98 |
| Forfeited | (13,780) |) 14.58 |
| Surrendered | (18,610) |) 19.16 |
| Unvested at September 30, 2014 | 1,149,505 | \$15.48 |

Note 11 Warrants

At September 30, 2014 and December 31, 2013, the Company had 830,750 issued and outstanding warrants to purchase Company stock. 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 range from October 20, 2019 to September 30, 2020. The fair value of the warrants was estimated to be \$3.5 million and \$6.3 million at September 30, 2014 and December 31, 2013, respectively. The fair value of the warrants was estimated using a Black-Scholes option pricing model utilizing the following assumptions at the indicated dates:

Table of contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 September 30, 2014

| | September 30, 2014 | | December 31, 2013 | |
|-------------------------|--------------------|---|-------------------|---|
| Risk-free interest rate | 1.87 | % | 2.16 | % |
| Expected volatility | 25.85 | % | 33.80 | % |
| Expected term (years) | 5-6 | | 6-7 | |
| Dividend yield | 1.05 | % | 0.93 | % |

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 \$1.3 million and \$2.7 million for the three and nine months ended September 30, 2014, respectively, and an expense of \$0.4 million and \$0.1 million for the three and nine months ended September 30, 2013, respectively, in the consolidated statements of operations resulting from the change in fair value of the warrant liability.

Note 12 Common Stock

During the three and nine months ended September 30, 2014, the Company repurchased 2,774,863 and 5,085,458 shares for \$55.0 million and \$100.1 million at weighted average prices of \$19.82 and \$19.66 per share, respectively. On October 21, 2014, the Board of Directors authorized a new share repurchase program for up to \$50.0 million in share repurchases from time to time in either the open market or through privately negotiated transactions.

The Company had 38,995,050 shares of Class A common stock and 867,774 shares of Class B common stock outstanding as of September 30, 2014, and 41,890,562 shares of Class A common stock and 3,027,774 shares of Class B common stock outstanding as of December 31, 2013. Additionally, as of September 30, 2014 and December 31, 2013, the Company had 1,149,505 and 1,064,460 shares, respectively, of restricted Class A common stock issued but not yet vested under the 2014 Plan and the Prior Plan.

Note 13 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. Non-vested shares are discussed further in note 10.

The Company had 39,862,824 and 51,213,044 shares outstanding (inclusive of Class A and B) as of September 30, 2014 and 2013, respectively. 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, 2014 and 2013, respectively.

Table of contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 September 30, 2014

The following table illustrates the computation of basic and diluted income per share for the three and nine months ended September 30, 2014 and 2013 (in thousands, except share and earnings per share information):

| | For the three months ended | | For the nine months ended | |
|---|----------------------------|---------------|---------------------------|---------------|
| | September 30, | September 30, | September 30, | September 30, |
| | 2014 | 2013 | 2014 | 2013 |
| Distributed earnings | \$2,159 | \$ 2,622 | \$6,666 | \$7,934 |
| Undistributed earnings (distributions in excess of earnings) | 1,178 | (1,675) | 231 | (2,007) |
| Net income | \$3,337 | \$ 947 | \$6,897 | \$5,927 |
| Less: earnings allocated to participating securities | (12) | (5) | (28) | (12) |
| Earnings allocated to common shareholders | \$3,325 | \$ 942 | \$6,869 | \$5,915 |
| Weighted average shares outstanding for basic earnings per common share | 41,837,485 | 51,454,200 | 43,403,791 | 51,940,245 |
| Dilutive effect of equity awards | 4,200 | 45,301 | 19,482 | 32,916 |
| Dilutive effect of warrants | — | 2,479 | — | — |
| Weighted average shares outstanding for diluted earnings per common share | 41,841,685 | 51,501,980 | 43,423,273 | 51,973,161 |
| Basic earnings per share | \$0.08 | \$ 0.02 | \$0.16 | \$0.11 |
| Diluted earnings per share | \$0.08 | \$ 0.02 | \$0.16 | \$0.11 |

The Company had 3,613,191 and 3,538,012 outstanding stock options to purchase common stock at weighted average exercise prices of \$19.89 and \$19.92 per share at September 30, 2014 and 2013, respectively, which have time-vesting criteria, and as such, any dilution is derived only for the time frame in which the vesting criteria had been met and where the inclusion of those stock options is dilutive. Additionally, the Company had 830,750 outstanding warrants to purchase the Company's common stock as of September 30, 2014 and 2013. The warrants have an exercise price of \$20.00, which was out-of-the-money for purposes of dilution calculations during the three and nine months ended September 30, 2014. The Company had 1,149,505 and 1,087,154 unvested restricted shares outstanding as of September 30, 2014 and 2013, 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 14 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, 2014 and December 31, 2013 (dollars in thousands).

Table of contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 September 30, 2014

Information about the valuation methods used to measure fair value is provided in note 16.

| | Balance Sheet Location | Asset Derivatives Fair Value | | Balance Sheet Location | Liability Derivatives Fair Value | |
|---|---------------------------|---------------------------------|----------------------|---------------------------|-------------------------------------|----------------------|
| | | September 30, 2014 | December 31, 2013 | | September 30, 2014 | December 31, 2013 |
| Derivatives designated as hedging instruments | | | | | | |
| Interest rate products | Other assets | \$ 17 | \$ 129 | Other liabilities | \$ 1,259 | \$ — |
| Total derivatives designated as hedging instruments | | \$ 17 | \$ 129 | | \$ 1,259 | \$ — |
| Derivatives not designated as hedging instruments | | | | | | |
| Interest rate products | Other assets | \$ 721 | \$ 73 | Other liabilities | \$ 774 | \$ 74 |
| Total derivatives not designated as hedging instruments | | \$ 721 | \$ 73 | | \$ 774 | \$ 74 |

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, 2014, the Company had nine interest rate swaps with a notional amount of \$63.7 million that were designated as fair value hedges of interest rate risk associated with the Company's fixed-rate loans. The Company had one outstanding interest rate swap with a notional amount of \$10.0 million that was designated as a fair value hedge as of December 31, 2013.

For derivatives designated and that qualify 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, 2014, the Company recognized a net loss of \$45.9 thousand and \$185.5 thousand, respectively, in non-interest expense related to hedge ineffectiveness. During the three and nine months ended September 30, 2013, the Company did not participate in fair value hedges that would result in 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, 2014, the Company had nine matched interest rate swap transactions with an aggregate notional amount of \$27.3 million related to this program. As of December 31, 2013, the Company had three matched interest rate swap transactions with an aggregate notional amount of \$7.3 million related to this program.

Table of contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 September 30, 2014

Effect of Derivative Instruments on the Consolidated Statement of Operations

The tables below present the effect of the Company's derivative financial instruments on the consolidated statement of operations for the three and nine months ended September 30, 2014 and 2013 (in thousands).

| Derivatives in fair value hedging relationships | 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, | |
| | | 2014 | 2013 | 2014 | 2013 |
| Interest rate products | Interest income | \$(36 |) \$— | \$(1,371 |) \$— |
| Total | | \$(36 |) \$— | \$(1,371 |) \$— |

| Derivatives in fair value hedging relationships | Location of gain or (loss) recognized in income on derivatives | Amount of gain or (loss) recognized in income on hedged items | | | |
|---|--|---|-------|---|------|
| | | Three months ended September 30, | | For the nine months ended September 30, | |
| | | 2014 | 2013 | 2014 | 2013 |
| Interest rate products | Interest income | \$(10 |) \$— | \$1,185 | \$— |
| Total | | \$(10 |) \$— | \$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, | |
| | | 2014 | 2013 | 2014 | 2013 |
| Interest rate products | Other non-interest income | \$(1 |) \$(7 |) \$(51 |) (7 |
| Total | | \$(1 |) \$(7 |) \$(51 |) (7 |

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, 2014, the termination value of derivatives in a net liability position related to these agreements was \$2.5 million, 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, 2014, the Company had posted \$2.7 million in eligible collateral.

Note 15 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, 2014 and December 31, 2013, the Company

Table of contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 September 30, 2014

had loan commitments totaling \$475.4 million and \$383.9 million, respectively, and standby letters of credit that totaled \$7.2 million and \$5.9 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.

Total unfunded commitments at September 30, 2014 and December 31, 2013 were as follows (in thousands):

| | September 30, 2014 | | | December 31, 2013 | | |
|--|--------------------|-------------|-----------|-------------------|-------------|-----------|
| | Covered | Non-covered | Total | Covered | Non-covered | Total |
| Commitments to fund loans | | | | | | |
| Residential | \$— | \$ 2,015 | \$2,015 | \$— | \$ 1,303 | \$1,303 |
| Commercial and commercial real estate | 11 | 200,113 | 200,124 | 415 | 169,214 | 169,629 |
| Construction and land development | — | 31,447 | 31,447 | — | 2,911 | 2,911 |
| Consumer | — | 4,224 | 4,224 | — | 4,435 | 4,435 |
| Credit card lines of credit | — | 18,733 | 18,733 | — | 17,322 | 17,322 |
| Unfunded commitments under lines of credit | 7,895 | 210,961 | 218,856 | 13,162 | 175,177 | 188,339 |
| Commercial and standby letters of credit | 234 | 6,929 | 7,163 | 443 | 5,487 | 5,930 |
| Total | \$8,140 | \$ 474,422 | \$482,562 | \$ 14,020 | \$ 375,849 | \$389,869 |

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.

Table of contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
September 30, 2014

Note 16 Fair Value Measurements

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

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

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

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

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

Changes in the valuation inputs used for measuring the fair value of financial instruments may occur due to changes in current market conditions or other factors. Such changes may necessitate a transfer of the financial instruments to another level in the hierarchy based on the new inputs used. The Company recognizes these transfers at the end of the reporting period that the transfer occurs. During the nine months ended September 30, 2014 and 2013, 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, 2014 and December 31, 2013, 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, 2014 and December 31, 2013, the Company's level 2 securities included asset backed securities, mortgage-backed securities comprised of residential mortgage pass-through securities, and other residential mortgage-backed securities. All other investment securities are classified as level 3.

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

Table of contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 September 30, 2014

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 of 8 comparable companies with publicly traded shares, and is deemed a significant unobservable input to the valuation model.

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

The tables below present the financial instruments measured at fair value on a recurring basis as of September 30, 2014 and December 31, 2013 on the consolidated statements of financial condition utilizing the hierarchy structure described above (in thousands):

| | September 30, 2014 | | | Total |
|--|--------------------|-------------|----------|-------------|
| | Level 1 | Level 2 | Level 3 | |
| Assets: | | | | |
| Investment securities available-for-sale: | | | | |
| Asset backed securities | \$— | \$356 | \$— | \$356 |
| Mortgage-backed securities ("MBS"): | | | | |
| Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises | — | 427,127 | — | 427,127 |
| Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises | — | 1,125,739 | — | 1,125,739 |
| Other securities | — | — | 419 | 419 |
| Derivatives | — | 738 | — | 738 |
| Total assets at fair value | \$— | \$1,553,960 | \$419 | \$1,554,379 |
| Liabilities: | | | | |
| Warrant liability | \$— | \$— | \$3,547 | \$3,547 |
| Clawback liability | — | — | 35,120 | 35,120 |
| Derivatives | — | 2,033 | — | 2,033 |
| Total liabilities at fair value | \$— | \$2,033 | \$38,667 | \$40,700 |

Table of contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 September 30, 2014

| | December 31, 2013 | | | Total |
|--|-------------------|-------------|----------|-------------|
| | Level 1 | Level 2 | Level 3 | |
| Assets: | | | | |
| Investment securities available-for-sale: | | | | |
| Asset backed securities | \$— | \$4,537 | \$— | \$4,537 |
| Mortgage-backed securities (“MBS”): | | | | |
| Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises | — | 494,990 | — | 494,990 |
| Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises | — | 1,285,582 | — | 1,285,582 |
| Other securities | — | — | 419 | 419 |
| Derivatives | — | 202 | — | 202 |
| Total assets at fair value | \$— | \$1,785,311 | \$419 | \$1,785,730 |
| Liabilities: | | | | |
| Warrant liability | \$— | \$— | \$6,281 | \$6,281 |
| Clawback liability | — | — | 32,465 | 32,465 |
| Derivatives | — | 74 | — | 74 |
| Total liabilities at fair value | \$— | \$74 | \$38,746 | \$38,820 |

The table below details the changes in level 3 financial instruments during the nine months ended September 30, 2014 and September 30, 2013 (in thousands):

| | Warrant liability | Clawback liability |
|-------------------------------|-------------------|--------------------|
| Balance at December 31, 2012 | \$5,461 | \$31,271 |
| Change in value | 138 | (244) |
| Amortization | — | 937 |
| Net change in level 3 | \$138 | \$693 |
| Balance at September 30, 2013 | \$5,599 | \$31,964 |
| Balance at December 31, 2013 | \$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 | \$3,547 | \$35,120 |

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

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

The Company records collateral dependent loans that are considered to be impaired at their estimated fair value. A loan is considered impaired when it is probable that the Company will be unable to collect all contractual amounts due in accordance with the terms of the loan agreement. Collateral dependent impaired loans are measured based on the fair value of the collateral. The Company relies on third-party appraisals and internal assessments in determining the estimated fair values of these loans. The inputs used to determine the fair values of loans are considered level 3 inputs in the fair value hierarchy. During the nine months ended September 30, 2014, the Company measured 24 loans not accounted for under ASC 310-30 at fair value on a non-recurring basis. These loans carried specific reserves totaling \$0.2 million at September 30, 2014. During the nine months ended September 30, 2014, the Company added specific

reserves of \$0.3 million for seven loans with carrying balances of \$2.5

37

Table of contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 September 30, 2014

million at September 30, 2014. The Company also eliminated specific reserves of \$0.9 million for ten loans during the nine months ended September 30, 2014, primarily due to pay downs on these loans.

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

OREO is recorded at the lower of the loan balance or the fair value of the collateral less estimated selling costs. The estimated fair values of OREO are updated periodically and further write-downs may be taken to reflect a new basis. The Company recognized \$1.8 million of OREO impairments in its consolidated statements of operations during the nine months ended September 30, 2014, of which \$1.1 million, or 60.2%, were on OREO that was covered by loss sharing agreements with the FDIC. During the nine months ended September 30, 2013, the Company recognized \$9.1 million of OREO impairments in its consolidated statements of operations, of which \$6.6 million, or 73.2%, were on OREO that was covered by loss sharing agreements with the FDIC. The fair values of OREO are derived from third party price opinions or appraisals that generally use an income approach or a market value approach. If reasonable comparable appraisals are not available, then the Company may use internally developed models to determine fair values. The inputs used to determine the fair values of OREO are considered level 3 inputs in the fair value hierarchy. The table below provides information regarding the assets recorded at fair value on a non-recurring basis during the nine months ended September 30, 2014 and 2013 (in thousands):

| | September 30, 2014 | | | | Losses from |
|-------------------------|--------------------|---------|----------|----------|--------------------|
| | Level 1 | Level 2 | Level 3 | Total | fair value changes |
| Other real estate owned | \$— | \$— | \$45,885 | \$45,885 | \$1,789 |
| Impaired loans | — | — | 47,225 | 47,225 | 145 |
| | September 30, 2013 | | | | Losses from |
| | Level 1 | Level 2 | Level 3 | Total | fair value changes |
| Other real estate owned | \$— | \$— | \$70,753 | \$70,753 | \$9,142 |
| Impaired loans | — | — | 29,075 | 29,075 | 1,305 |

The Company did not record any liabilities for which the fair value was made on a non-recurring basis during the nine months ended September 30, 2014.

