National Bank Holdings Corp
Form 10-Q
May 14, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

OR

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

For the transition period from _________ to _________

Commission File Number: 001-35654

NATIONAL BANK HOLDINGS CORPORATION

(Exact name of registrant as specified in its charter)

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

5570 DTC Parkway, Greenwood Village, Colorado, 80111

(Address of principal executive offices) (Zip Code)

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

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

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

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements. Any statements about our expectations, beliefs, plans, predictions, forecasts, objectives, assumptions or future events or performance are not historical facts and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as anticipate, believes, can, would, should, could, may, predicts, potential, shou plans, projects, continuing, ongoing, expects, intends and similar words or phrases. These statements are only predictions and involve est known and unknown risks, assumptions and uncertainties. Our actual results could differ materially from those expressed in or contemplated by such forward-looking statements as a result of a variety of factors, some of which are more fully described in Part II under the caption Risk Factors.

Any or all of our forward-looking statements in this report may turn out to be inaccurate. The inclusion of such forward-looking statements should not be regarded as a representation by us that we will achieve the results expressed in or contemplated by such forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, liquidity, results of operations, business strategy and growth prospects. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed in or contemplated by the forward looking statements, including, but not limited to:

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

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

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

failure of politicians to reach consensus on a bipartisan basis;

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

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

changes in the Company s management personnel;

continued consolidation in the financial services industry;

ability to maintain or increase market share;

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

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

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

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

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

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

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

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

- changes in capital classification;

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

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

All forward-looking statements are necessarily only estimates of future results. Accordingly, actual results may differ materially from those expressed in or contemplated by the particular forward-looking statement, and, therefore, you are cautioned not to place undue reliance on such statements. Any forward-looking statement is qualified in its entirety by reference to the matters discussed elsewhere in this report. Further, any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events or circumstances, except as required by applicable law.

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PART I: FINANCIAL INFORMATION

Item 1: FINANCIAL STATEMENTS

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Financial Condition (Unaudited)

(In thousands, except share and per share data)

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

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

See accompanying notes to the unaudited consolidated interim financial statements.

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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations (Unaudited)

(In thousands, except share and per share data)

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

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

See accompanying notes to the unaudited consolidated interim financial statements.

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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

(In thousands)

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

See accompanying notes to the unaudited consolidated interim financial statements.

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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders Equity (Unaudited)

Three Months Ended March 31, 2013 and 2012

(In thousands, except share and per share data)

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

See accompanying notes to the unaudited consolidated interim financial statements.

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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

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

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

See accompanying notes to the unaudited consolidated interim financial statements.

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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

March 31, 2013

Note 1 Basis of Presentation

National Bank Holdings Corporation (the Company) is a bank holding company that was incorporated in the State of Delaware in June 2009 with the intent to acquire and operate community banking franchises and other complementary businesses in targeted markets. The accompanying unaudited consolidated financial statements include the accounts of the Company, and its wholly owned subsidiary, NBH Bank, N.A. NBH Bank, N.A. is the resulting entity from the Company s acquisitions to date and it offers consumer and commercial banking through 101 full-service banking centers that are predominately located in the greater Kansas City area and Colorado.

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

The Company s significant accounting policies followed in the preparation of the consolidated financial statements are disclosed in Note 2 of the audited financial statements and notes for the year ended December 31, 2012 and are contained in the Company s Annual Report on Form 10-K, referenced above. GAAP requires management to make estimates that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. By their nature, estimates are based on judgment and available information. Management has made significant estimates in certain areas, such as the amount and timing of expected cash flows from assets, the valuation of the FDIC indemnification asset and clawback liability, the valuation of other real estate owned (OREO), the fair value adjustments on assets acquired and liabilities assumed, the valuation of core deposit intangible assets, the deferred tax assets, the evaluation of investment securities for other-than-temporary impairment (OTTI), the fair values of financial instruments, the allowance for loan losses (ALL), and contingent liabilities. Because of the inherent uncertainties associated with any estimation process and future changes in market and economic conditions, it is possible that actual results could differ significantly from those estimates.