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, 2014. The table below excludes non-recurring fair value measurements of collateral value used for impairment measures for OREO. These valuations utilize third party appraisal or broker price opinions, and are classified as level 3 due to the significant judgment involved (in thousands):

| | Fair value at September 30, 2014 | Valuation Technique | Unobservable Input | Quantitative Measures |
|--------------------|--|---|--------------------------|------------------------------------|
| Other securities | \$419 | Cash investment in private equity fund | Cash investment | |
| Impaired loans | 47,225 | Appraised value | Appraised values | |
| | | | Discount rate | 0-25% |
| Clawback liability | 35,120 | Contractually defined discounted cash flows | Intrinsic loss estimates | \$323.3 million - \$405 million |

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

| | | | | |
|-------------------|-------|---------------|------------------------|---------|
| | | | Expected credit losses | — |
| | | | Discount rate | 4% |
| Warrant liability | 3,547 | Black-Scholes | Volatility | 18%-36% |

38

Table of contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
September 30, 2014

Note 17 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 and Community Banks of Colorado acquisitions, the Company recorded all of the acquired assets and assumed liabilities at fair value at the respective dates of acquisition. The fair value of financial instruments at September 30, 2014 and December 31, 2013, including methods and assumptions utilized for determining fair value of financial instruments, are set forth below (in thousands):

Table of contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 September 30, 2014

| | Level in fair value measurement hierarchy | September 30, 2014 | | December 31, 2013 | |
|--|---|--------------------|----------------------|-------------------|----------------------|
| | | Carrying amount | Estimated fair value | Carrying amount | Estimated fair value |
| ASSETS: | | | | | |
| Cash and cash equivalents | Level 1 | \$ 118,659 | \$ 118,659 | \$ 189,460 | \$ 189,460 |
| Asset backed securities available-for-sale | Level 2 | 356 | 356 | 4,537 | 4,537 |
| Mortgage-backed securities—residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises available-for-sale | Level 2 | 427,127 | 427,127 | 494,990 | 494,990 |
| Mortgage-backed securities—other residential mortgage-backed securities issued or guaranteed by U.S. Government agencies or sponsored enterprises available-for-sale | Level 2 | 1,125,739 | 1,125,739 | 1,285,582 | 1,285,582 |
| Other securities | Level 3 | 419 | 419 | 419 | 419 |
| Mortgage-backed securities—residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises held-to-maturity | Level 2 | 444,104 | 447,424 | 513,090 | 511,489 |
| Mortgage-backed securities—other residential mortgage-backed securities issued or guaranteed by U.S. Government agencies or sponsored enterprises held-to-maturity | Level 2 | 113,360 | 110,169 | 128,817 | 124,916 |
| Capital stock of FHLB | Level 2 | 6,010 | 6,010 | 6,643 | 6,643 |
| Capital stock of FRB | Level 2 | 15,630 | 15,630 | 25,020 | 25,020 |
| Loans receivable, net | Level 3 | 2,154,781 | 2,194,983 | 1,841,573 | 1,923,888 |
| Loans held-for-sale | Level 2 | 5,252 | 5,252 | 5,787 | 5,787 |
| Accrued interest receivable | Level 2 | 12,851 | 12,851 | 11,355 | 11,355 |
| Derivatives | Level 2 | 738 | 738 | 202 | 202 |
| LIABILITIES: | | | | | |
| Deposit transaction accounts | Level 2 | 2,401,388 | 2,401,388 | 2,342,622 | 2,342,622 |
| Time deposits | Level 2 | 1,396,070 | 1,397,401 | 1,495,687 | 1,498,798 |
| Securities sold under agreements to repurchase | Level 2 | 109,946 | 109,946 | 99,547 | 99,547 |
| Due to FDIC | Level 3 | 35,120 | 35,120 | 41,882 | 41,882 |
| Warrant liability | Level 3 | 3,547 | 3,547 | 6,281 | 6,281 |
| Accrued interest payable | Level 2 | 3,607 | 3,607 | 3,058 | 3,058 |
| Derivatives | Level 2 | 2,033 | 2,033 | 74 | 74 |

Cash and cash equivalents

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

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.

Table of contents

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
September 30, 2014

Loans receivable

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

Loans held-for-sale

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

Accrued interest receivable

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

Deposits

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

Derivative assets and liabilities

Fair values for derivative assets and liabilities are fully described in note 16.

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 18 of our audited consolidated financial statements.

Accrued interest payable

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

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 consolidated financial statements and related notes as of and for the three and nine months ended September 30, 2014, 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, 2013, 2012, and 2011. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions that may cause actual results to differ materially from management's expectations. Factors that could cause such differences are discussed in the section entitled "Cautionary Note Regarding Forward-Looking Statements" located elsewhere in this quarterly report and in Item 1A "Risk Factors" in the annual report on Form 10-K, referenced above, and should be read herewith.

Readers are cautioned that meaningful comparability of current period financial information to prior periods may be limited. Following our Hillcrest Bank acquisition on October 22, 2010, we completed three additional acquisitions: Bank Midwest on December 10, 2010, Bank of Choice on July 22, 2011 and Community Banks of Colorado on October 21, 2011. As a result, our operating results are limited to the periods since these acquisitions, and the comparability of periods is compromised due to the timing of these acquisitions. Additionally, in accordance with Accounting Standards Codification ("ASC") Topic 805, Business Combinations, the assets acquired and liabilities assumed were recorded at fair value at their respective dates of acquisition. The comparability of data is also compromised by the FDIC loss sharing agreements in place that cover a portion of losses incurred on certain assets acquired in the Hillcrest Bank and the Community Banks of Colorado acquisitions.

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 just under four years, we have completed the acquisition and integration of four problem or failed banks, three of which were FDIC-assisted. We have transformed these four 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, 2014, we had \$4.8 billion in assets, \$2.2 billion in loans, \$3.8 billion in deposits and \$0.8 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, 2014 (except as noted):

Loan portfolio

- Organic loan originations totaled \$687.0 million, representing a 46.2% increase from the same period of 2013.
- We had \$1.9 billion of loans outstanding that are associated with a "strategic" client relationship - a 37.0% annualized growth for the nine months ended September 30, 2014.
- Successfully exited \$98.8 million, or 37.7% annualized, of the non-strategic loan portfolio during the nine months ended September 30, 2014.

Credit quality

Non 310-30 loans

Strong loss-share coverage on 48.2% of non-performing assets.

Net charge-offs on average non 310-30 loans remained low at 0.07% annualized.

Non 310-30 loans grew from 70.6% to 85.2% of the total loan portfolio, an increase of 14.6% from the same period of 2013.

ASC 310-30 loans

Added a net \$29.1 million to accretable yield for the acquired loans accounted for under ASC 310-30.

The \$14.8 million covered commercial and industrial loan pool that had previously been on non-accrual status at December 31, 2013 was returned to accrual status during the first quarter of 2014 due to improved performance and predictability of cash flows within that pool.

Client deposit funded balance sheet

Average transaction deposits and client repurchase agreements increased \$26.9 million for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013, or 1.1%.

Transaction account balances improved to 63.2% of total deposits as of September 30, 2014 from 61.0% at December 31, 2013.

As of September 30, 2014, total deposits and client repurchase agreements made up 97.6% of our total liabilities.

We did not have any brokered deposits as of September 30, 2014.

Revenues and expenses

The average annual yield on our loan portfolio was 6.67% for the nine months ended September 30, 2014 compared to 8.11% for the nine months ended September 30, 2013, driven by the increasing originated loan balances coupled with declining balances of higher-yielding purchased loans.

Cost of deposits decreased five basis points to 0.37% for the nine months ended September 30, 2014 from 0.42% for the nine months ended September 30, 2013 due to a \$219.4 million decrease in average interest bearing deposits and a \$36.9 million increase in average demand deposits.

Net interest margin widened to 3.84% on a fully taxable equivalent basis during the nine months ended September 30, 2014, from 3.82% during the nine months ended September 30, 2013, driven by strong yields on the high-yielding 310-30 loans coupled with a five basis point decrease in the cost of average interest bearing liabilities.

Operating costs before problem loan/OREO workout expenses, the benefit of the change in the warrant liability and banking center closure expenses declined \$11.2 million, or 9.1%, during the nine months ended September 30, 2014, compared to the same period in 2013. The decrease in operating costs was attributable to implemented efficiency initiatives and banking center closures.

Problem loan/OREO workout expenses totaled \$6.7 million for the nine months ended September 30, 2014, decreasing \$5.4 million, or 44.6%, from the same period in 2013.

Strong capital position

As of September 30, 2014, our consolidated tier 1 leverage ratio was 15.2% and our consolidated tier 1 risk-based capital ratio was 29.4%.

The after-tax accretable yield on ASC 310-30 loans plus the after-tax yield on the FDIC indemnification asset, net, in excess of 4.5%, an approximate yield on new loan originations, and discounted at 5%, adds \$0.85 per share to our tangible book value per share as of September 30, 2014.

Tangible common book value per share was \$18.49 before consideration of the excess accretable yield value of \$0.85 per share.

During the nine months ended September 30, 2014, we repurchased 5.1 million shares, or 11.32% of outstanding shares, at a weighted average price of \$19.66 per share. Since early 2013 and through November 6, 2014, we have repurchased 12.6 million shares, or 24.07% of outstanding shares, at an attractive weighted average price of \$19.73 per share.

During the nine months ended September 30, 2014, we repurchased 5.1 million of our shares at a weighted average price per share of \$19.66. On October 21, 2014, we announced that the Board of Directors approved a new authorization to repurchase another \$50.0 million of the Company's common stock.

Key Challenges

There are a number of significant challenges confronting us and our industry. We face a variety of challenges in implementing our business strategy, including being a new entity, the challenges of acquiring distressed franchises and rebuilding them, effectively managing our capital, low interest rates and intense competition for loans.

General economic conditions have been modestly improving in recent quarters. However, continued uncertainty about the strength of the recovery remains and has hindered the pace and advancement of an economic recovery, both nationally and in our markets. Residential real estate values have largely recovered from their lows, and we continue

to consider this with guarded optimism. Commercial real estate values have been recovering slightly slower than residential real estate, and it is

43

difficult to determine how strong this recovery is and how long it will last. 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.

Our total loan balances increased \$317.3 million during the nine months ended September 30, 2014, or 22.9% annualized on the strength of \$687.0 million of loan originations. While we have reached our loan growth inflection point, whereby total originations are now outpacing problem loan resolution, interest rates remain low and intense loan competition has been limiting the yields we have been able to obtain on interest earning assets. For example, our acquired loans generally have produced higher yields than our originated loans due to the recognition of accretion of fair value adjustments and accretable yield. 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. Additionally, growth in our interest income will be dependent on our ability to generate sufficient volumes of high-quality originated loans.

Increased regulation, such as the rules and regulations promulgated under the Dodd-Frank Act and potentially higher required capital ratios, is adding costs and uncertainty to all U.S. banks and could reduce our competitiveness as compared to other financial service providers or lead to industry-wide decreases in profitability. While certain external factors are out of our control and may provide obstacles during the implementation of our business strategy, we believe we are prepared to deal with these challenges. We seek to remain flexible, yet methodical and proactive, in our strategic decision making so that we can quickly respond to market changes and the inherent challenges and opportunities that accompany such changes.

Performance Overview

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

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

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

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

Many of the loans that we acquired in the Hillcrest Bank, Bank of Choice and Community Banks of Colorado acquisitions had deteriorated credit quality at the respective dates of acquisition. These loans are accounted for under ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. This guidance is described more fully below under “-Application of Critical Accounting Policies” and in note 2 in our consolidated financial statements in our 2013 Annual Report on Form 10-K.

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

Additionally, many of these assets are covered by loss sharing agreements. All of these factors limit the comparability of our credit quality and ALL levels to peers or other financial institutions.

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

Liquidity - We monitor liquidity based on policy limits and through projections of sources and uses of cash. In order to test the adequacy of our liquidity, we routinely perform various liquidity stress test scenarios that incorporate wholesale funding maturities, if any, certain deposit run-off rates and 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 and with the OCC Operating Agreement that we entered into in connection with our Bank Midwest acquisition, which is described under “Supervision and Regulation” in our 2013 Annual Report on Form 10-K. We review our tier 1 leverage capital ratios, our tier 1 risk-based capital ratios and our total risk-based capital ratios on a regular basis.

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

Net interest income - Net interest income represents the amount by which interest income on interest earning assets exceeds interest expense incurred on interest bearing liabilities. We generate interest income through interest and dividends on loans, investment securities and interest bearing bank deposits. Our acquired loans have generally 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 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 and repurchase agreements and would also incur interest expense on any future borrowings, including any debt assumed in acquisitions. We strive to maximize our interest income by acquiring and originating loans and investing excess cash in investment securities. Furthermore, we seek to minimize our interest expense through low-cost funding sources, thereby maximizing our net interest income.

Provision for loan losses - The provision for loan losses includes the amount of expense that is required to maintain the ALL at an adequate level to absorb probable losses inherent in the 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, which consists of reimbursement of costs related to the resolution of covered assets, and amortization of our clawback liability. For additional information, see "Application of Critical Accounting Policies-Acquisition Accounting Application and the Valuation of Assets Acquired and Liabilities Assumed" and note 2 in our consolidated financial statements in our 2013 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 few years.

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 covered assets are also included in non-interest expense. These expenses are dependent on individual resolution circumstances and, as a result, are not consistent from period to period. We seek to manage our non-interest expense in order to maximize efficiencies.

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

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

| | As of and for the three months ended | | | As of and for the nine months ended | | |
|--|--------------------------------------|-------------------|--------------------|-------------------------------------|--------------------|---|
| | September 30, 2014 | December 31, 2013 | September 30, 2013 | September 30, 2014 | September 30, 2013 | |
| Key Ratios⁽¹⁾ | | | | | | |
| Return on average assets | 0.27 | % 0.08 | % 0.07 | % 0.19 | % 0.15 | % |
| Return on average tangible assets ⁽²⁾ | 0.34 | % 0.15 | % 0.14 | % 0.26 | % 0.22 | % |
| Return on average equity | 1.56 | % 0.42 | % 0.36 | % 1.05 | % 0.74 | % |
| Return on average tangible common equity ⁽²⁾ | 2.12 | % 0.82 | % 0.73 | % 1.55 | % 1.13 | % |
| Return on risk weighted assets | 0.53 | % 0.19 | % 0.19 | % 0.37 | % 0.40 | % |
| Interest-earning assets to interest-bearing liabilities (end of period) ⁽³⁾ | 137.71 | % 137.05 | % 139.44 | % 137.71 | % 139.44 | % |
| Loans to deposits ratio (end of period) | 57.32 | % 48.46 | % 44.24 | % 57.32 | % 44.24 | % |
| Average equity to average assets | 17.50 | % 19.02 | % 19.97 | % 17.99 | % 20.41 | % |
| Non-interest bearing deposits to total deposits (end of period) | 19.07 | % 17.59 | % 17.45 | % 19.07 | % 17.45 | % |
| Net interest margin | 3.73 | % 3.78 | % 3.80 | % 3.82 | % 3.82 | % |
| Net interest margin (fully taxable equivalent) ⁽²⁾⁽⁴⁾ | 3.75 | % 3.78 | % 3.80 | % 3.84 | % 3.82 | % |
| Interest rate spread ⁽⁵⁾ | 3.63 | % 3.66 | % 3.68 | % 3.72 | % 3.69 | % |
| Yield on earning assets | 4.05 | % 4.11 | % 4.14 | % 4.14 | % 4.18 | % |
| Yield on earning assets (fully taxable equivalent) ⁽²⁾⁽³⁾ | 4.07 | % 4.11 | % 4.14 | % 4.16 | % 4.18 | % |
| Cost of interest bearing liabilities ⁽³⁾ | 0.44 | % 0.45 | % 0.46 | % 0.44 | % 0.49 | % |
| Cost of deposits | 0.37 | % 0.38 | % 0.40 | % 0.37 | % 0.42 | % |
| Non-interest expense to average assets | 3.10 | % 3.50 | % 3.56 | % 3.20 | % 3.57 | % |
| Efficiency ratio ⁽²⁾⁽⁶⁾ | 84.22 | % 93.36 | % 92.68 | % 86.09 | % 88.60 | % |
| Efficiency ratio (fully taxable equivalent) ⁽²⁾ | 83.78 | % 93.36 | % 92.68 | % 85.69 | % 88.60 | % |
| Dividend payout ratio | 62.50 | % 250.00 | % 250.00 | % 93.75 | % 136.36 | % |
| Asset Quality Data⁽⁷⁾⁽⁸⁾⁽⁹⁾ | | | | | | |
| Non-performing loans to total loans | 0.87 | % 1.31 | % 1.77 | % 0.87 | % 1.77 | % |
| Covered non-performing loans to total non-performing loans | 8.13 | % 68.89 | % 62.43 | % 8.13 | % 62.43 | % |
| Non-performing assets to total assets | 1.37 | % 1.94 | % 1.99 | % 1.37 | % 1.99 | % |
| Covered non-performing assets to total non-performing assets | 48.23 | % 58.50 | % 62.04 | % 48.23 | % 62.04 | % |
| Allowance for loan losses to total loans | 0.76 | % 0.68 | % 0.66 | % 0.76 | % 0.66 | % |
| Allowance for loan losses to total non-covered loans | 0.85 | % 0.81 | % 0.83 | % 0.85 | % 0.83 | % |
| Allowance for loan losses to non-performing loans | 87.62 | % 51.43 | % 37.01 | % 87.62 | % 37.01 | % |
| Net charge-offs (recoveries) to average loans | 0.09 | % (0.07 | %) 0.20 | % 0.06 | % 0.58 | % |

(1) Ratios are annualized.

(2) Ratio represents non-GAAP financial measure. See non-GAAP reconciliation on page 48.

(3)

Interest earning assets include assets that earn interest/accretion or dividends, except for the FDIC indemnification asset, which is not part of interest earning assets. Any market value adjustments on investment securities are excluded from interest-earning assets. Interest bearing liabilities include liabilities that must be paid interest.

- (4) Net interest margin represents net interest income, including accretion income on interest earning assets, as a percentage of average interest earning assets.
- (5) Interest rate spread represents the difference between the weighted average yield on interest earning assets and the weighted average cost of interest bearing liabilities.

(6) The efficiency ratio represents non-interest expense, less intangible asset amortization, as a percentage of net interest income plus non-interest income on a fully taxable basis.

Non-performing loans were redefined during the third quarter of 2014 to only include non-accrual loans and (7) restructured loans on non-accrual, and exclude any loans accounted for under ASC 310-30 in which the pool is still performing. All previous periods have been restated.

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

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

About Non-GAAP Financial Measures

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

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

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

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

| | As of and for the three months ended | | |
|--|--------------------------------------|-------------------|--------------------|
| | September 30, 2014 | December 31, 2013 | September 30, 2013 |
| Total shareholders' equity | \$808,962 | \$897,792 | \$1,031,250 |
| Less: goodwill and intangible assets, net | (77,850) | (81,859) | (83,196) |
| Add: deferred tax liability related to goodwill | 5,834 | 4,671 | 4,284 |
| Tangible common equity (non-GAAP) | \$736,946 | \$820,604 | \$952,338 |
| | | | |
| Total assets | \$4,812,807 | \$4,914,115 | \$5,161,969 |
| Less: goodwill and intangible assets, net | (77,850) | (81,859) | (83,196) |
| Add: deferred tax liability related to goodwill | 5,834 | 4,671 | 4,284 |
| Tangible assets (non-GAAP) | \$4,740,791 | \$4,836,927 | \$5,083,057 |
| | | | |
| Tangible common equity to tangible assets calculations: | | | |
| Total shareholders' equity to total assets | 16.81 | % 18.27 | % 19.98 |
| Less: impact of goodwill and intangible assets, net | (1.27) |)% (1.30) |)% (1.24) |
| Tangible common equity to tangible assets (non-GAAP) | 15.54 | % 16.97 | % 18.74 |
| | | | |
| Common book value per share calculations: | | | |
| Total shareholders' equity | \$808,962 | \$897,792 | \$1,031,250 |
| Divided by: ending shares outstanding | 39,862,824 | 44,918,336 | 51,213,044 |
| Common book value per share | \$20.29 | \$19.99 | \$20.14 |
| | | | |
| Tangible common book value per share calculations: | | | |
| Tangible common equity (non-GAAP) | \$736,946 | \$820,604 | \$952,338 |
| Divided by: ending shares outstanding | 39,862,824 | 44,918,336 | 51,213,044 |
| Tangible common book value per share (non-GAAP) | \$18.49 | \$18.27 | \$18.60 |
| | | | |
| Tangible common book value per share, excluding accumulated other comprehensive income (loss) calculations: | | | |
| Tangible common equity (non-GAAP) | \$736,946 | \$820,604 | \$952,338 |
| Less: accumulated other comprehensive income (loss), net of tax | (1,896) | 6,756 | 142 |
| Tangible common book value, excluding accumulated other comprehensive income (loss), net of tax | 735,050 | 827,360 | 952,480 |
| Divided by: ending shares outstanding | 39,862,824 | 44,918,336 | 51,213,044 |
| Tangible common book value per share, excluding accumulated other comprehensive income (loss), net of tax (non-GAAP) | \$18.44 | \$18.42 | \$18.60 |

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

Return on Average Tangible Assets and Return on Average Tangible Equity

| | As of and for the three months ended | | | As of and for the nine months ended | | |
|---|---|----------------------|-----------------------|--|-----------------------|---|
| | September 30, 2014 | December 31, 2013 | September 30, 2013 | September 30, 2014 | September 30, 2013 | |
| Net income | \$3,337 | \$1,000 | \$947 | \$6,897 | \$5,927 | |
| Add: impact of core deposit intangible amortization expense, after tax | 815 | 809 | 808 | 2,445 | 2,425 | |
| Net income adjusted for impact of core deposit intangible amortization expense, after tax | \$4,152 | \$1,809 | \$1,755 | \$9,342 | \$8,352 | |
| Average assets | \$4,854,809 | \$5,014,174 | \$5,198,498 | \$4,881,890 | \$5,229,479 | |
| Less: average goodwill and intangible assets, net of deferred tax asset related to goodwill | 72,781 | 77,973 | 79,725 | 74,134 | 81,022 | |
| Average tangible assets (non-GAAP) | \$4,782,028 | \$4,936,201 | \$5,118,773 | \$4,807,756 | \$5,148,457 | |
| Average shareholder's equity | \$849,351 | \$953,836 | \$1,037,968 | \$878,233 | \$1,067,370 | |
| Less: average goodwill and intangible assets, net of deferred tax asset related to goodwill | 72,781 | 77,973 | 79,725 | 74,134 | 81,022 | |
| Average tangible common equity (non-GAAP) | \$776,570 | 875,863 | \$958,243 | \$804,099 | \$986,348 | |
| Return on average assets | 0.27 | % 0.08 | % 0.07 | % 0.19 | % 0.15 | % |
| Return on average tangible assets (non-GAAP) | 0.34 | % 0.15 | % 0.14 | % 0.26 | % 0.22 | % |
| Return on average equity | 1.56 | % 0.42 | % 0.36 | % 1.05 | % 0.74 | % |
| Return on average tangible common equity (non-GAAP) | 2.12 | % 0.82 | % 0.73 | % 1.55 | % 1.13 | % |

Fully Taxable Equivalent Yield on Earning Assets and Net Interest Margin

| | As of and for the three months ended | | | As of and for the nine months ended | |
|---|---|----------------------|-----------------------|--|-----------------------|
| | September 30, 2014 | December 31, 2013 | September 30, 2013 | September 30, 2014 | September 30, 2013 |
| Interest income | \$45,492 | \$47,377 | \$49,522 | \$138,382 | \$148,098 |
| Add: impact of taxable equivalent adjustment | 231 | — | — | 610 | — |
| Interest income, fully taxable equivalent (non-GAAP) | \$45,723 | 47,377 | \$49,522 | \$138,992 | \$148,098 |
| Net interest income | \$41,895 | \$43,590 | \$45,515 | \$127,665 | \$135,371 |
| Add: impact of taxable equivalent adjustment | 231 | — | — | 610 | — |
| Net interest income, fully taxable equivalent (non-GAAP) | \$42,126 | 43,590 | \$45,515 | \$128,275 | \$135,371 |

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

| | | | | | | |
|--|-----------|-----------|-----------|-----------|-----------|---|
| Average earning assets | 4,453,822 | 4,573,216 | 4,747,260 | 4,464,363 | 4,740,791 | |
| Yield on earning assets | 4.05 | % 4.11 | % 4.14 | % 4.14 | % 4.18 | % |
| Yield on earning assets,fully taxable equivalent (non-GAAP) | 4.07 | % 4.11 | % 4.14 | % 4.16 | % 4.18 | % |
| Net interest margin | 3.73 | % 3.78 | % 3.80 | % 3.82 | % 3.82 | % |
| Net interest margin, fully taxable equivalent (non-GAAP) | 3.75 | % 3.78 | % 3.80 | % 3.84 | % 3.82 | % |

49

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

| | As of and for the three months ended | | | As of and for the nine months ended | | |
|---|---|----------------------|-----------------------|--|-----------------------|---|
| | September 30, 2014 | December 31, 2013 | September 30, 2013 | September 30, 2014 | September 30, 2013 | |
| Net interest income | \$41,895 | \$43,590 | \$45,515 | \$127,665 | \$135,371 | |
| Add: impact of taxable equivalent adjustment | 231 | — | — | 610 | — | |
| Net interest income, fully taxable equivalent (non-GAAP) | \$42,126 | \$43,590 | \$45,515 | \$128,275 | \$135,371 | |
| Non-interest income | \$1,614 | \$2,364 | \$3,338 | \$3,421 | \$17,813 | |
| Non-interest expense | \$37,981 | \$44,238 | \$46,613 | \$116,854 | \$139,727 | |
| Less: core deposit intangible asset amortization | (1,336) | (1,337) | (1,336) | (4,008) | (4,009) | |
| Non-interest expense, adjusted for core deposit intangible asset amortization | \$36,645 | \$42,901 | \$45,277 | \$112,846 | \$135,718 | |
| Efficiency ratio | 84.22 | % 93.36 | % 92.68 | % 86.09 | % 88.60 | % |
| Efficiency ratio, fully taxable equivalent (non-GAAP) | 83.78 | % 93.36 | % 92.68 | % 85.69 | % 88.60 | % |

Application of Critical Accounting Policies

We use accounting principles and methods that conform to GAAP and general banking practices. We are required to apply significant judgment and make material estimates in the preparation of our financial statements and with regard to various accounting, reporting and disclosure matters. Assumptions and estimates are required to apply these principles where actual measurement is not possible or practical. The most significant of these estimates relate to the fair value determination of assets acquired and liabilities assumed in business combinations and the application of acquisition accounting, the accounting for acquired loans and the related FDIC indemnification asset, the determination of the ALL, and the valuation of stock-based compensation. These critical accounting policies and estimates are summarized in the sections captioned "Application of Critical Accounting Policies" in Management's Discussion and Analysis in our 2013 Annual Report on Form 10-K, and are further analyzed with other significant accounting policies in note 2, "Summary of Significant Accounting Policies" in the notes to our consolidated financial statements for the year ended December 31, 2013. There have been no significant changes to the application of critical accounting policies since December 31, 2013.

Financial Condition

Total assets were \$4.8 billion at September 30, 2014 compared to \$4.9 billion at December 31, 2013, a decrease of \$0.1 billion, or 2.1%. The decrease in total assets was primarily attributable to the successful repurchase of 5.1 million of our outstanding shares for \$100.1 million. We continued our strategy of remixing our earning assets during the nine months ended September 30, 2014, using the run-off from the investment securities portfolio and non-strategic loans to fund loan growth. Total loans were \$2.2 billion at September 30, 2014, and grew \$317.3 million, or 22.9% annualized, from December 31, 2013. We originated \$687.0 million of loans during the nine months ended September 30, 2014, which grew the balances in our strategic portfolio \$416.1 million from December 31, 2013 to September 30, 2014, or an annualized rate of 37.0%. We reduced our non-strategic loan portfolio to \$0.3 billion at September 30, 2014, a decrease of \$98.8 million from December 31, 2013, or 37.7% annualized, which was a reflection of our successful workout progress on acquired problem loans (many of which were covered). Our FDIC indemnification asset decreased \$20.0 million during the nine months ended September 30, 2014, primarily as a result of amortization that resulted from an increase in actual and expected cash flows on the underlying covered assets, resulting in lower expected reimbursements from the FDIC. Other assets increased \$38.6 million due to an investment of \$40.1 million of bank-owned life insurance assets during the nine months ended September 30, 2014. Total deposits totaled \$3.8 billion at September 30, 2014 and decreased \$40.9 million from December 31, 2013. Lower cost demand, savings, and money market ("transaction") deposits increased \$58.8 million and was more than offset by a \$99.6 million decrease in time deposits as we sought to retain only those depositors who were interested in time deposits at market rate and developing a banking relationship and continued our focus on migrating toward a client-based deposit mix with higher concentrations of transaction deposits.

Investment Securities

Available-for-sale

Total investment securities available-for-sale were \$1.6 billion at September 30, 2014, compared to \$1.8 billion at December 31, 2013, a decrease of \$231.9 million, or 13.0%. During the nine months ended September 30, 2014, maturities and pay downs of available-for-sale securities totaled \$246.4 million. There were no purchases of available-for-sale securities during the nine months ended September 30, 2014. Our available-for-sale investment securities portfolio is summarized as follows for the periods indicated (in thousands):

| | September 30, 2014 | | | | December 31, 2013 | | | |
|--|--------------------|------------|----------------------|------------------------|-------------------|------------|----------------------|------------------------|
| | Amortized cost | Fair value | Percent of portfolio | Weighted average yield | Amortized cost | Fair value | Percent of portfolio | Weighted average yield |
| Asset-backed securities | \$356 | \$356 | 0.02 % | 0.63 % | \$4,534 | \$4,537 | 0.26 % | 0.61 % |
| Mortgage-backed securities ("MBS"): | | | | | | | | |
| Residential mortgage pass-through securities issued or guaranteed by | 419,852 | 427,127 | 27.49 % | 2.23 % | 490,321 | 494,990 | 27.72 % | 2.22 % |

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

| | | | | | | | | | | | | |
|---|-------------|-------------|--------|---|------|---|-------------|-------------|--------|---|------|---|
| U.S. Government agencies or sponsored enterprises | | | | | | | | | | | | |
| Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises | 1,145,834 | 1,125,739 | 72.46 | % | 1.80 | % | 1,320,998 | 1,285,582 | 72.00 | % | 1.83 | % |
| Other securities | 419 | 419 | 0.03 | % | 0.00 | % | 419 | 419 | 0.02 | % | 0.00 | % |
| Total investment securities available-for-sale | \$1,566,461 | \$1,553,641 | 100.00 | % | 1.92 | % | \$1,816,272 | \$1,785,528 | 100.00 | % | 1.94 | % |

As of September 30, 2014, approximately 99.9% of the available-for-sale investment portfolio was backed by mortgages as compared to 99.7% at December 31, 2013. The residential mortgage pass-through securities portfolio is comprised of both fixed rate and adjustable rate Federal Home Loan Mortgage Corporation (“FHLMC”), Federal National Mortgage Association

(“FNMA”) and Government National Mortgage Association (“GNMA”) securities. The other mortgage-backed securities are comprised of securities backed by FHLMC, FNMA and GNMA securities.

At September 30, 2014 and December 31, 2013, adjustable rate securities comprised 7.6% and 7.8%, respectively, of the available-for-sale MBS portfolio. The remainder of the portfolio was comprised of fixed rate amortizing securities with 10 to 30 year contractual maturities, with a weighted average coupon of 2.2% per annum, at September 30, 2014 and December 31, 2013.

The available-for-sale investment portfolio included \$12.8 million and \$30.7 million of net unrealized losses, at September 30, 2014 and December 31, 2013, respectively, inclusive of \$18.0 million and \$18.4 million of unrealized gains, respectively. In addition to the U.S. Government agency or sponsored enterprise backings of our MBS portfolio, we believe any unrecognized losses are a result of prevailing interest rates, and as such, we do not believe that any of the securities with unrealized losses were other-than-temporarily-impaired.

The estimated weighted average life of the available-for-sale MBS portfolio as of September 30, 2014 and December 31, 2013 was 3.6 years and 3.9 years, respectively, the decrease of which is primarily due to an adjustment in expected prepayment speeds and aging of the portfolio. This estimate is based on various assumptions, including repayment characteristics, and actual results may differ. As of September 30, 2014, the duration of the total available-for-sale investment portfolio was 3.4 years. As of December 31, 2013, the duration of the total available-for-sale investment portfolio was 3.6 years.

Held-to-maturity

At September 30, 2014, we held \$557.5 million of held-to-maturity investment securities, compared to \$641.9 million at December 31, 2013, a decrease of \$84.4 million, or 13.2%. During the nine months ended September 30, 2014 we did not purchase any held-to-maturity securities. Held-to-maturity investment securities are summarized as follows as of the date indicated (in thousands):

| | September 30, 2014 | | | | |
|--|--------------------|------------|----------------------|------------------------|---|
| | Amortized cost | Fair value | Percent of portfolio | Weighted average yield | |
| Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises | \$444,104 | \$447,424 | 79.67 | % 3.26 | % |
| Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises | 113,360 | 110,169 | 20.33 | % 1.69 | % |
| Total investment securities held-to-maturity | \$557,464 | \$557,593 | 100.00 | % 2.94 | % |
| | December 31, 2013 | | | | |
| | Amortized cost | Fair value | Percent of portfolio | Weighted average yield | |
| Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises | \$513,090 | \$511,489 | 79.93 | % 3.31 | % |
| Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises | 128,817 | 124,916 | 20.07 | % 1.70 | % |
| Total investment securities held-to-maturity | \$641,907 | \$636,405 | 100.00 | % 2.99 | % |

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

The fair value of the held-to-maturity investment portfolio was \$557.6 million and \$636.4 million, at September 30, 2014 and December 31, 2013, respectively, and included \$0.1 million of net unrealized gains and \$5.5 million of net unrealized losses for the respective periods.

The estimated weighted average life of the held-to-maturity investment portfolio was 3.5 years as of September 30, 2014 and 3.8 years as of December 31, 2013. As of September 30, 2014, the duration of the total held-to-maturity investment portfolio was 3.3 years and the duration of the entire investment securities portfolio was 3.4 years. As of December 31, 2013, the duration of the total held-to-maturity investment portfolio was 3.5 years and the duration of

the entire investment securities portfolio was 3.6 years.

Loans Overview

At September 30, 2014 our loan portfolio was comprised of new loans that we have originated and loans that were acquired in connection with our four acquisitions to date. The majority of the loans acquired in the Hillcrest Bank and Community Banks of Colorado transaction are covered by loss sharing agreements with the FDIC.

As discussed in note 4 to our audited consolidated financial statements, in accordance with applicable accounting guidance, all acquired loans are recorded at fair value at the date of acquisition, and an allowance for loan losses is not carried over with the loans but, rather, the fair value of the loans encompasses both credit quality and contractual interest rate considerations. Loans that exhibit signs of credit deterioration at the date of acquisition are accounted for in accordance with the provisions of ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality (“ASC 310-30”). Management accounted for all loans acquired in the Hillcrest Bank, Bank of Choice and Community Banks of Colorado acquisitions under ASC 310-30, with the exception of loans with revolving privileges which were outside the scope of ASC 310-30. In our Bank Midwest transaction, we did not acquire all of the loans of the former Bank Midwest but, rather, selected certain loans based upon specific criteria of performance, adequacy of collateral, and loan type that were performing at the time of acquisition. As a result, none of the loans acquired in the Bank Midwest transaction are accounted for under ASC 310-30.