Note 2 Recent Accounting Pronouncements

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

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income In February 2013, the FASB issued ASU 2013-02, *Comprehensive Income-Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.* This guidance requires entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component. Entities are also required to present significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required to be reclassified to net income in its entirety in the same accounting period. Other amounts that are not required to be reclassified to net income are to be cross-referenced to other disclosures that provide additional detail about those amounts. The Company was required to adopt this update retrospectively for the quarter ended March 31, 2013. Adoption of this update affects the presentation of the components of comprehensive income in the Company s financial statements, but did not have an impact on the Company s consolidated statements of financial condition, results of operations or liquidity.

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

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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

March 31, 2013

Note 3 Investment Securities

The Company s investment securities portfolio is comprised of available-for-sale and held-to-maturity investment securities. These investment securities totaled $2.6 billion at March 31, 2013, an increase from $2.3 billion at December 31, 2012. Included in the aforementioned $2.6 billion was $2.1 billion of available-for-sale securities and $517.0 million of held-to-maturity securities.

Available-for-sale

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

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

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

At March 31, 2013 and December 31, 2012, mortgage-backed securities represented 96.7% and 94.7%, respectively, of the Company s available-for-sale investment portfolio and all mortgage-backed securities were backed by government sponsored enterprises (GSE) collateral such as Federal Home Loan Mortgage Corporation (FHLMC) and Federal National Mortgage Association (FNMA), and the government sponsored agency Government National Mortgage Association (GNMA).

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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

March 31, 2013

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

	March 31, 2013					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities (MBS):						
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$	$	$ 16	$ (1)	$ 16	$ (1)
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	432,755	(1,732)			432,755	(1,732)
Total	$ 432,755	$ (1,732)	$ 16	$ (1)	$ 432,771	$ (1,733)

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

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

The Company pledges certain securities as collateral for public deposits, securities sold under agreements to repurchase and to secure borrowing capacity at the Federal Reserve Bank, if needed. The fair value of available-for-sale investment securities pledged as collateral totaled $82.7 million at March 31, 2013 and $89.2 million December 31, 2012. The decrease of pledged available-for-sale investment securities was primarily attributable to paydowns on the underlying securities during the three months ended March 31, 2013. Certain investment securities may also be pledged as collateral should the Company utilize its line of credit at the FHLB of Des Moines; however, no investment securities were pledged for this purpose at March 31, 2013 or December 31, 2012.

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

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

Actual maturities of mortgage-backed securities may differ from contractual maturities depending on the repayment characteristics and experience of the underlying financial instruments. The estimated weighted average life of the available-for-sale mortgage-backed securities portfolio was 3.6 years as of March 31, 2013 and 3.4 years as of December 31, 2012. This estimate is based on assumptions and actual results may differ. Other securities of $0.4 million have no stated contractual maturity date as of March 31, 2013.

Held-to-maturity

At March 31, 2013 and December 31, 2012 the Company held $517.0 million and $577.5 million of held-to-maturity investment securities, respectively. During the first quarter of 2012 the Company transferred securities with a fair value of $754.1 million from

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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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

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

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

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

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

The carrying value of held-to-maturity investment securities pledged as collateral totaled $139.1 million and $127.9 million at March 31, 2013 and December 31, 2012, respectively. Actual maturities of mortgage-backed securities may differ from scheduled maturities depending on the repayment characteristics and experience of the underlying financial instruments. The estimated weighted average expected life of the held-to-maturity mortgage-backed securities portfolio as of March 31, 2013 and December 31, 2012 was 3.8 years. This estimate is based on assumptions and actual results may differ.

Note 4 Loans

The loan portfolio is comprised of loans that were acquired in connection with the Company s acquisitions of Bank of Choice and Community Banks of Colorado in 2011, Hillcrest Bank and Bank Midwest in 2010, and new loans originated by the Company. The majority of the loans acquired in the Hillcrest Bank and Community Banks of Colorado transactions are covered by loss sharing agreements with the FDIC, and covered loans are presented separately from non-covered loans due to the FDIC loss sharing agreements associated with these loans. Covered loans comprised 30.4% of the total loan portfolio at March 31, 2013, compared to 33.2% of the total loan portfolio at December 31, 2012.

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

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

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

Loans are considered past due or delinquent when the contractual principal or interest due in accordance with the terms of the loan agreement remains unpaid after the due date of the scheduled payment. Loans accounted for under ASC Topic 310-30 were not classified as non-performing assets at the respective acquisition dates, at March 31, 2013 or at December 31, 2012 as the carrying value of the respective pools cash flows were considered estimable and probable of collection. Therefore, interest income, through accretion of the difference between the carrying value of the loans and the expected cash flows, was recognized on all acquired loans accounted for under ASC Topic 310-30.