Consistent with differences in the accounting, the loan portfolio is presented in two categories: (i) ASC 310-30 loans and (ii) non 310-30 loans. The portfolio is further stratified based on (i) loans covered by FDIC loss sharing agreements, or “covered loans,” and (ii) loans that are not covered by FDIC loss sharing agreements, or “non-covered loans.” Additionally, inherent in the nature of acquiring problem banks, only certain of our acquired clients conform to our long-term business model of in-market, relationship-oriented banking clients. We have developed a management tool to evaluate the progress of working out the problem loans acquired in our FDIC-assisted acquisitions and the progress of organic loan growth, whereby we have designated loans as “strategic” or “non-strategic.” Strategic loans include all originated loans in addition to those acquired loans inside our operating markets that meet our credit risk profile. Identification as strategic for acquired loans was made at the time of acquisition. Criteria utilized in the designation of a loan as “strategic” include (a) geography, (b) total relationship with borrower and (c) credit metrics commensurate with our current underwriting standards. At September 30, 2014, strategic loans totaled \$1.9 billion and had strong credit quality as represented by a non-accrual loans ratio of 0.8%. We believe this presentation of our loan portfolio provides a meaningful basis to understand the underlying drivers of changes in our loan portfolio balances. Due to the unique structure and accounting treatment in our loan portfolio, we utilize four primary presentations to analyze our loan portfolio, depending on the purpose of the analysis. Those are:

| | |
|--|---|
| To analyze: | We look at: |
| Loan growth and production efforts | Strategic balances and loan originations |
| Workout efforts of our purchased non-strategic portfolio | Non-strategic balances and accretable yield |
| Risk mitigants of our non-performing loans | FDIC loss-share coverage and fair value marks |
| Interest income | ASC 310-30 and non 310-30 yields and accretable yield |

For information regarding the loan portfolio composition and the breakdown of the portfolio between ASC 310-30 loans, non 310-30 loans, along with the amounts that are covered and non-covered, see note 4.

Strategic loans comprised 88.4% of the total loan portfolio at September 30, 2014, compared to 81.1% at December 31, 2013. The table below shows the loan portfolio composition categorized between strategic and non-strategic at the respective dates (in thousands):

| | September 30, 2014 | | | December 31, 2013 | | |
|---------------------------------------|--------------------|---------------|-----------|-------------------|---------------|-----------|
| | Strategic | Non-strategic | Total | Strategic | Non-strategic | Total |
| Commercial | \$707,999 | \$47,173 | \$755,172 | \$411,589 | \$71,906 | \$483,495 |
| Agriculture | 160,851 | 2,021 | 162,872 | 154,811 | 5,141 | 159,952 |
| Owner-occupied commercial real estate | 144,223 | 19,988 | 164,211 | 123,386 | 30,306 | 153,692 |
| Commercial real estate | 273,949 | 156,156 | 430,105 | 210,265 | 210,263 | 420,528 |
| Residential real estate | 599,523 | 23,876 | 623,399 | 570,455 | 29,469 | 599,924 |
| Consumer | 33,640 | 1,973 | 35,613 | 33,599 | 2,904 | 36,503 |

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

| | | | | | | |
|-------|-------------|-----------|-------------|-------------|-----------|-------------|
| Total | \$1,920,185 | \$251,187 | \$2,171,372 | \$1,504,105 | \$349,989 | \$1,854,094 |
|-------|-------------|-----------|-------------|-------------|-----------|-------------|

53

Our loan portfolio totaled \$2.2 billion at September 30, 2014 and increased \$317.3 million from December 31, 2013. The 17.1% increase in total loans was primarily driven by a \$416.1 million increase in our strategic loan portfolio, partially offset by a \$98.8 million decrease in our non-strategic loan portfolio. The increase in strategic loans of \$416.1 million, or 37.0% annualized, at September 30, 2014 compared to December 31, 2013, was driven by strong loan originations. We successfully increased our balances in all of our strategic loan segments as we continued to generate new relationships with individuals and small to mid-sized businesses. We have experienced particularly strong loan growth in our commercial portfolio, which at September 30, 2014, was comprised of energy/oil/gas-related loans of \$162.3 million, finance and insurance-related loans of \$79.0 million, manufacturing-related loans of \$101.1 million, property management-related loans of \$120.1 million, and a variety of smaller subcategories of commercial and industrial loans. Our enterprise-level, dedicated special asset resolution team has had continued success working out non-strategic loans acquired in our FDIC-assisted transactions, which complimented the repayment of non-strategic loans that do not conform to our business model of in-market, relationship-oriented loans with credit metrics commensurate with our current underwriting standards. New loan origination is a direct result of our ability to recruit and retain top banking talent, connect with clients in our markets and provide needed services at competitive rates. New loan originations of \$687.0 million during the nine months ended September 30, 2014, were up \$217.2 million, or 46.2% from the same period of the prior year as a result of deepening market penetration. The following table represents new loan originations for the last five quarters (in thousands):

| | Third quarter 2014 | Second quarter 2014 | First quarter 2014 | Fourth quarter 2013 | Third quarter 2013 |
|--|-----------------------|------------------------|-----------------------|------------------------|-----------------------|
| Commercial | \$ 110,083 | \$ 133,671 | \$ 130,096 | \$ 159,931 | \$ 80,833 |
| Agriculture | 7,014 | 10,288 | 4,959 | 23,610 | 5,689 |
| Owner-occupied commercial real estate | 10,293 | 28,803 | 21,002 | 6,380 | 21,226 |
| Commercial real estate | 33,817 | 45,903 | 29,633 | 14,579 | 28,855 |
| Residential real estate | 35,404 | 44,539 | 27,812 | 36,113 | 51,749 |
| Consumer | 6,678 | 3,556 | 3,461 | 3,594 | 3,326 |
| Total | \$ 203,289 | \$ 266,760 | \$ 216,963 | \$ 244,207 | \$ 191,678 |

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

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

| | September 30, 2014 | | | |
|---------------------------------------|----------------------|-----------------------------------|----------------------|-------------|
| | Due within 1 Year | Due after 1 but within 5 Years | Due after 5 Years | Total |
| Commercial | \$ 133,459 | \$461,330 | \$ 160,383 | \$755,172 |
| Agriculture | 41,040 | 69,751 | 52,081 | 162,872 |
| Owner-occupied commercial real estate | 25,275 | 68,045 | 70,891 | 164,211 |
| Commercial real estate | 129,962 | 211,741 | 88,402 | 430,105 |
| Residential real estate | 26,486 | 39,201 | 557,712 | 623,399 |
| Consumer | 12,785 | 16,325 | 6,503 | 35,613 |
| Total loans | \$369,007 | \$866,393 | \$935,972 | \$2,171,372 |
| Covered | \$ 140,567 | \$40,264 | \$38,637 | \$219,468 |
| Non-covered | 228,440 | 826,129 | 897,335 | 1,951,904 |
| Total loans | \$369,007 | \$866,393 | \$935,972 | \$2,171,372 |

| | December 31, 2013 | | | |
|---------------------------------------|----------------------|-----------------------------------|----------------------|-------------|
| | Due within 1 Year | Due after 1 but within 5 Years | Due after 5 Years | Total |
| Commercial | \$ 128,368 | \$297,120 | \$58,007 | \$483,495 |
| Agriculture | 32,258 | 80,681 | 47,013 | 159,952 |
| Owner-occupied commercial real estate | 20,382 | 72,839 | 60,472 | 153,693 |
| Commercial real estate | 135,673 | 205,046 | 79,808 | 420,527 |
| Residential real estate | 36,085 | 52,079 | 511,760 | 599,924 |
| Consumer | 14,284 | 15,281 | 6,938 | 36,503 |
| Total loans | \$367,050 | \$723,046 | \$763,998 | \$1,854,094 |
| Covered | \$ 175,452 | \$96,216 | \$37,729 | \$309,397 |
| Non-covered | 191,598 | 626,830 | 726,269 | 1,544,697 |
| Total loans | \$367,050 | \$723,046 | \$763,998 | \$1,854,094 |

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

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

| | September 30, 2014 | | | | | | | |
|---------------------------------------|--------------------|-----------------------|-------------|-----------------------|---------------|-----------------------|---|--|
| | Fixed | | Variable | | Total | | | |
| | Balance | Weighted average rate | Balance | Weighted average rate | Balance | Weighted average rate | | |
| Commercial | \$208,340 | 3.84 | % \$400,188 | 3.57 | % \$608,528 | 3.66 | % | |
| Agriculture | 68,337 | 4.94 | % 35,811 | 4.64 | % 104,148 | 4.84 | % | |
| Owner-occupied commercial real estate | 70,540 | 4.34 | % 38,242 | 4.26 | % 108,782 | 4.31 | % | |
| Commercial real estate | 125,276 | 4.54 | % 109,238 | 3.48 | % 234,514 | 4.05 | % | |
| Residential real estate | 333,704 | 3.49 | % 230,271 | 3.59 | % 563,975 | 3.53 | % | |
| Consumer | 13,310 | 5.37 | % 4,950 | 3.99 | % 18,260 | 4.99 | % | |
| Total loans with > 1 year maturity | \$819,507 | 3.97 | % \$818,700 | 3.64 | % \$1,638,207 | 3.80 | % | |
| Covered | \$810 | 4.15 | % \$13,712 | 2.89 | % \$14,522 | 2.96 | % | |
| Non-covered | 818,697 | 3.96 | % 804,988 | 3.66 | % 1,623,685 | 3.81 | % | |
| Total loans with > 1 year maturity | \$819,507 | 3.97 | % \$818,700 | 3.64 | % \$1,638,207 | 3.80 | % | |

| | December 31, 2013 | | | | | | | |
|---------------------------------------|-------------------|-----------------------|-------------|-----------------------|---------------|-----------------------|---|--|
| | Fixed | | Variable | | Total | | | |
| | Balance | Weighted average rate | Balance | Weighted average rate | Balance | Weighted average rate | | |
| Commercial | \$76,521 | 4.36 | % \$248,795 | 3.79 | % \$325,316 | 3.93 | % | |
| Agriculture | 68,701 | 5.02 | % 35,898 | 4.47 | % 104,599 | 4.83 | % | |
| Owner-occupied commercial real estate | 59,939 | 4.61 | % 31,492 | 4.19 | % 91,431 | 4.46 | % | |
| Commercial real estate | 92,418 | 4.62 | % 83,678 | 3.81 | % 176,096 | 4.29 | % | |
| Residential real estate | 316,083 | 3.49 | % 208,361 | 3.64 | % 524,444 | 3.55 | % | |
| Consumer | 10,683 | 6.24 | % 4,617 | 4.20 | % 15,300 | 5.63 | % | |
| Total loans with > 1 year maturity | \$624,345 | 4.11 | % \$612,841 | 3.80 | % \$1,237,186 | 3.96 | % | |
| Covered | \$11,044 | 3.74 | % \$7,057 | 5.97 | % \$18,101 | 4.54 | % | |
| Non-covered | 613,301 | 4.11 | % 605,784 | 3.78 | % 1,219,085 | 3.95 | % | |
| Total loans with > 1 year maturity | \$624,345 | 4.11 | % \$612,841 | 3.80 | % \$1,237,186 | 3.96 | % | |

Accretable Yield

At September 30, 2014, the accretable yield balance was \$113.1 million compared to \$130.6 million at December 31, 2013. We re-measure the expected cash flows of all 28 remaining loan pools accounted for under ASC 310-30 utilizing the same cash flow methodology used at the time of acquisition. During the nine months ended September 30, 2014 and 2013, we reclassified a net \$29.1 million and \$50.1 million, respectively, from non-accretable difference to accretable yield, as a result of these remeasurements.

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

| | September 30, 2014 | December 31, 2013 |
|--|--------------------|-------------------|
| Remaining accretable yield on loans accounted for under ASC 310-30 | \$113,108 | \$130,624 |
| Remaining accretable fair value mark on loans not accounted for under ASC 310-30 | 8,353 | 10,755 |
| Total remaining accretable yield and fair value mark | \$121,461 | \$141,379 |

Loss Share Coverage

We have two loss sharing agreements with the FDIC for the assets related to the Hillcrest Bank acquisition and a separate loss sharing agreement that covers certain assets related to the Community Banks of Colorado acquisition, whereby the FDIC will reimburse us for a portion of the losses and expenses incurred as a result of the resolution and disposition of the covered assets of these banks. The details of these agreements are more fully described in Management's Discussion and Analysis in our 2013 Annual Report on Form 10-K.

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

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

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

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

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

As of September 30, 2014, we had incurred \$201.2 million of estimated losses on our Hillcrest Bank covered assets since the beginning of the loss sharing agreement as measured by the FDIC's book value, substantially all of which was related to the commercial assets. Additionally, as of September 30, 2014, we had incurred approximately \$137.1 million of estimated losses related to our Community Banks of Colorado loss sharing agreement. The claims filed are subject to review and approval, including extensive audits, by the FDIC or its assigned agents for compliance with the terms in the loss sharing agreements.

Asset Quality

All of the assets acquired in our acquisitions were marked to fair value at the date of acquisition, and the fair value adjustments to loans included a credit quality component. We utilize traditional credit quality metrics to evaluate the overall credit quality of our loan portfolio; however, our credit quality ratios are limited in their comparability to industry averages or to other financial institutions because:

1. Any asset quality deterioration that existed at the date of acquisition was considered in the original fair value adjustments; and
2. 48.2% of our non-performing assets (by dollar amount) at September 30, 2014 were covered by loss sharing agreements with the FDIC.

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

Additionally, we have implemented procedures to timely identify loans that may become problematic in order to ensure the most beneficial resolution to the Company. Asset quality is monitored by our credit risk management department and evaluated based on quantitative and subjective factors such as the timeliness of contractual payments

received. Additional factors that are considered, particularly with commercial loans over \$250,000, include the financial condition and liquidity of individual borrowers and guarantors, if any, and the value of our collateral. To facilitate the oversight of asset quality, loans are

57

categorized based on the number of days past due and on an internal risk rating system, and both are discussed in more detail below.

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

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

Non-performing Assets

Non-performing assets consist of covered and non-covered non-accrual loans, troubled debt restructurings on non-accrual, OREO and other repossessed assets. Non-accrual loans and troubled debt restructurings on non-accrual accounted for under ASC 310-30, as described below, may be excluded from our non-performing assets to the extent that the cash flows of the loan pools are still estimable. During the third quarter of 2014 we revised our definition of non-performing assets and non-performing loans to exclude accruing loans 90 days past due and accruing troubled debt restructurings to more accurately align the financial metrics related to non-performing assets and non-performing loans with our financial results. Prior period information has been modified for this revision.

Our non-performing assets included \$1.5 million and \$16.8 million of covered loans and \$30.1 million and \$38.8 million of covered OREO at September 30, 2014 and December 31, 2013, respectively. In addition to being covered by loss sharing agreements, these assets were marked to fair value at the time of acquisition, mitigating much of our loss potential on these non-performing assets. As a result, the levels of our non-performing assets are not fully comparable to those of our peers or to industry benchmarks.

Loans accounted for under ASC 310-30 were recorded at fair value based on cash flow projections that considered the deteriorated credit quality and expected losses. These loans are accounted for on a pool basis and any non-payment of contractual principal or interest is considered in our periodic re-estimation of the expected future cash flows. To the extent that we decrease our cash flow projections, we record an immediate impairment expense through the provision for loan losses. We recognize any increases to our cash flow projections on a prospective basis through an increase to the pool's yield over its remaining life once any previously recorded impairment expense has been recouped. As a result of this accounting treatment, these pools may be considered to be performing, even though some or all of the individual loans within the pools may be contractually past due.

During 2013, the Company identified one covered commercial and industrial loan pool accounted for under ASC 310-30, that had a balance of \$14.8 million at December 31, 2013, for which the cash flows were not reasonably estimable. In accordance with the guidance in ASC 310-30, this pool was put on non-accrual status. During the nine months ended September 30, 2014, this loan pool was returned to accrual status due to improved performance and

predictability of cash flows within that pool. All other loans accounted for under ASC 310-30 were classified as performing assets at December 31, 2013.

All loans accounted for under ASC 310-30 were classified as performing assets at September 30, 2014, as the carrying values of the respective loan or pool of loans cash flows were considered estimable and probable of collection.

Therefore, interest income, through accretion of the difference between the carrying value of the loans in the pool and the pool's expected future cash flows, is being recognized on all acquired loans accounted for under ASC 310-30.