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

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

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

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

Non-covered loans accounted for under ASC 310-30	3,517	1,428	29,878	34,823	259,250	294,073	29,878	
Total loans accounted for under ASC 310-30	13,372	5,041	146,761	165,174	656,847	822,021	146,761	
Total loans	$ 18,185	$ 5,624	$ 156,063	$ 179,872	$ 1,652,830	$ 1,832,702	$ 146,786	$ 23,119
Covered loans	$ 9,930	$ 3,664	$ 118,945	$ 132,539	$ 475,683	$ 608,222	$ 116,883	$ 6,045
Non-covered loans	8,255	1,960	37,118	47,333	1,177,147	1,224,480	29,903	17,074
Total loans	$ 18,185	$ 5,624	$ 156,063	$ 179,872	$ 1,652,830	$ 1,832,702	$ 146,786	$ 23,119

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

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

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

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

Total covered	$ 191,547	$ 67,030	$ 328,601	$ 21,044	$ 608,222
Total non-covered	977,554	56,788	187,908	2,230	1,224,480
Total loans	$ 1,169,101	$ 123,818	$ 516,509	$ 23,274	$ 1,832,702

Impaired Loans

Loans are considered to be impaired when it is probable that the Company will not be able to collect all amounts due in accordance with the contractual terms of the loan agreement. Included in impaired loans are loans on non-accrual status and troubled debt

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restructurings (TDR s) described below. If a specific allowance is warranted based on the borrower s overall financial condition, the specific allowance is calculated based on discounted cash flows using the loan s initial contractual effective interest rate or the fair value of the collateral less selling costs for collateral dependent loans. As of March 31, 2013, the Company has measured $20.4 million of impaired loans using discounted cash flows and the loan s initial contractual effective interest rate and $7.9 million of impaired loans based on the fair value of the collateral less selling costs. $8.4 million of impaired loans that individually are less than $250 thousand each, are measured through our general ALL reserves due to their relatively small size. Inclusive of TDR s, the Company s unpaid principal balance of impaired loans was $44.2 million and $51.5 million at March 31, 2013 and December 31, 2012, respectively.

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

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

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

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

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

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

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

Troubled debt restructurings

It is the Company s policy to review each prospective credit in order to determine the appropriateness and the adequacy of security or collateral prior to making a loan. In the event of borrower default, the Company seeks recovery in compliance with state lending laws, the respective loan agreements, and credit monitoring and remediation procedures that may include restructuring a loan to provide a

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concession by the Company to the borrower from their original terms due to borrower financial difficulties in order to facilitate repayment. Additionally, if a borrower s repayment obligation has been discharged by a court, and that debt has not been reaffirmed by the borrower, regardless of past due status, the loan is considered to be a troubled debt restructuring (TDR). At March 31, 2013 and December 31, 2012, the Company had $18.6 million and $17.7 million, respectively, of accruing TDR s that had been restructured from the original terms in order to facilitate repayment. Of these, $5.9 million and $5.0 million, respectively, were covered by FDIC loss sharing agreements. Accruing TDR s in the commercial loan segment at March 31, 2013 were primarily comprised of nine loans with a recorded investment of $6.5 million that were not covered by FDIC loss sharing agreements and two loans with a recorded investment of $4.0 million that were covered by the FDIC loss sharing agreements. The commercial real estate TDR s were comprised of six non-covered loans with a recorded investment of $3.5 million and two covered TDR s with a recorded investment of $1.9 million. TDR s in the residential real estate segment included 41 loans not covered by loss sharing agreements with a recorded investment of $2.5 million. The remaining accruing TDR s were primarily made up of five loans from the consumer segment, with a recorded investment of $0.2 million, none of which were covered by the FDIC loss sharing agreements.