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

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

| | September 30, 2014 | | | December 31, 2013 | | | |
|--|--------------------|----------|----------|-------------------|----------|----------|---|
| | Non-covered | Covered | Total | Non-covered | Covered | Total | |
| Non-accrual loans: | | | | | | | |
| Commercial | \$11,627 | \$147 | \$11,774 | \$474 | \$15,098 | \$15,572 | |
| Agriculture | 134 | — | 134 | 153 | — | 153 | |
| Owner-occupied commercial real estate | 374 | — | 374 | 467 | — | 467 | |
| Commercial real estate | 203 | — | 203 | 1,131 | — | 1,131 | |
| Residential real estate | 2,754 | — | 2,754 | 3,437 | — | 3,437 | |
| Consumer | 32 | — | 32 | 10 | — | 10 | |
| Total non-accrual loans | 15,124 | 147 | 15,271 | 5,672 | 15,098 | 20,770 | |
| Restructured loans on non-accrual | 2,272 | 1,393 | 3,665 | 1,901 | 1,673 | 3,574 | |
| Total non-performing loans | 17,396 | 1,540 | 18,936 | 7,573 | 16,771 | 24,344 | |
| OREO | 15,753 | 30,132 | 45,885 | 31,300 | 38,825 | 70,125 | |
| Other repossessed assets | 869 | 20 | 889 | 784 | 302 | 1,086 | |
| Total non-performing assets | \$34,018 | \$31,692 | \$65,710 | \$39,657 | \$55,898 | \$95,555 | |
| Loans 90 days or more past due and still accruing interest | \$225 | \$— | \$225 | \$14 | \$115 | \$129 | |
| Accruing restructured loans ⁽¹⁾ | \$15,758 | \$9,277 | \$25,035 | \$5,891 | \$5,714 | \$11,605 | |
| Allowance for loan losses | | | \$16,591 | | | \$12,521 | |
| Total non-performing loans to non-covered, covered and total loans, respectively | 0.89 | % 0.70 | % 0.87 | % 0.49 | % 5.42 | % 1.31 | % |
| Loans 90 days or more past due and still accruing interest to non-covered, covered and total loans, respectively | 0.01 | % 0.00 | % 0.01 | % 0.00 | % 0.04 | % 0.01 | % |
| Total non-performing assets to total assets | | | 1.37 | % | | 1.94 | % |
| Allowance for loan losses to non-performing loans | | | 87.62 | % | | 51.43 | % |

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

During the nine months ended September 30, 2014, total non-performing loans decreased \$5.4 million. Non-covered non-performing loans increased \$9.8 million from December 31, 2013 to September 30, 2014, primarily due to one non 310-30 loan relationship in the commercial segment, totaling \$11.5 million at September 30, 2014, that was placed on non-accrual status during the nine months ended September 30, 2014. The loans in this relationship were fully secured and current as to principal and interest payments at September 30, 2014. This increase in non-covered non-accrual loans was more than offset by a \$15.2 million decrease in covered non-accrual loans as a result of the previously mentioned 310-30 loan pool that was returned to accrual status during the nine months ended September 30, 2014.

During the nine months ended September 30, 2014 accruing TDR's increased \$13.4 million. The increase was primarily attributable to four loans in the commercial segment with a recorded balance of \$10.6 million and six loans in the agriculture segment with a recorded balance of \$9.3 million, all of which have been granted an extension of maturity. The \$45.9 million of OREO at September 30, 2014 excludes \$8.5 million of minority interest in participated OREO in connection with the repossession of collateral on loans for which we were not the lead bank and we do not have a controlling interest. These properties have been repossessed by the lead banks and we have recorded our receivable due from the lead banks in other assets as minority interest in participated OREO.

During the nine months ended September 30, 2014, \$2.5 million of OREO was foreclosed on or otherwise repossessed and \$27.7 million of OREO was sold. The OREO sales resulted in \$0.4 million of net non-covered losses and \$3.0 million of net covered gains that are subject to reimbursement to the FDIC at the applicable loss-share coverage percentage. OREO write-downs of \$1.8 million were recorded during the nine months ended September 30, 2014, of which \$1.1 million, or 60.2%, were covered by FDIC loss sharing agreements.

Past Due Loans

Past due status is monitored as an indicator of credit deterioration. Covered and non-covered loans are considered past due or delinquent when the contractual principal or interest due in accordance with the terms of the loan agreement remains unpaid after the due date of the scheduled payment. Loans that are 90 days or more past due and not accounted for under ASC 310-30 are put on non-accrual status unless the loan is well secured and in the process of collection. Pooled loans accounted for under ASC 310-30 that are 90 days or more past due and still accruing are included in loans 90 days or more past due and still accruing interest and are generally considered to be performing as is further described above under "Non-Performing Assets." One covered loan pool accounted for under ASC 310-30 that was put on non-accrual during 2013 was included in non-accrual loans at December 31, 2013, but was excluded from non-accrual loans during the nine months ended September 30, 2014 as the pool was again considered performing. The table below shows the past due status of loans accounted for under ASC 310-30 and loans not accounted for under ASC 310-30, based on contractual terms of the loans as of September 30, 2014 and December 31, 2013 (in thousands):

| | September 30, 2014 | | | December 31, 2013 | | | |
|--|--------------------|----------------------|-------------|-------------------|----------------------|-------------|---|
| | ASC 310-30 loans | Non ASC 310-30 loans | Total loans | ASC 310-30 loans | Non ASC 310-30 loans | Total loans | |
| Loans 30-89 days past due and still accruing interest | \$30,761 | \$5,452 | \$36,213 | \$11,245 | \$2,854 | \$14,099 | |
| Loans 90 days past due and still accruing interest | 42,930 | 225 | 43,155 | 55,864 | 129 | 55,993 | |
| Non-accrual loans | — | 15,272 | 15,272 | 14,827 | 5,942 | 20,769 | |
| Restructured loans on non-accrual | — | 3,664 | 3,664 | — | 3,575 | 3,575 | |
| Total past due and non-accrual loans | \$73,691 | \$24,613 | \$98,304 | \$81,936 | \$12,500 | \$94,436 | |
| Total past due covered loans | \$62,072 | \$1,611 | \$63,683 | \$63,603 | \$2,284 | \$65,887 | |
| Total 90 days past due and still accruing interest and non-accrual loans to 310-30 loans, non 310-30 loans and total loans, respectively | 13.39 | % 1.04 | % 2.86 | % 15.68 | % 0.69 | % 4.33 | % |
| Total non-accrual loans to 310-30 loans, non 310-30 loans and total loans, respectively | 0.00 | % 1.02 | % 0.87 | % 3.29 | % 0.68 | % 1.31 | % |
| % of total past due and non-accrual loans that carry fair value adjustments | 100.00 | % 27.68 | % 81.89 | % 100.00 | % 52.23 | % 93.68 | % |
| % of total past due and non-accrual loans that are covered by FDIC loss sharing agreements | 84.23 | % 6.55 | % 64.78 | % 77.63 | % 18.27 | % 69.77 | % |

Loans 30-89 days past due and still accruing interest increased by \$22.1 million from December 31, 2013 to September 30, 2014, primarily due to one loan that is in the process of renewal. Loans 90 days or more past due and still accruing interest decreased \$12.8 million at September 30, 2014 compared to December 31, 2013, for a collective increase in total past due loans of \$9.3 million. Non-accrual loans decreased \$5.4 million from December 31, 2013 to September 30, 2014. The decrease in non-accrual loans was primarily because of the covered commercial and industrial loan pool accounted for under ASC 310-30 that was on non-accrual status at December 31, 2013, with a balance \$14.8 million, was returned to accrual status during the nine months ended September 30, 2014. This decrease was partially offset by the addition to non-accrual status of one non 310-30 loan relationship in the commercial segment totaling \$11.5 million as of September 30, 2014, which is fully secured and current as to principal and

interest payments. Restructured loans on non-accrual were relatively unchanged from December 31, 2013 to September 30, 2014.

Allowance for Loan Losses

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

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

Loans accounted for under the accounting guidance provided in ASC 310-30 have been grouped into pools based on the predominant risk characteristics of purpose and/or type of loan. The timing and receipt of expected principal, interest and any other cash flows of these loans are periodically re-estimated and the expected future cash flows of the collective pools are compared to the carrying value of the pools. To the extent that the expected future cash flows of each pool is less than the book value of the pool, an allowance for loan losses will be established through a charge to the provision for loan losses and, for loans covered by loss sharing agreements with the FDIC, a related adjustment to the FDIC indemnification asset for the portion of the loss that is covered by the loss sharing agreements. If the re-estimated expected future cash flows are greater than the book value of the pools, then the improvement in the expected future cash flows is accreted into interest income over the remaining expected life of the loan pool. During the nine months ended September 30, 2014 and 2013, these re-estimations resulted in overall increases in expected cash flows in certain loan pools, which, absent previous valuation allowances within the same pool, are reflected in increased accretion as well as an increased amount of accretable yield and are recognized over the expected remaining lives of the underlying loans as an adjustment to yield.

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

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

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

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

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

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

- economic/external conditions;

loan administration, loan structure and
procedures;
risk tolerance/experience;
loan growth;
trends;
concentrations; and

61

other.

Historical loss data is categorized by segment and class and a loss rate is applied to loan balances. The loss rates are based on loan segment and class and utilize a credit risk rating migration analysis. Our historical loss history began in 2012 and has resulted in minimal losses in our originated portfolio. In order to address this lack of historical data, we incorporate not only our own historical loss rates since the beginning of 2012, but we also utilize peer historical loss data, including a 20-quarter historical average net charge-off ratio on each loan type, relying on the Uniform Bank Performance Reports compiled by the Federal Financial Institutions Examinations Council (“FFIEC”). While we use our own loss history and peer loss history for both purchased and originated loans, we assign a higher portion of our own loss history to our purchased loans, because those loans are more seasoned and more of the actual losses in the portfolio have historically been in the purchased portfolio. For originated loans, we assign a higher portion of the peer loss history, as we believe that this is likely more indicative of losses inherent in the portfolio.

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

Non 310-30 ALL

During the three and nine months ended September 30, 2014, we recorded \$1.7 million and \$5.3 million, respectively, of provision for loan losses for loans not accounted for under ASC 310-30, which primarily reflects reserves to support loan growth. Net charge-offs for non ASC 310-30 loans during the three and nine months ended September 30, 2014 totaled \$496 thousand and \$836 thousand, respectively, and were primarily from the residential real estate, consumer, and commercial loan segments. At September 30, 2014, there were seven impaired loans that carried specific reserves totaling \$0.2 million compared to eight impaired loans that carried specific reserves totaling \$0.9 million at December 31, 2013.

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

310-30 ALL

During the three and nine months ended September 30, 2014, several loan pools accounted for under ASC 310-30 had previous valuation allowances of \$191 thousand and \$371 thousand, respectively, that were reversed as a result of an increase in expected cash flows. The remaining pools had minimal impairments during the three and nine months ended September 30, 2014, as a result of decreases in expected cash flows. The result of this activity resulted in net provision reversals of \$191 thousand and \$335 thousand during the three and nine months ended September 30, 2014, respectively.

During the three and nine months ended September 30, 2013, two loans pools accounted for under ASC 310-30 had previous valuation allowances of \$0.9 million and \$1.3 million, respectively, that were reversed as a result of an increase in expected cash flows. The remaining loan pools had net impairments as a result of decreases in expected cash flows, resulting in a net recoupment of provision of \$0.3 million and provision expense of \$1.0 million for the three and nine months ended September 30, 2013, respectively, for loans accounted for under ASC 310-30.

After considering the above mentioned factors, we believe that the ALL of \$16.6 million and \$12.5 million was adequate to cover probable losses inherent in the loan portfolio at September 30, 2014 and December 31, 2013, respectively. However, it is likely that future adjustments to the ALL will be necessary and any changes to the assumptions, circumstances or estimates used in determining the ALL could adversely affect the Company's results of operations, liquidity or financial condition.

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

The following schedule presents, by class stratification, the changes in the ALL during the three months ended September 30, 2014 and 2013 (in thousands):

| | For the three months ended | | | September 30, 2013 | | | |
|--|----------------------------|---------------------|-------------|---------------------|---------------------|-------------|---|
| | September 30, 2014 | | Total | September 30, 2013 | | Total | |
| | ASC 310-30 Loans | Non 310-30 Loans | | ASC 310-30 Loans | Non 310-30 Loans | | |
| Beginning allowance for loan losses | \$1,098 | \$14,474 | \$15,572 | \$2,195 | \$9,652 | \$11,847 | |
| Charge-offs: | | | | | | | |
| Commercial | — | (86) | (86) | — | (401) | (401) | |
| Agriculture | — | — | — | (221) | — | (221) | |
| Commercial real estate | — | — | — | — | — | — | |
| Residential real estate | — | (470) | (470) | (57) | (117) | (174) | |
| Consumer | — | (230) | (230) | — | (276) | (276) | |
| Total charge-offs | — | (786) | (786) | (278) | (794) | (1,072) | |
| Recoveries | — | 290 | 290 | — | 207 | 207 | |
| Net charge-offs | — | (496) | (496) | (278) | (587) | (865) | |
| Provision (recoupment) for loan loss | (191) | 1,706 | 1,515 | (313) | 750 | 437 | |
| Ending allowance for loan losses | \$907 | \$15,684 | \$16,591 | \$1,604 | \$9,815 | \$11,419 | |
| Ratio of annualized net charge-offs to average total loans during the period, respectively | 0.00 | % 0.11 | % 0.09 | % 0.20 | % 0.20 | % 0.20 | % |
| Average total loans outstanding during the period | \$341,405 | \$1,763,279 | \$2,104,684 | \$554,750 | \$1,143,223 | \$1,697,973 | |

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

The following schedule presents, by class stratification, the changes in the ALL during the nine months ended September 30, 2014 and 2013 (in thousands):

| | For the nine months ended September 30, 2014 | | | September 30, 2013 | | | |
|---|---|---------------------|-------------|---------------------|---------------------|-------------|---|
| | ASC 310-30 loans | Non 310-30 loans | Total | ASC 310-30 loans | Non 310-30 loans | Total | |
| Beginning allowance for loan losses | \$1,280 | \$11,241 | \$12,521 | \$4,652 | \$10,728 | \$15,380 | |
| Charge-offs: | | | | | | | |
| Commercial | (2) | (498) | (500) | (407) | (1,654) | (2,061) | |
| Agriculture | — | — | — | (221) | — | (221) | |
| Commercial real estate | — | — | — | (2,796) | (943) | (3,739) | |
| Residential real estate | — | (539) | (539) | (623) | (741) | (1,364) | |
| Consumer | (36) | (585) | (621) | — | (717) | (717) | |
| Total charge-offs | (38) | (1,622) | (1,660) | (4,047) | (4,055) | (8,102) | |
| Recoveries | — | 786 | 786 | — | 617 | 617 | |
| Net charge-offs | (38) | (836) | (874) | (4,047) | (3,438) | (7,485) | |
| Provision (recoupment) for loan loss | (335) | 5,279 | 4,944 | 999 | 2,525 | 3,524 | |
| Ending allowance for loan losses | \$907 | \$15,684 | \$16,591 | \$1,604 | \$9,815 | \$11,419 | |
| Ratio of annualized net charge-offs to average total loans during the period, respectively | 0.01 | % 0.07 | % 0.06 | % 0.81 | % 0.43 | % 0.58 | % |
| Ratio of allowance for loan losses to total loans outstanding at period end, respectively | 0.28 | % 0.85 | % 0.76 | % 0.31 | % 0.80 | % 0.66 | % |
| Ratio of allowance for loan losses to total non-covered loans outstanding at period end, respectively | 0.66 | % 0.86 | % 0.85 | % 0.79 | % 0.84 | % 0.83 | % |
| Ratio of allowance for loan losses to total non-performing loans at period end, respectively | 0.00 | % 82.83 | % 87.62 | % 9.51 | % 70.14 | % 37.01 | % |
| Ratio of allowance for loan losses to total non-performing, non-covered loans at period end, respectively | 0.00 | % 90.16 | % 95.37 | % 0.00 | % 84.68 | % 98.52 | % |
| Total loans | \$320,593 | \$1,850,779 | \$2,171,372 | \$513,010 | \$1,229,803 | \$1,742,813 | |
| Average total loans outstanding during the period | \$384,215 | \$1,624,839 | \$2,009,054 | \$669,623 | \$1,068,194 | \$1,737,817 | |
| Total non-covered loans | \$137,107 | \$1,814,797 | \$1,951,904 | \$203,630 | \$1,172,837 | \$1,376,467 | |
| Total non-performing loans | \$— | \$18,936 | \$18,936 | \$16,858 | \$13,993 | \$30,851 | |
| Total non-performing, covered loans | \$— | \$1,540 | \$1,540 | \$16,858 | \$2,402 | \$19,260 | |

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

| | September 30, 2014 | | | | |
|-------------------------|--------------------|------------------|-------------|----------|---|
| | Total loans | % of total loans | Related ALL | % of ALL | |
| Commercial | \$755,172 | 34.8 | % \$7,383 | 44.5 | % |
| Agriculture | 162,872 | 7.5 | % 1,333 | 8.0 | % |
| Commercial real estate | 594,316 | 27.4 | % 3,144 | 19.0 | % |
| Residential real estate | 623,399 | 28.7 | % 4,200 | 25.3 | % |
| Consumer and overdrafts | 35,613 | 1.6 | % 531 | 3.2 | % |
| Total | \$2,171,372 | 100.0 | % \$16,591 | 100.0 | % |
| | December 31, 2013 | | | | |
| | Total loans | % of total loans | Related ALL | % of ALL | |
| Commercial | \$483,495 | 26.1 | % \$4,258 | 34.0 | % |
| Agriculture | 159,952 | 8.6 | % 1,237 | 9.9 | % |
| Commercial real estate | 574,220 | 31.0 | % 2,276 | 18.2 | % |
| Residential real estate | 599,924 | 32.3 | % 4,259 | 34.0 | % |
| Consumer and overdrafts | 36,503 | 2.0 | % 491 | 3.9 | % |
| Total | \$1,854,094 | 100.0 | % \$12,521 | 100.0 | % |

The ALL allocated to commercial loans increased to 44.5% at September 30, 2014 from 34.0% at December 31, 2013 largely due to provisions of \$5.3 million added during the period for loan growth in the non 310-30 portfolio.

FDIC Indemnification Asset and Clawback Liability

At September 30, 2014, the FDIC indemnification asset was \$44.4 million, compared to \$64.4 million at December 31, 2013. The \$44.4 million FDIC indemnification asset at September 30, 2014 was comprised of \$26.5 million in projected future FDIC loss-share billing and \$17.9 million representing increased client cash flows. In the three and nine months ended September 30, 2014, we recognized \$6.3 million and \$19.8 million, respectively, of amortization on the FDIC indemnification asset as the performance of our covered assets improved. The amortization resulted from an increase in actual and expected cash flows on the underlying covered assets, resulting in lower expected reimbursements from the FDIC. The increase in expected cash flows from these underlying assets is primarily reflected in the increased accretable yield on loans accounted for under ASC 310-30, as most of the FDIC covered assets are accounted for under this guidance. The carrying value of the FDIC indemnification asset was decreased by \$181 thousand during the nine months ended September 30, 2014 as a result of FDIC loss share submissions. During the nine months ended September 30, 2014, we received a net \$181 thousand in net loss-share payments from the FDIC for the aforementioned submissions. The loss claims filed are subject to review and approval, including extensive audits, by the FDIC or its assigned agents for compliance with the terms in the loss sharing agreements.

During the three and nine months ended September 30, 2013, we recognized \$4.2 million and \$11.8 million, respectively, of amortization related to the FDIC indemnification asset as a result of improved performance of our covered assets. We also reduced the carrying value of the FDIC indemnification asset by \$24.5 million as a result of claims filed with the FDIC during the nine months ended September 30, 2013. During the nine months ended September 30, 2013, we received \$77.0 million from the FDIC.

Within 45 days of the end of each of the loss sharing agreements with the FDIC, we may be required to reimburse the FDIC in the event that our losses on covered assets do not reach the second tranche in each related loss sharing agreement, based on the initial discount received less cumulative servicing amounts for the covered assets acquired. At September 30, 2014 and December 31, 2013, this clawback liability was carried at \$35.1 million and \$32.5 million, respectively, and is included in Due to FDIC in our consolidated statements of financial condition.

Other Assets

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

| | September 30, 2014 | December 31, 2013 |
|--|-----------------------|----------------------|
| Accrued income taxes receivable and deferred tax assets | \$51,866 | \$54,032 |
| Bank-owned life insurance | 40,053 | — |
| Minority interest in participated other real estate owned | 8,534 | 10,627 |
| Accrued interest on loans | 8,103 | 6,134 |
| Accrued interest on interest bearing bank deposits and investment securities | 4,748 | 5,221 |
| Other assets | 11,818 | 10,533 |
| Total other assets | \$ 125,122 | \$ 86,547 |

Other assets totaled \$125.1 million and \$86.5 million at September 30, 2014 and December 31, 2013, respectively, and increased \$38.6 million, or 44.6%, during the nine months ended September 30, 2014. The increase was primarily due to the purchase of \$40.1 million of bank-owned life insurance during the nine months ended September 30, 2014. Accrued income taxes receivable and the deferred tax assets decreased \$2.2 million during the nine months ended September 30, 2014 which was largely attributable to the tax effect of unrealized gains on available-for-sale securities and, to a lesser degree, from tax liabilities generated during the nine months ended September 30, 2014 and tax refunds.

Other Liabilities

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

| | September 30, 2014 | December 31, 2013 |
|---|-----------------------|----------------------|
| Pending loan purchase settlement | \$29,906 | \$5,063 |
| Accrued expenses | 14,636 | 15,425 |
| Accrued income taxes payable | 5,073 | — |
| Warrant liability | 3,547 | 6,281 |
| Accrued interest payable | 3,607 | 3,058 |
| Participant interest in other real estate owned | — | 4,243 |
| Other liabilities | 4,552 | 2,515 |
| Total other liabilities | \$61,321 | \$36,585 |

Other liabilities totaled \$61.3 million and \$36.6 million at September 30, 2014 and December 31, 2013, respectively, and increased \$24.7 million during the nine months ended September 30, 2014. Pending loan purchase settlements increased \$24.8 million from December 31, 2013 to September 30, 2014 primarily due to loan purchases that have not yet settled. Accrued income taxes payable increased by \$5.1 million, primarily due to the current recognition of taxable income from the purchase discount related to loans acquired in the Hillcrest Bank, Bank of Choice, and Community Banks of Colorado transactions that had previously been deferred for income tax purposes. These deferred gains are recognized for income tax purposes as the loans are collected and as covered loans are worked out through the FDIC indemnification process. Participant interest in other real estate owned decreased \$4.2 million due to the sale of an OREO property during the nine months ended September 30, 2014, in which we had a controlling interest and had recorded a corresponding payable in other liabilities.

We have outstanding warrants to purchase 830,750 shares of our common stock, which are classified as a liability and included in other liabilities in our consolidated statements of financial condition. We revalue the warrants at the end of each reporting period using a Black-Scholes model and any change in fair value is reported in the statements of operations as “loss (gain) from change in fair value of warrant liability” in non-interest expense in the period in which the change occurred. The warrant liability decreased \$2.7 million during the nine months ended September 30, 2014 to \$3.5 million. The value of the warrant liability, and the expense that results from an increase to this liability, is correlated to our stock price. Accordingly, an increase in our stock price generally results in an increase in the warrant liability and the associated expense and vice versa. More information on the accounting and measurement of the warrant liability can be found in note 11 in this quarterly report or in notes 2 and 18 in our audited consolidated financial statements in our 2013 Annual Report on Form 10-K.

Deposits

Deposits from banking clients serve as a primary funding source for our banking operations and our ability to gather and manage deposit levels is critical to our success. Deposits not only provide a low cost funding source for our loans, but also provide a foundation for the client relationships that are critical to future loan growth. The following table presents information regarding our deposit composition at September 30, 2014 and December 31, 2013 (in thousands):

| | September 30, 2014 | | December 31, 2013 | | |
|--------------------------------------|--------------------|-------|-------------------|-------|---|
| Non-interest bearing demand deposits | \$724,186 | 19.1 | % \$674,989 | 17.6 | % |
| Interest bearing demand deposits | 369,917 | 9.7 | % 386,762 | 10.1 | % |
| Savings accounts | 245,549 | 6.5 | % 198,444 | 5.1 | % |
| Money market accounts | 1,061,736 | 27.9 | % 1,082,427 | 28.2 | % |
| Total transaction deposits | 2,401,388 | 63.2 | % 2,342,622 | 61.0 | % |
| Time deposits < \$100,000 | 883,846 | 23.3 | % 971,431 | 25.3 | % |
| Time deposits > \$100,000 | 512,224 | 13.5 | % 524,256 | 13.7 | % |
| Total time deposits | 1,396,070 | 36.8 | % 1,495,687 | 39.0 | % |
| Total deposits | \$3,797,458 | 100.0 | % \$3,838,309 | 100.0 | % |

During the nine months ended September 30, 2014, our total deposits decreased \$40.9 million, or 1.1%. Time deposits decreased \$99.6 million, or 6.7%, during the nine months ended September 30, 2014 and the mix of transaction deposits to total deposits improved to 63.2% at September 30, 2014, from 61.0% at December 31, 2013 as we continued to focus our deposit base on clients who were interested in market-rate time deposits and in developing a banking relationship, coupled with the California banking center and limited-service retirement center exits on December 31, 2013. At September 30, 2014 and December 31, 2013, we had \$0.9 billion and \$1.0 billion, respectively, of time deposits that were scheduled to mature within 12 months. Of the \$0.9 billion in time deposits scheduled to mature within 12 months, \$0.3 billion were in denominations of \$100,000 or more, and \$0.6 billion were in denominations less than \$100,000.

Results of Operations

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

Overview of Results of Operations

We recorded net income of \$3.3 million and \$6.9 million, or \$0.08 and \$0.16 per diluted share, during the three and nine months ended September 30, 2014, respectively, compared to net income of \$0.9 million and \$5.9 million, or \$0.02 and \$0.11 per diluted share, during the three and nine months ended September 30, 2013, respectively. Net interest income totaled \$41.9 million and \$127.7 million during the three and nine months ended September 30, 2014, respectively, and decreased \$3.6 million, or 8.0%, and \$7.7 million, or 5.7%, from the three and nine months ended September 30, 2013, respectively. The decrease in interest income was largely attributable to decreases in average interest earning assets of \$293.4 million and \$276.4 million during the three and nine months ended September 30, 2014 compared to the prior periods, respectively, as we have successfully repurchased \$226.2 million of our shares outstanding since the end of the third quarter of 2013 and have continued re-mixing the interest-earning assets. The continued resolution of the acquired non-strategic loan portfolio was complimented by strong organic growth in the strategic loan portfolio, with the run-off of the investment securities portfolio providing the additional funding for loan growth. The resulting net interest margin narrowed five basis points during the three months ended September 30, 2014 from the three months ended September 30, 2013 and widened two basis points for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013.

Provision for loan loss expense was \$1.5 million and \$4.9 million during the three and nine months ended September 30, 2014, respectively, compared to \$0.4 million and \$3.5 million during the three and nine months ended September 30, 2013, respectively. The increase in provision during the three and nine months ended September 30, 2014 was primarily due to loan growth as credit quality improved and net charge-offs were lower by \$0.4 million and \$6.6 million compared to the three and nine months ended September 30, 2013, respectively.

Non-interest income totaled \$1.6 million and \$3.4 million during the three and nine months ended September 30, 2014, respectively, compared to income of \$3.3 million and \$17.8 million during the three and nine months ended September 30, 2013, respectively. The \$1.7 million, or 51.6%, and \$14.4 million, or 80.8%, decreases during the three and nine months ended

September 30, 2014, respectively, compared to the prior periods were primarily due to \$2.0 million and \$8.0 million of additional non-cash FDIC indemnification asset amortization during the periods, due to improved performance of the underlying covered assets.

Non-interest expense totaled \$38.0 million and \$116.9 million during the three and nine months ended September 30, 2014, respectively, compared to \$46.6 million and \$139.7 million during the three and nine months ended September 30, 2013, respectively, decreases of \$8.6 million, or 18.5%, and \$22.9 million, or 16.4%, for the aforementioned periods, respectively. The three and nine months ended September 30, 2013 included \$3.4 million of expenses related to the closure of four California banking centers and 32 limited-service retirement centers. During the three and nine months ended September 30, 2014, OREO and problem loan expenses increased \$0.3 million and declined \$5.4 million, respectively, compared to the prior periods as the volume of problem assets has declined as a result of successful workout efforts on the acquired problem loan portfolio. Operating expenses of \$37.4 million and \$112.9 million during the three and nine months ended September 30, 2014 decreased \$3.8 million, or 9.3%, and \$11.2 million, 9.1%, from the prior periods, respectively. The decrease in operating expenses was attributable to efficiency initiatives implemented and the exit of the California banking centers during the third quarter of 2013.

Net Interest Income

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

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

The table below presents the components of net interest income on a fully taxable equivalent basis for the three months ended September 30, 2014 and 2013 (in thousands):

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

| | For the three months ended September 30, 2014 | | | For the three months ended September 30, 2013 | | | |
|--|---|----------|--------------|---|----------|--------------|---|
| | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate | |
| Interest earning assets: | | | | | | | |
| ASC 310-30 loans | \$341,405 | \$14,368 | 16.83 | % \$554,750 | \$19,603 | 14.14 | % |
| Non 310-30 loans ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾ | 1,767,106 | 19,266 | 4.33 | % 1,149,312 | 15,725 | 5.43 | % |
| Investment securities available-for-sale | 1,614,621 | 7,693 | 1.91 | % 1,983,108 | 8,851 | 1.79 | % |
| Investment securities held-to-maturity | 575,289 | 4,056 | 2.82 | % 648,799 | 4,688 | 2.89 | % |
| Other securities | 21,649 | 245 | 4.53 | % 31,754 | 388 | 4.89 | % |
| Interest earning deposits and securities purchased under agreements to resell | 133,752 | 95 | 0.28 | % 379,537 | 267 | 0.28 | % |
| Total interest earning assets ⁽⁴⁾ | \$4,453,822 | \$45,723 | 4.07 | % \$4,747,260 | \$49,522 | 4.14 | % |
| Cash and due from banks | 57,056 | | | 60,410 | | | |
| Other assets | 360,532 | | | 402,496 | | | |
| Allowance for loan losses | (16,601) | | | (11,668) | | | |
| Total assets | \$4,854,809 | | | \$5,198,498 | | | |
| Interest bearing liabilities: | | | | | | | |
| Interest bearing demand, savings and money market deposits | \$1,689,692 | \$1,092 | 0.26 | % \$1,744,705 | \$1,085 | 0.25 | % |
| Time deposits | 1,412,916 | 2,471 | 0.69 | % 1,561,552 | 2,880 | 0.73 | % |
| Securities sold under agreements to repurchase | 104,020 | 34 | 0.13 | % 120,654 | 42 | 0.14 | % |
| Total interest bearing liabilities | \$3,206,628 | \$3,597 | 0.44 | % \$3,426,911 | \$4,007 | 0.46 | % |
| Demand deposits | 715,198 | | | 668,400 | | | |
| Other liabilities | 83,632 | | | 65,219 | | | |
| Total liabilities | 4,005,458 | | | 4,160,530 | | | |
| Stockholders' equity | 849,351 | | | 1,037,968 | | | |
| Total liabilities and stockholders' equity | \$4,854,809 | | | \$5,198,498 | | | |
| Net interest income | | \$42,126 | | | \$45,515 | | |
| Interest rate spread | | | 3.63 | % | | 3.68 | % |
| Net interest earning assets | \$1,247,194 | | | \$1,320,349 | | | |
| Net interest margin ⁽⁴⁾ | | | 3.75 | % | | 3.80 | % |
| Ratio of average interest earning assets to average interest bearing liabilities | 138.89 | % | | 138.53 | % | | |

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

Includes originated loans with average balances of \$1.5 billion and \$769.6 million, interest income of \$15.4 million (2) and \$8.7 million, and yields of 4.07% and 4.48% for the three months ended September 30, 2014 and 2013, respectively.

Non 310-30 loans include loans held-for-sale. Average balances during the three months ended September 30, (3) 2014 and 2013 were \$3.8 million and \$6.1 million, and interest income was \$81 thousand and \$101 thousand for the same periods, respectively.

(4)

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

Presented on a fully taxable equivalent basis using the statutory tax rate of 35%. The taxable equivalent adjustments included above are \$231 thousand and \$0 for the three months ended September 30, 2014 and 2013, respectively.

Net interest income totaled \$41.9 million and \$45.5 million for the three months ended September 30, 2014 and 2013, respectively. Net interest income on a tax equivalent basis totaled \$42.1 million for the three months ended September 30, 2014 and declined \$3.4 million from \$45.5 million during the same period in 2013 as the net interest margin narrowed five basis points to 3.75% (fully taxable equivalent). The average interest earning assets decreased \$293.4 million, or 6.18%, from the same period last year, as we continued our strategy of remixing the originated loans with the reductions in non-strategic loans and the run-off of the investment portfolio. The net interest margin narrowing of five basis points was driven by a seven basis point decrease in the yield on interest earning assets to 4.07% during the three months ended September 30, 2014 from 4.14% during the three months ended September 30, 2013. The lower yield was primarily driven by a decrease in the average balances of higher yielding ASC 310-30 loans.

Average loans comprised \$2.1 billion, or 47.3%, of total average interest earning assets during the three months ended September 30, 2014, compared to \$1.7 billion, or 35.9%, of total average interest earning assets during the three months ended September 30, 2013. The increase in average loan balances is reflective of our loan originations outpacing the exit of the acquired non-strategic loans. The yield on the ASC 310-30 loan portfolio was 16.83% during the three months ended September 30, 2014, compared to 14.14% during the same period the prior year. This increase was attributable to the effects of

the favorable life-to-date transfers of non-accretable difference to accretable yield that are being accreted to interest income over the remaining lives of these loans.

Average investment securities comprised 49.2% of total interest earning assets during the three months ended September 30, 2014 compared to 55.4% during the three months ended September 30, 2013. We have been steadily re-mixing the earning assets, utilizing the steady run-off of the mortgage-backed securities to provide the cash flow for the strong loan originations. The lower average balances of investment securities were partially offset by a 9 basis point increase in yields earned on the total investment portfolio during the three months ended September 30, 2014 compared to the same period of the prior year.

Average balances of interest bearing liabilities declined \$220.3 million during the three months ended September 30, 2014 compared to the three months ended September 30, 2013, driven by a \$148.6 million decline in average time deposits and a \$55.0 million decrease in interest bearing demand, savings and money market deposits. The net interest margin benefited from a two basis point decrease in the cost of interest bearing liabilities as we continued our strategy of transitioning high-priced time deposits to lower-cost transaction accounts and demand deposits. During the three months ended September 30, 2014, total interest expense related to interest bearing liabilities was \$3.6 million compared to \$4.0 million during the three months ended September 30, 2013, or an average cost of 0.44% and 0.46% during the respective periods.