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

During the three months ended March 31, 2013, the Company restructured eight loans with a recorded investment of $2.5 million to facilitate repayment. Substantially all of the loan modifications were an extension of term and rate modifications. Loan modifications to loans accounted for under ASC Topic 310-30 are not considered troubled debt restructurings. The table below provides additional information related to accruing TDR s at March 31, 2013 and December 31, 2012 (in thousands):

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

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

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

	Non - Accruing TDR s			
	March 31, 2013		December 31, 2012	
	Covered	Non-covered	Covered	Non-covered
Commercial	$ 769	$ 561	$ 1,736	$ 1,215
Commercial real estate	298	6,762	313	6,823
Agriculture		21		21
Residential real estate	1,478	633	1,514	958
Consumer		269		291
Total	$ 2,545	$ 8,246	$ 3,563	$ 9,308

Accrual of interest is resumed on loans that were on non-accrual at the time of restructuring, only after the loan has performed sufficiently. The Company had three TDR s that had been modified within the past 12 months that defaulted on their restructured terms during the three months ended March 31, 2013. For purposes of this disclosure, the Company considers default to mean 90 days or more past due on principal or interest. The defaulted TDRs were comprised of a commercial loan, a commercial real estate loan, and a single family residential loan totaling $2.8 million.

Loans accounted for under ASC Topic 310-30

Loan pools accounted for under ASC Topic 310-30 are periodically remeasured to determine expected future cash flows. In determining the expected cash flows, the timing of cash flows and prepayment assumptions for smaller homogeneous loans are based on statistical models that take into account factors such as the loan interest rate, credit profile of the borrowers, the years in which the loans were originated, and whether the loans are fixed or variable rate loans. Prepayments may be assumed on large loans if circumstances specific to that loan warrant a prepayment assumption. No prepayments were presumed for small homogeneous commercial loans; however, prepayment assumptions are made that consider similar prepayment factors listed above for smaller homogeneous loans. The re-measurement of loans accounted for under ASC Topic 310-30 resulted in the following changes in the carrying amount of accretable yield during the three months ended March 31, 2013 and 2012 (in thousands):

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

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

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

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Note 5 Allowance for Loan Losses

The tables below detail the Company s allowance for loan losses (ALL) and recorded investment in loans as of and for the three months ended March 31, 2013 and 2012 (in thousands):

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

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

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

In evaluating the loan portfolio for an appropriate ALL level, non-impaired loans were grouped into segments based on broad characteristics such as primary use and underlying collateral. Within the segments, the portfolio was further disaggregated into classes of loans with similar attributes and risk characteristics for purposes of applying loss ratios and determining applicable subjective adjustments to the ALL. The application of subjective adjustments was based upon qualitative risk factors, including economic trends and conditions, industry conditions, asset quality, loss trends, lending management, portfolio growth and loan review/internal audit results. During the three months ended March 31, 2013, the Company recorded $1.1 million of provision for loan losses for loans not accounted for under ASC Topic 310-30 primarily to provide for changes in credit risk inherent in the portfolio.

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

Note 6 FDIC Indemnification Asset

Under the terms of the purchase and assumption agreement with the FDIC with regard to the Hillcrest Bank and Community Banks of Colorado acquisitions, the Company is reimbursed for a portion of the losses incurred on covered assets. As covered assets are resolved, whether it be through repayment, short sale of the underlying collateral, the foreclosure on and sale of collateral, or the sale

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or charge-off of loans or OREO, any differences between the carrying value of the covered assets versus the payments received during the resolution process, that are reimbursable by the FDIC, are recognized in the consolidated statements of operations as FDIC loss sharing income. Any gains or losses realized from the resolution of covered assets reduce or increase, respectively, the amount recoverable from the FDIC.

Below is a summary of the activity related to the FDIC indemnification asset during the three months ended March 31, 2013 and 2012 (in thousands):

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

During the three months ended March 31, 2013, the Company recognized $4.7 million of negative accretion on the FDIC indemnification asset, and reduced the carrying value of the FDIC indemnification asset by $9.1 million as a result of claims filed with the FDIC as discussed below. The negative accretion resulted from an overall increase in actual and expected cash flows on the underlying covered assets, resulting in lower expected reimbursements from the FDIC. The increase in overall expected cash flows from these underlying assets is reflected in increased accretion rates on covered loans and is being recognized over the expected remaining lives of the underlying covered loans as an adjustment to yield. During the three months ended March 31, 2013, the Company submitted $9.1 million of loss share claims to the FDIC for the reimbursable portion of losses related to the Hillcrest Bank and Community Banks of Colorado covered assets incurred during the fourth quarter of 2012. The loss claims filed are subject to review and approval, including extensive audits, by the FDIC or its assigned agents for compliance with the terms in the loss sharing agreements. During the three months ended March 31, 2013, we received $57.9 million in payments from the FDIC. Of these payments, $51.0 million were related to Community Banks of Colorado for losses incurred during the second and third quarters of 2012 and $6.9 million were related to Hillcrest Bank for losses that were incurred during the third and fourth quarters of 2012. Subsequent to March 31, 2013 the Company received $9.8 million related to claims filed during the fourth quarter of 2012 for losses incurred during the three months ended December 31, 2012 related to Community Banks of Colorado. The Company also filed loss share claims with the FDIC for $7.5 million and $8.1 million related to first quarter losses for Hillcrest Bank and Community Banks of Colorado, respectively.