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

The table below presents the components of net interest income on a fully taxable equivalent basis for the nine months ended September 30, 2014 and 2013 (in thousands):

| | For the nine months ended September 30, 2014 | | | For the nine months ended September 30, 2013 | | | |
|--|--|-----------|--------------|--|-----------|--------------|--|
| | Average balance | Interest | Average rate | Average balance | Interest | Average rate | |
| Interest earning assets: | | | | | | | |
| ASC 310-30 loans | \$384,215 | \$46,646 | 16.19 % | \$669,623 | \$59,616 | 11.87 % | |
| Non 310-30 loans ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾ | 1,627,720 | 53,668 | 4.41 % | 1,074,396 | 46,167 | 5.75 % | |
| Investment securities available-for-sale | 1,698,404 | 24,614 | 1.93 % | 1,980,048 | 26,574 | 1.79 % | |
| Investment securities held-to-maturity | 603,459 | 12,909 | 2.85 % | 578,413 | 13,809 | 3.18 % | |
| Other securities | 25,470 | 904 | 4.73 % | 32,282 | 1,170 | 4.83 % | |
| Interest earning deposits and securities purchased under agreements to resell | 125,095 | 251 | 0.27 % | 406,029 | 762 | 0.25 % | |
| Total interest earning assets ⁽⁴⁾ | \$4,464,363 | \$138,992 | 4.16 % | \$4,740,791 | \$148,098 | 4.18 % | |
| Cash and due from banks | 58,009 | | | 60,909 | | | |
| Other assets | 374,372 | | | 440,709 | | | |
| Allowance for loan losses | (14,854) | | | (12,930) | | | |
| Total assets | \$4,881,890 | | | \$5,229,479 | | | |
| Interest bearing liabilities: | | | | | | | |
| Interest bearing demand, savings and money market deposits | \$1,709,382 | \$3,248 | 0.25 % | \$1,736,981 | \$3,240 | 0.25 % | |
| Time deposits | 1,437,209 | 7,377 | 0.69 % | 1,629,059 | 9,407 | 0.77 % | |
| Securities sold under agreements to repurchase | 94,027 | 92 | 0.13 % | 76,391 | 80 | 0.14 % | |
| Total interest bearing liabilities | \$3,240,618 | \$10,717 | 0.44 % | \$3,442,431 | \$12,727 | 0.49 % | |
| Demand deposits | 691,529 | | | 654,625 | | | |
| Other liabilities | 71,510 | | | 65,053 | | | |
| Total liabilities | 4,003,657 | | | 4,162,109 | | | |
| Shareholders' equity | 878,233 | | | 1,067,370 | | | |
| Total liabilities and shareholders' equity | \$4,881,890 | | | \$5,229,479 | | | |
| Net interest income | | \$128,275 | | | \$135,371 | | |
| Interest rate spread | | | 3.72 % | | | 3.69 % | |
| Net interest earning assets | \$1,223,745 | | | \$1,298,360 | | | |
| Net interest margin ⁽⁴⁾ | | | 3.84 % | | | 3.82 % | |
| Ratio of average interest earning assets to average interest bearing liabilities | 137.76 % | | | 137.72 % | | | |

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

Includes originated loans with average balances of \$1.3 billion and \$653.7 million, interest income of \$41.0 million (2) and \$22.8 million, and yields of 4.08% and 4.67% for the nine months ended September 30, 2014 and 2013, respectively.

Non 310-30 loans include loans held-for-sale. Average balances during the nine months ended September 30, 2014 (3) and 2013 were \$2.9 million and \$6.2 million, and interest income was \$184 thousand and \$262 thousand for the same periods, respectively.

Presented on a fully taxable equivalent basis using the statutory tax rate of 35%. The taxable equivalent (4) adjustments included above are \$610 thousand and \$0 for the nine months ended September 30, 2014 and 2013, respectively.

Net interest income totaled \$127.7 million and \$135.4 million for the nine months ended September 30, 2014 and 2013, respectively. On a fully tax equivalent basis, net interest income totaled \$128.3 million and \$135.4 million for the nine months ended September 30, 2014 and 2013, respectively, and declined \$7.1 million, or 5.2%. Average interest earning assets decreased \$276.4 million, or 5.8%, from the first nine months of the prior year, largely due to the successful repurchase of \$226.2 million of our shares outstanding since the end of the third quarter of 2013, coupled with a reduction in the investment portfolio. A two basis point decrease in the yield on interest earning assets was more than offset by a five basis point decrease in the cost of interest bearing liabilities, resulting in a two basis point widening of the net interest margin to 3.84% during the nine months ended September 30, 2014 compared to the same period during the prior year.

Average loans comprised \$2.0 billion, or 45.1%, of total average interest earning assets during the nine months ended September 30, 2014, compared to \$1.7 billion, or 36.8%, of total average interest earning assets, during the nine months ended September 30, 2013. The continued resolution of the acquired non-strategic loan portfolio was complemented by strong organic growth in the strategic loan portfolio. The yield on the ASC 310-30 loan portfolio was 16.19% during the nine months

ended September 30, 2014, compared to 11.87% during the same period of the prior year. This increase in yield was attributable to the effects of the favorable life-to-date transfers of non-accretable difference to accretable yield that are being accreted to interest income over the remaining life of these loans.

Average investment securities comprised 51.6% of total interest earning assets during the nine months ended September 30, 2014, compared to 54.0% during the nine months ended September 30, 2013. The lower average balances were somewhat offset by a seven basis point widening of the yields earned on the total investment portfolio. Short-term investments, depicted by the interest earning deposits and securities purchased under agreements to resell, also decreased substantially to 2.8% of interest earning assets compared to 8.6% during the prior period. The decreases in the investment portfolio and short-term investments reflect the re-mixing of the interest-earning assets as we have utilized the runoff of the investment portfolio to fund loan originations and have reduced our short-term investments to fund significant share repurchases.

Average balances of interest bearing liabilities during the nine months ended September 30, 2014 declined \$201.8 million to \$3.2 billion from \$3.4 billion during the nine months ended September 30, 2013, driven by a \$191.9 million decrease in average time deposits and partially offset by a \$17.6 million increase in securities sold under agreements to repurchase. During the nine months ended September 30, 2014, total interest expense related to interest bearing liabilities was \$10.7 million, compared to \$12.7 million during the nine months ended September 30, 2013. The resulting \$2.0 million decrease in interest expense was attributable to a combination of lower average balances of time deposits and lower rates paid on time deposits as we continued our strategy of transitioning high-priced time deposits to lower-cost transaction accounts coupled with our exit of the four California and 32 retirement center banking locations on December 31, 2013. We have increased our average transaction deposits (defined as total deposits less time deposits) and client repurchase agreements as a percentage of average total deposits and client repurchase agreements to 63.4% during the nine months ended September 30, 2014 from 60.2% during the nine months ended September 30, 2013. This strategy benefited the average cost of interest bearing liabilities through a five basis point decrease to 0.44% during the nine months ended September 30, 2014 from 0.49% during the nine months ended September 30, 2013.

The following table summarizes the changes in net interest income on a taxable equivalent basis by major category of interest earning assets and interest bearing liabilities, identifying changes related to volume and changes related to rates for the three and nine months ended September 30, 2014 compared to the three and nine months ended September 30, 2013 (in thousands):

| | Three months ended September 30, 2014 compared to Three months ended September 30, 2013 | | | Nine months ended September 30, 2014 compared to Nine months ended September 30, 2013 | | |
|--|---|-----------|-----------|---|------------|------------|
| | Increase (decrease) due to | | | Increase (decrease) due to | | |
| | Volume | Rate | Net | Volume | Rate | Net |
| Interest income: | | | | | | |
| ASC 310-30 loans | \$(8,979) |) \$3,744 | \$(5,235) | \$(34,650) |) \$21,680 | \$(12,970) |
| Non 310-30 loans ⁽¹⁾⁽²⁾⁽³⁾ | 6,736 |) (3,195) | 3,541 | 18,244 |) (10,743) | 7,501 |
| Investment securities available-for-sale | (1,756) |) 598 | (1,158) | (4,082) |) 2,122 | (1,960) |
| Investment securities held-to-maturity | (518) |) (114) | (632) | 536 |) (1,436) | (900) |
| Other securities | (114) |) (29) | (143) | (242) |) (24) | (266) |
| Interest earning deposits and securities purchased under agreements to resell | (175) |) 3 | (172) | (564) |) 53 | (511) |
| Total interest income | \$(4,806) |) \$1,007 | \$(3,799) | \$(20,758) |) \$11,652 | \$(9,106) |
| Interest expense: | | | | | | |
| Interest bearing demand, savings and money market deposits | \$(36) |) \$43 | \$7 | \$(52) |) \$60 | \$8 |
| Time deposits | (260) |) (149) | (409) | (985) |) (1,045) | (2,030) |
| | (5) |) (3) | (8) | 17 |) (5) | 12 |

Securities sold under agreements to repurchase

| | | | | | | |
|-----------------------------------|------------|-----------|------------|-------------|------------|------------|
| Total interest expense | (301) | (109) | (410) | (1,020) | (990) | (2,010) |
| Net change in net interest income | \$(4,505) | \$1,116) | \$(3,389) | \$(19,738) | \$12,642) | \$(7,096) |

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

(2) Non 310-30 loans include loans held-for-sale. Average balances of the loans held-for-sale during the three months ended September 30, 2014 and 2013 were \$3.8 million and \$6.1 million, and interest income on the loans held-for-sale was \$81 thousand and \$101 thousand for the same periods, respectively. Average balances during the nine months ended

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

September 30, 2014 and 2013 were \$2.9 million and \$6.2 million, and interest income was \$184 thousand and \$262 thousand for the same periods, respectively.

Presented on a fully taxable equivalent basis using the statutory tax rate of 35%. The taxable equivalent (3) adjustments included above are \$231 thousand and \$0 for the three months ended September 30, 2014 and 2013, respectively, and \$610 thousand and \$0 for the nine months ended September 30, 2014 and 2013, respectively.

Below is a breakdown of deposits and the average rates paid during the periods indicated (in thousands):

| | For the three months ended | | | | | | | | | |
|-----------------------------|----------------------------|-------------------|-----------------|-------------------|-----------------|-------------------|-------------------|-------------------|--------------------|-------------------|
| | September 30, 2014 | | June 30, 2014 | | March 31, 2014 | | December 31, 2013 | | September 30, 2013 | |
| | Average balance | Average rate paid | Average balance | Average rate paid | Average balance | Average rate paid | Average balance | Average rate paid | Average balance | Average rate paid |
| Non-interest bearing demand | \$715,198 | 0.00% | \$691,851 | 0.00% | \$667,009 | 0.00% | \$676,959 | 0.00% | \$668,400 | 0.00% |
| Interest bearing demand | 375,761 | 0.08% | 389,187 | 0.08% | 394,452 | 0.09% | 379,052 | 0.09% | 460,971 | 0.14% |
| Money market accounts | 1,062,060 | 0.32% | 1,078,682 | 0.32% | 1,098,041 | 0.32% | 1,097,009 | 0.32% | 1,088,084 | 0.32% |
| Savings accounts | 251,871 | 0.23% | 254,242 | 0.24% | 224,145 | 0.18% | 191,592 | 0.12% | 195,650 | 0.11% |
| Time deposits | 1,412,916 | 0.69% | 1,435,155 | 0.69% | 1,464,120 | 0.68% | 1,544,223 | 0.70% | 1,561,552 | 0.73% |
| Total average deposits | \$3,817,806 | 0.37% | \$3,849,117 | 0.37% | \$3,847,767 | 0.37% | \$3,888,835 | 0.38% | \$3,974,657 | 0.40% |

Provision for Loan Losses

The provision for loan losses represents the amount of expense that is necessary to bring the ALL to a level that we deem appropriate to absorb probable losses inherent in the loan portfolio as of the balance sheet date. The ALL is in addition to the remaining purchase accounting marks of \$8.4 million on purchased non 310-30 loans that were established at the time of acquisition. The determination of the ALL, and the resultant provision for loan losses, is subjective and involves significant estimates and assumptions.

Losses incurred on covered loans are reimbursable at the applicable loss share percentages in accordance with the loss sharing agreements with the FDIC. Accordingly, any provisions (recoupments) made that relate to covered loans are partially offset by a corresponding increase (decrease) to the FDIC indemnification asset and FDIC loss sharing income in non-interest income. Below is a summary of the provision for loan losses for the periods indicated (in thousands):

| | For the three months ended | | For the nine months ended | |
|--|----------------------------|--------------------|---------------------------|--------------------|
| | September 30, 2014 | September 30, 2013 | September 30, 2014 | September 30, 2013 |
| Provision for (recoupment of) impairment on loans accounted for under ASC 310-30 | \$(191) | \$(313) | \$(335) | \$999 |
| Provision for loan losses | 1,706 | 750 | 5,279 | 2,525 |
| Total provision for loan losses | \$1,515 | \$437 | \$4,944 | \$3,524 |

Through the re-measurement, we recouped \$191 thousand and \$335 thousand of provision for loan losses for loans accounted for under ASC 310-30 during the three and nine months ended September 30, 2014, respectively. During the three and nine months ended September 30, 2013 we recouped \$0.3 million and recorded \$1.0 million, respectively, of provision for loans accounted for under ASC 310-30. The net recoupments on loans accounted for under ASC 310-30 reflect \$191 thousand and \$371 thousand in recoupments during the three and nine months ended September 30, 2014, respectively, across several loan pools. These provision recoupments, when coupled with decreased expected future cash flows, primarily in our consumer pools, resulted in the net recoupments for the three and nine months ended September 30, 2014. The decreases in expected future cash flows are reflected immediately in our financial statements through increased provisions for loan losses. Increases in expected future cash flows are

reflected through an increase in accretable yield that is accreted to income in future periods once any previously recorded provision expense has been reversed.

73

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

Non-Interest Income

The table below details the components of non-interest income during the three and nine months ended September 30, 2014 and 2013, respectively (in thousands):

| | For the three months ended | | For the nine months ended | |
|---|----------------------------|-----------|---------------------------|------------|
| | September 30, | | September 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| FDIC indemnification asset amortization | \$(6,252) | \$(4,208) | \$(19,819) | \$(11,843) |
| FDIC loss sharing (expense) income | (943) | (1,191) | (2,549) | 3,278 |
| Service charges | 4,148 | 4,334 | 11,558 | 11,944 |
| Bank card fees | 2,615 | 2,482 | 7,548 | 7,509 |
| Gain on sale of mortgages, net | 264 | 345 | 674 | 1,125 |
| Gain on previously charged-off acquired loans | 147 | 224 | 675 | 1,118 |
| OREO related write-ups and other income | 799 | 727 | 2,777 | 2,713 |
| Other non-interest income | 836 | 625 | 2,557 | 1,969 |
| Total non-interest income | \$1,614 | \$3,338 | \$3,421 | \$17,813 |

Non-interest income for the three and nine months ended September 30, 2014 was \$1.6 million and \$3.4 million, respectively, compared to \$3.3 million and \$17.8 million during the three and nine months ended September 30, 2013, respectively. The decrease was largely due to \$2.0 million and \$8.0 million of additional non-cash FDIC indemnification asset amortization during the three and nine months ended September 30, 2014 compared to the three and nine ended September 30, 2013, respectively. The amortization resulted from improved performance of the covered assets that resulted in lower expected reimbursements from the FDIC. Most of the FDIC covered assets are accounted for in the ASC 310-30 loan pools and the benefit of the increased client cash flows is primarily captured in the corresponding increased accretion rates on ASC 310-30 loans.

FDIC loss sharing (expense) income represents the income recognized in connection with the actual reimbursement of costs/recoveries related to the resolution of covered assets by the FDIC. FDIC loss sharing (expense) income activity during the three and nine months ended September 30, 2014 and 2013, respectively, was as follows (in thousands):

| | For the three months ended | | For the nine months ended | |
|--|----------------------------|-----------|---------------------------|---------|
| | September 30, | | September 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| Clawback liability amortization | \$(345) | \$(314) | \$(1,009) | \$(937) |
| Clawback liability remeasurement | (592) | (405) | (1,646) | 244 |
| Reimbursement to FDIC for gain on sale of and income from covered OREO | (1,587) | (2,514) | (3,287) | (4,615) |
| Reimbursement to FDIC for recoveries | (62) | — | (180) | (22) |
| FDIC reimbursement of covered asset resolution costs | 1,643 | 2,042 | 3,573 | 8,608 |
| FDIC loss sharing (expense) income | \$(943) | \$(1,191) | \$(2,549) | \$3,278 |

Other FDIC loss sharing (expense) income contributed to an increase of \$0.2 million and a decrease of \$5.8 million to total non-interest income for the three and nine months ended September 30, 2014, respectively, from the three and nine ended September 30, 2013, respectively. Other FDIC loss sharing (expense) income was primarily comprised of FDIC reimbursements of costs of resolution of covered assets of \$1.6 million and \$3.6 million during the three and nine months ended September 30, 2014, respectively, offset with reimbursements to the FDIC for gains on sales of and income from covered OREO of \$1.6 million and \$3.3 million, respectively. The activity in the FDIC loss sharing income line fluctuates based on specific loan and OREO workout circumstances and may not be consistent from period to period.

Banking-related non-interest income (excludes FDIC-related non-interest income, gain on previously charged-off acquired loans and OREO related income) totaled \$7.9 million and \$22.3 million, during the three and nine months ended September 30, 2014, respectively, and were relatively flat compared to the same periods in 2013. Service charges, which represent various fees charged to clients for banking services, including fees such as non-sufficient funds (“NSF”) charges and service charges on deposit accounts, decreased \$0.2 million and \$0.4 million, or 4.3% and

3.2%, during the three and nine months ended September 30, 2014 compared to the three and nine months ended September 30, 2013, respectively. The decrease was largely due to declines in NSF/overdraft charges.

Bank card fees are comprised primarily of interchange fees on the debit cards that we have issued to our clients. Bank card fees totaled \$2.6 million and \$7.5 million during the three and nine months ended September 30, 2014, and \$2.5 million and \$7.5 million during the three and nine months ended September 30, 2013, respectively, an increase of 5.4% and 0.5% for the respective periods.

Gain on previously charged-off acquired loans represents recoveries on loans that were previously charged-off by the predecessor bank prior to takeover by the FDIC. During the three and nine months ended September 30, 2014, these gains were \$0.1 million and \$0.7 million, respectively, compared to \$0.2 million and \$1.1 million during the same periods in the prior year.

OREO related write-ups and other income include rental income and insurance proceeds received on OREO properties and write-ups to the fair-value of collateral that exceed the loan balance at the time of foreclosure. During the three and nine months ended September 30, 2014, these gains totaled \$0.8 million and \$2.8 million, respectively.

Non-Interest Expense

The table below details non-interest expense for the periods presented (in thousands):

| | For the three months ended | | For the nine months ended | |
|--|----------------------------|----------|---------------------------|-----------|
| | September 30, | | September 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| Salaries and benefits | \$21,058 | \$22,639 | \$62,260 | \$69,363 |
| Occupancy and equipment | 6,155 | 6,556 | 18,838 | 18,391 |
| Telecommunications and data processing | 2,848 | 3,050 | 8,978 | 9,805 |
| Marketing and business development | 757 | 1,408 | 3,542 | 3,519 |
| FDIC deposit insurance | 1,029 | 1,021 | 3,109 | 3,074 |
| ATM/debit card expenses | 799 | 1,179 | 2,312 | 3,291 |
| Professional fees | 854 | 791 | 2,180 | 3,045 |
| Other non-interest expense | 2,540 | 3,210 | 7,698 | 9,667 |
| (Gain) loss from change in fair value of warrant liability | (1,256) |) 441 | (2,734) |) 138 |
| Intangible asset amortization | 1,336 | 1,336 | 4,008 | 4,009 |
| Other real estate owned expenses | 594 | 459 | 3,629 | 7,675 |
| Problem loan expenses | 1,267 | 1,134 | 3,034 | 4,361 |
| Banking center closure related expenses | — | 3,389 | — | 3,389 |
| Total non-interest expense | \$37,981 | \$46,613 | \$116,854 | \$139,727 |

Non-interest expense totaled \$38.0 million and \$116.9 million for the three and nine months ended September 30, 2014, respectively, compared to \$46.6 million and \$139.7 million for the three and nine months ended September 30, 2013, respectively. Operating expenses, which exclude OREO expenses, problem loan expense, the impact from the change in the warrant liability, and banking center closure related expenses, totaled \$37.4 million and \$112.9 million and decreased \$3.8 million and \$11.2 million, or 9.3% and 9.1%, from the three and nine months ended September 30, 2013, respectively. The year-over-year decrease in operating expenses was attributable to efficiency initiatives. We have been focused on operational streamlining and continue to seek additional efficiencies, particularly through vendor consolidations and contract negotiations. Salaries and benefits is our largest component of non-interest expense and totaled \$21.1 million and \$62.3 million for the three and nine months ended September 30, 2014, respectively, compared to \$22.6 million and \$69.4 million for the three and nine months ended September 30, 2013, respectively. The 7.0% and 10.2% decreases in salaries and benefits during the three and nine months ended September 30, 2014, respectively, was attributable to a decrease in salaries as a result of efficiency initiatives, and as it relates to the nine months ended, the exits of the California banking centers and limited-service retirement centers at December 31, 2013.

Occupancy and equipment expense totaled \$6.2 million and \$18.8 million for the three and nine months ended September 30, 2014, respectively, a decrease of \$0.4 million and an increase of \$0.4 million over the three and nine months ended September 30, 2013, respectively. The increase over the nine month period was primarily due to the addition of software.

Marketing and business development expense totaled \$0.8 million and \$3.5 million for the three and nine months ended September 30, 2014, respectively, compared to \$1.4 million and \$3.5 million during the three and nine months

ended September 30, 2013, respectively. The decrease of \$0.7 million for the three months ended September 30, 2014, was due to the timing of marketing campaigns.

75

Significant components of our non-interest expense are problem loan expenses and OREO related expenses. We incur these expenses in connection with the resolution process of our acquired problem loan portfolios. During the three and nine months ended September 30, 2014, we incurred \$1.9 million and \$6.7 million, respectively, of OREO and problem loan expenses, an increase of \$0.3 million and a decrease of \$5.4 million from the three and nine months ended September 30, 2013, respectively. The overall decline of the volume in problem assets is a result of persistent workout efforts on the acquired problem loan portfolio. Of the \$1.9 million and \$6.7 million in collective OREO and problem loan expenses incurred during the three and nine months ended September 30, 2014, respectively, \$0.7 million and \$3.5 million, respectively, were covered by loss sharing agreements with the FDIC.

On September 30, 2013, we announced plans to integrate 32 limited-service retirement center locations and exit four California banking centers. Included in the three and nine months ended September 30, 2013 operating results were \$3.4 million of expenses in connection with the closures, including \$3.3 million related to facilities expense.

Income taxes

Income tax expense totaled \$0.7 million for three months ended September 30, 2014, as compared with \$0.9 million for the three months ended September 30, 2013. These amounts equate to effective tax expense rates of 16.8% and 47.5% for the respective periods. Income tax expense for the nine months ended September 30, 2014 and 2013 totaled \$2.4 million and \$4.0 million, respectively, equating to effective tax rates of 25.7% and 40.3% for the respective periods.

The decrease in the effective tax rate for the three and nine months ended September 30, 2014 compared to the three and nine months ended September 30, 2013, was attributable to the non-taxable changes in the fair value of the warrant liability, continued increases in tax-exempt lending and a reduction in our state tax rate associated with tax planning implemented during the third quarter of 2014.

Additional information regarding income taxes can be found in note 21 of our audited consolidated financial statements in our 2013 Annual Report on Form 10-K.

Liquidity and Capital Resources

Liquidity is monitored and managed to ensure that sufficient funds are available to operate our business and pay our obligations to depositors and other creditors, while providing ample available funds for opportunistic and strategic investments. On-balance sheet liquidity is represented by our cash and cash equivalents and unencumbered investment securities, and is detailed in the table below as of September 30, 2014 and December 31, 2013 (in thousands):

| | September 30, 2014 | December 31, 2013 |
|---|-----------------------|----------------------|
| Cash and due from banks | \$58,525 | \$67,420 |
| Due from Federal Reserve Bank of Kansas City | 50,092 | 107,894 |
| Interest bearing bank deposits | 10,042 | 14,146 |
| Unencumbered investment securities, at fair value | 1,776,033 | 2,177,239 |
| Total | \$1,894,692 | \$2,366,699 |

Total on-balance sheet liquidity decreased \$472.0 million from December 31, 2013 to September 30, 2014. The decrease was largely due to a reduction in unencumbered available-for-sale and held-to-maturity securities balances. Our primary sources of funds are deposits from clients, prepayments and maturities of loans and investment securities, the sale of investment securities, reimbursement of covered asset losses from the FDIC and the funds provided from operations. During 2013, we entered into a master repurchase agreement with a large financial institution and we anticipate that, through this agreement, we would have access to a significant amount of liquidity. Additionally, we anticipate having access to other third party funding sources, including the ability to raise funds through the issuance of shares of our common stock or other equity or equity-related securities, incurrence of debt, and federal funds purchased, that may also be a source of liquidity. We anticipate that these sources of liquidity will provide adequate funding and liquidity for at least a 12 month period.

Our primary uses of funds are loan originations, investment security purchases, withdrawals of deposits, settlement of repurchase agreements, capital expenditures, operating expenses and debt payments, particularly subsequent to acquisitions and share repurchases. For additional information regarding our operating, investing, and financing cash flows, see our consolidated statements of cash flows in the accompanying unaudited consolidated interim financial statements.

Exclusive from the investing activities related to acquisitions, our primary investing activities are originations and pay-offs and pay downs of loans and purchases and sales of investment securities. At September 30, 2014, pledgeable investment securities represented our largest source of liquidity. Our available-for-sale investment securities are carried at fair value and our held-to-maturity securities are carried at amortized cost. Our collective investment securities portfolio totaled \$2.1 billion at

September 30, 2014, inclusive of pre-tax net unrealized losses of \$12.8 million on the available-for-sale securities portfolio. Additionally, our held-to-maturity securities portfolio had \$0.1 million of unrealized gains at September 30, 2014. The gross unrealized gains and losses are detailed in note 3 of our unaudited consolidated interim financial statements for the nine months ended September 30, 2014. As of September 30, 2014, our investment securities portfolio consisted primarily of mortgage-backed securities, all of which were issued or guaranteed by U.S. Government agencies or sponsored enterprises. The anticipated repayments and marketability of these securities offer substantial resources and flexibility to meet new loan demand, reinvest in the investment securities portfolio, or provide optionality for reductions in our deposit funding base.

At present, financing activities primarily consist of changes in repurchase agreements and deposits, in addition to the payment of dividends and the repurchase of our common stock. Subsequent to September 30, 2014, we advanced \$40.0 million from FHLB Des Moines. Maturing time deposits represent a potential use of funds. As of September 30, 2014, \$0.9 billion of time deposits were scheduled to mature within 12 months. Based on the current interest rate environment, market conditions, and our consumer banking strategy focusing on both lower cost transaction accounts and term deposits, we expect to replace a significant portion of those maturing time deposits with transaction deposits and market-rate time deposits.

In July 2011, we joined the FHLB of Des Moines and currently hold \$6.0 million of FHLB stock meeting the requirements of our membership agreement. Through this relationship, we have pledged qualifying loans and, subsequent to September 30, 2014, advanced \$40.0 million from FHLB Des Moines and can obtain additional liquidity through further FHLB advances.

NBH Bank is subject to specific dividend restrictions pursuant to the Operating Agreement with the OCC, which are further discussed in our Annual Report on Form 10-K under "Supervision and Regulation." At September 30, 2014, the holding company sources of funds were comprised of cash and cash equivalents on hand, which totaled \$144.9 million. The holding company may seek to borrow funds and raise capital in the future, the success and terms of which will be subject to market conditions and other factors.

During 2014, the Board of Directors authorized multiple programs to repurchase shares of the Company's common stock from time to time either in open market or in privately negotiated transactions in accordance with applicable regulations of the SEC. During the nine months ended September 30, 2014, we repurchased 5.1 million shares of our common stock at a weighted average price of \$19.68, and all such shares are held as treasury shares. Subsequent to September 30, 2014 and through November 6, 2014, we repurchased an additional 86 thousand shares. These repurchases have brought our cumulative repurchases to 24.07% of shares outstanding since we started repurchasing our shares in early 2013, at a weighted average price of \$19.73 per share. We believe that our repurchases could serve to offset any future share issuances for future acquisitions. On November 5, 2014, our board of directors declared a quarterly dividend of \$0.05 per common share, payable on December 15, 2014 to shareholders of record at the close of business on November 27, 2014.

Asset/Liability Management and Interest Rate Risk

Management and the Board of Directors are responsible for managing interest rate risk and employing risk management policies that monitor and limit this exposure. Interest rate risk is measured using net interest income simulations and market value of portfolio equity analyses. These analyses use various assumptions, including the nature and timing of interest rate changes, yield curve shape, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, and reinvestment/replacement of asset and liability cash flows.

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

Instantaneous parallel rate shift scenarios are modeled and utilized to evaluate risk and establish exposure limits for acceptable changes in net interest margin. These scenarios, known as rate shocks, simulate an instantaneous change in interest rates and use various assumptions, including, but not limited to, prepayments on loans and securities, deposit

decay rates, pricing decisions on loans and deposits, reinvestment and replacement of asset and liability cash flows. We also analyze the economic value of equity as a secondary measure of interest rate risk. This is a complementary measure to net interest income where the calculated value is the result of the market value of assets less the market value of liabilities. The economic value of equity is a longer term view of interest rate risk because it measures the present value of the future cash flows. The impact of changes in interest rates on this calculation is analyzed for the risk to our future earnings and is used in conjunction with the analyses on net interest income.

Our interest rate risk model indicated that the Company was asset sensitive in terms of interest rate sensitivity at September 30, 2014. During the nine months ended September 30, 2014, we increased our asset sensitivity as a result of the balance sheet mix

towards more variable rate assets. The table below illustrates the impact of an immediate and sustained 200 and 100 basis point increase and a 50 basis point decrease in interest rates on net interest income based on the interest rate risk model at September 30, 2014 and December 31, 2013:

| Hypothetical shift in interest rates (in bps) | % change in projected net interest income | |
|---|---|-------------------|
| | September 30, 2014 | December 31, 2013 |
| 200 | 6.22% | 4.09% |
| 100 | 3.56% | 2.32% |
| -50 | -1.28% | -1.11% |

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

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

As part of the asset/liability management strategy to manage primary market risk exposures expected to be in effect in future reporting periods, management has emphasized the origination of shorter duration loans as well as variable rate loans to limit the negative exposure to a rate increase. The strategy with respect to liabilities has been to emphasize transaction accounts, particularly non-interest or low interest bearing non-maturing deposit accounts which are less sensitive to changes in interest rates. In response to this strategy, non-maturing deposit accounts have grown \$58.8 million in the past nine months, and totaled 63.2% of total deposits at September 30, 2014 compared to 61.0% at December 31, 2013. We currently have no brokered time deposits and intend to continue to focus on our strategy of increasing non-interest or low-cost interest bearing non-maturing deposit accounts.

Off-Balance Sheet Activities

In the normal course of business, we are a party to various contractual obligations, commitments and other off-balance sheet activities that contain credit, market, and operational risk that are not required to be reflected in our consolidated financial statements. The most significant of these are the loan commitments that we enter into to meet the financing needs of clients, including commitments to extend credit, commercial and consumer lines of credit and standby letters of credit. As of September 30, 2014 and December 31, 2013, we had loan commitments totaling \$475.4 million and \$383.9 million, respectively, and standby letters of credit that totaled \$7.2 million and \$5.9 million, respectively. Unused commitments do not necessarily represent future credit exposure or cash requirements, as commitments often expire without being drawn upon. We do not anticipate any material losses arising from commitments or contingent liabilities and we do not believe that there are any material commitments to extend credit that represent risks of an unusual nature.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Item 4. CONTROLS AND PROCEDURES

Our management, with the participation of our principal executive officer and principal financial officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as of September 30, 2014. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of September 30, 2014.

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

PART II: OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

Item 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2013.

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

The following table sets forth information about our repurchases of our common stock during the three months ended September 30, 2014:

| Period | (a) Total Number of Shares (or Units) Purchased | (b) Average Price Paid Per Share (or Unit) | (c) Total Number of (or Approximate Dollar Shares (or Units) Purchased as Part of Units) that May Yet Publicly Announced Be Plans or Programs | (d) Maximum Number Value) of Shares (or Units) that May Yet Purchased Under the Plans or Programs |
|----------------------------------|---|--|---|---|
| July 1 - July 31, 2014 | 240,619 | \$ 19.68 | 240,619 | \$ 50,273,195 |
| August 1 - August 31, 2014 | 374,244 | 19.91 | 374,244 | 42,828,542 |
| September 1 - September 30, 2014 | 2,160,000 | 19.84 | 2,160,000 | 17,342 |
| Total | 2,774,863 | \$ 19.84 | 2,774,863 | \$ 17,342 |

On October 21, 2014, the Company announced that the Board of Directors authorized the repurchase of another \$50 million of our stock.

Item 5. OTHER INFORMATION

On November 5, 2014, the Board of Directors approved an amendment and restatement of the Company's Amended and Restated Bylaws. The amendment and restatement includes the following changes:

• update to the Company's registered office in the State of Delaware (Section 1.1), and
• addition of a provision requiring specified shareholder actions and proceedings against the Company to be brought in a state court located within the State of Delaware, or if no state court located within the State of Delaware has jurisdiction, the federal district court for the District of Delaware (Section 10.1).

The forgoing summary of the changes to the Bylaws is subject to, and qualified in its entirety by, the Second Amended and Restated Bylaws, a copy of which is filed as Exhibit 3.2 to this Quarterly Report on Form 10-Q and is incorporated herein by reference.

Item 6. EXHIBITS

3.1 Second Amended and Restated Certificate of Incorporation (incorporated herein by reference to Exhibit 3.1 to our Form S-1 Registration Statement (Registration No. 333-177971), filed August 22, 2012)

3.2 Second Amended and Restated Bylaws

31.1 Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32 Certifications of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101 Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income (Loss), (iv) the Consolidated Statements of Changes in Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Consolidated Financial Statements, tagged as blocks of text and in detail*

* This information is deemed furnished, not filed.

SIGNATURES

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

NATIONAL BANK HOLDINGS CORPORATION

/s/ Brian F. Lilly

Brian F. Lilly

Chief Financial Officer

(Authorized Officer and Principal Financial Officer)

Date: November 7, 2014