Note 7 Other Real Estate Owned

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

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

Ending balance	$ 83,330	$ 144,619

The OREO balance of $83.3 million at March 31, 2013 includes the interests of several outside participating banks totaling $4.9 million, for which an offsetting liability is recorded in other liabilities and excludes $10.6 million of the Company s minority interests in OREO which are held by outside banks where the Company was not the lead bank and does not have a controlling interest, for which the Company maintains a receivable in other assets. Of the $83.3 million of OREO at March 31, 2013, $45.9 million, or 55.0%, was covered by loss sharing agreements with the FDIC. Any losses on these assets are substantially offset by a corresponding change in the FDIC indemnification asset. During the three months ended March 31, 2013, the Company sold $25.7 million of OREO and realized net gains on these sales of $1.8 million, and during the three months ended March 31, 2012, the Company sold $12.7 million of OREO and realized net gains of $849 thousand.

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Note 8 Deposits

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

	March 31, 2013		December 31, 2012	
	Balance	Weighted Average Rate	Balance	Weighted Average Rate
Three months or less	$ 266,529	0.67%	$ 356,446	0.78%
Over 3 months through 6 months	320,963	0.65%	259,097	0.68%
Over 6 months through 12 months	615,791	0.63%	583,209	0.67%
Over 12 months through 24 months	274,977	0.90%	373,283	0.88%
Over 24 months through 36 months	116,044	1.66%	111,599	1.77%
Over 36 months through 48 months	39,758	1.69%	43,967	1.83%
Over 48 months through 60 months	17,249	1.44%	19,278	1.44%
Thereafter	5,183	2.03%	5,839	2.32%
Total time deposits	$ 1,656,494	0.79%	$ 1,752,718	0.85%

In connection with the Company s FDIC-assisted transactions, the FDIC provided Hillcrest Bank, Bank of Choice, and Community Banks of Colorado depositors with the right to redeem their time deposits at any time during the life of the time deposit, without penalty, unless the depositor accepts new terms. At March 31, 2013 and December 31, 2012, the Company had approximately $132.9 million and $164.3 million, respectively, of time deposits that were subject to penalty-free withdrawals.

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

	For the three months ended March 31,	
	2013	2012
Interest bearing demand deposits	$ 199	$ 427
Money market accounts	835	1,092
Savings accounts	60	85
Time deposits	3,417	7,999
Total	$ 4,511	$ 9,603

Note 9 Regulatory Capital

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

	March 31, 2013					
	Actual		Required to be considered well capitalized (1)		Required to be considered adequately capitalized	
	Ratio	Amount	Ratio	Amount	Ratio	Amount
Tier 1 leverage ratio						
Consolidated	18.7%	$ 964,748	N/A	N/A	4%	$ 206,884
NBH Bank, N.A.	16.9%	855,781	10%	$ 506,372	4%	202,549
Tier 1 risk-based capital ratio (2)						
Consolidated	52.3%	$ 964,748	6%	$ 110,782	4%	$ 73,855
NBH Bank, N.A.	47.1%	855,781	11%	199,712	4%	72,623
Total risk-based capital ratio (2)						
Consolidated	53.0%	$ 978,013	10%	$ 184,637	8%	$ 147,710
NBH Bank, N.A.	47.9%	869,046	12%	217,868	8%	145,245

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

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

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

Note 10 FDIC Loss Sharing Income

In connection with the loss sharing agreements that the Company has with the FDIC in regard to the Hillcrest Bank and Community Banks of Colorado transactions, the Company recognizes the actual reimbursement of costs of resolution of covered assets from the FDIC through the statements of operations. The table below provides additional details of the Company s FDIC loss sharing income during the three months ended March 31, 2013 and 2012 (in thousands):

	For the three months ended March 31,	
	2013	2012
Clawback liability amortization	$ (313)	$ (354)
Clawback liability remeasurement	573	(10)
Reimbursement (to) from FDIC for (gain) loss on sale of and income from covered OREO	(860)	597
Reimbursement to FDIC for recoveries	(15)	(1)
FDIC reimbursement of costs of resolution of covered assets	3,891	3,467
Total	$ 3,276	$ 3,699

Note 11 Stock-based Compensation and Employee Benefits

The Company issued stock options in accordance with the NBH Holdings Corp. 2009 Equity Incentive Plan (the Plan) during the three months ended March 31, 2013. These option awards vest on a graded basis over 1-3 years of continuous service and have 10-year contractual terms. The expense associated with the awarded stock options was measured at fair value using a Black-Scholes option-pricing model using the following weighted average assumptions:

	Black-Scholes
Risk-free interest rate	1.07%
Expected volatility	38.61%
Expected term (years)	5.7
Dividend yield	1.09%

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Expected volatility was calculated using a time-based weighted migration of the Company s own stock price volatility coupled with those of a peer group of 17 comparable companies that were publicly traded for a period commensurate with the expected term of the options. The risk-free rate for the expected term of the options was based on the U.S. Treasury yield curve at the date of grant and based on the expected term. The expected term was estimated to be the average of the contractual vesting term and time to expiration. The dividend yield was assumed to be $0.05 per share per quarter. Options granted during the three months ended March 31, 2013 had weighted average grant date fair values of $5.61.

The following table summarizes option activity for the three months ended March 31, 2013:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years	Aggregate Intrinsic Value
Outstanding at December 31, 2012	3,471,665	$ 19.98	6.94	$ 22,800.00
Granted	7,000	20.00		
Forfeited				
Exercised				
Outstanding at March 31, 2013	3,478,665	$ 19.98	6.85	$ 2,100.00
Options fully vested and exercisable at March 31, 2013	2,488,582	$ 20.00	6.88	$
Options expected to vest	936,938	$ 19.95	6.81	$ 1,995.00

Stock option expense is included in salaries and employee benefits in the accompanying consolidated statements of operations and totaled $0.7 million and $0.9 million for the three months ended March 31, 2013 and 2012, respectively. At March 31, 2013, there was $2.1 million of total unrecognized compensation cost related to non-vested stock options granted under the Plan. The cost is expected to be recognized over a weighted average period of 0.7 years.

The Company did not have any activity in restricted stock during the three months ended March 31, 2013. Expense related to restricted stock totaled $0.7 million and $1.3 million during the three months ended March 31, 2013 and 2012, respectively, and is included in salaries and employee benefits in the Company s consolidated statements of operations. As of March 31, 2013, there was $1.6 million of total unrecognized compensation cost related to non-vested restricted shares granted under the Plan, which is expected to be recognized over a weighted average period of 0.7 years.

Note 12 Common Stock

The Company had 46,355,720 shares of Class A common stock and 5,959,189 shares of Class B common stock outstanding as of March 31, 2013 and 46,368,483 shares of Class A common stock and 5,959,189 shares of Class B common stock outstanding as of December 31, 2012. Additionally, as of March 31, 2013 and December 31, 2012, the Company had 951,668 shares of restricted Class A common stock issued but not yet vested under the NBH Holdings Corp. 2009 Equity Incentive Plan. Class A common stock possesses all of the voting power for all matters requiring action by holders of common stock, with certain limited exceptions. The Company s certificate of incorporation provides that, except with respect to voting rights and conversion rights, the Class A common stock and Class B non-voting common stock are treated equally and identically.

Note 13 Income Per Share

The Company had 52,314,909 and 52,191,238 shares outstanding (inclusive of Class A and B) as of March 31, 2013 and 2012, respectively. Certain stock options, restricted shares and warrants 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 months ended March 31, 2013 and 2012, respectively.

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The following table illustrates the computation of basic and diluted income per share for the three months ended March 31, 2013 and 2012 (in thousands, except earnings per share):

	For the three months ended, March 31, 2013	2012
Basic earnings (loss) per share:		
Income available to common stockholders (numerator)	$ 2,082	$ 1,643
Weighted average common shares outstanding (denominator)	52,321	52,177
Basic earnings per share	$ 0.04	$ 0.03
Diluted earnings per share:		
Income available to common stockholders (numerator)	$ 2,082	$ 1,643
Weighted average common shares outstanding	52,321	52,177
Plus: effect of dilutive securities		
Restricted stock (with no performance restrictions)	26	127
Weighted average shares applicable to diluted earnings per share (denominator)	52,347	52,304
Diluted earnings per share	$ 0.04	$ 0.03

The Company had 3,478,665 and 3,453,832 outstanding stock options to purchase common stock at weighted average exercise prices of $19.98 and $20.00 per share at March 31, 2013 and 2012, respectively, which were not included in the computations of diluted income per share because the options exercise price was greater than the average market price of the common shares during those periods. Additionally, the Company had 830,750 outstanding warrants to purchase the Company s common stock as of March 31, 2013 and 2012. The warrants have an exercise price of $20.00, which was out-of-the-money for purposes of dilution calculations during both periods. The Company had 951,668 and 1,174,793 unvested restricted shares outstanding as of March 31, 2013 and 2012, respectively, which have performance, market and time-vesting criteria, and as such, any dilution is derived only for the timeframe in which the vesting criteria had been met and where the inclusion of those restricted shares is dilutive.

Note 14 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.

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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 three months ended March 31, 2013 and 2012, there were no transfers of financial instruments between the hierarchy levels.

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

Fair Value of Financial Instruments Measured on a Recurring Basis

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

Warrant liability The Company measures the fair value of the warrant liability on a recurring basis using a Black-Scholes option pricing model. The Company s shares became publicly traded on September 20, 2012 and prior to that, had limited private trading; therefore, expected volatility was estimated based on the median historical volatility, for a period commensurate with the expected term of the warrants, of 17 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 March 31, 2013 and December 31, 2012 on the consolidated statements of financial condition utilizing the hierarchy structure described above (in thousands):

	March 31, 2013			
	Level 1	Level 2	Level 3	Total
Assets:				
Investment securities available-for-sale:				
Asset backed securities	$	$ 68,329	$	$ 68,329
Mortgage-backed securities (MBS):				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises		619,610		619,610
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises		1,418,524		1,418,524
Other securities			419	419

Total assets at fair value	$	$ 2,106,463	$ 419	$ 2,106,882
Liabilities:				
Warrant liability	$	$	$ 4,834	$ 4,834
Clawback liability			31,011	31,011
Total liabilities at fair value	$	$	$ 35,845	$ 35,845

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

The table below details the changes in Level 3 financial instruments during the three months ended March 31, 2013 (in thousands):

	Warrant liability	Clawback liability
Balance at December 31, 2012	$ 5,461	$ 31,271
Change in value	(627)	(573)
Accretion		313
Settlement		
Net change in Level 3	(627)	(260)
Balance at March 31, 2013	$ 4,834	$ 31,011

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 three months ended March 31, 2013, the Company measured 25 loans not accounted for under ASC Topic 310-30 at fair value on a non-recurring basis. These loans carried specific reserves totaling $2.2 million at March 31, 2013.

During the three months ended March 31, 2013, the Company added specific reserves of $0.5 million for six loans with carrying balances of $3.3 million at March 31, 2013. The Company also eliminated specific reserves of $0.2 million for eight loans during the three months ended March 31, 2013, primarily due to paydowns on these loans.

The Company may be required to record 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 $4.6 million of OREO impairments in its consolidated statements of financial condition during the three months ended March 31, 2013, of which $3.1 million, or 67.5%, 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 three months ended March 31, 2013 (in thousands):

			March 31, 2013		
	Level 1	**Level 2**	**Level 3**	**Total**	**Losses From Fair Value Changes**
Other real estate owned	$	$	$ 83,330	$ 83,330	$ 4,526
Impaired loans	$	$	$ 36,605	$ 36,605	$ 4,911

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The Company did not record any liabilities for which the fair value was made on a non-recurring basis during the three months ended March 31, 2013.

The following table provides information about the valuation techniques and unobservable inputs used in the valuation of financial instruments falling within level 3 of the fair value hierarchy as of March 31, 2013. The table below excludes non-recurring fair value measurements of collateral value used for impairment measures for OREO. These valuations utilize third party appraisal or broker price opinions, and are classified as level 3 due to the significant judgment involved. (dollars in thousands):

	Fair Value at March 31, 2013	Valuation Technique	Unobservable Input	Quantitative Measures
Other securities	$ 419	Cash investment in private equity fund	Cash investment	
Impaired loans	36,605	Appraised value	Appraised values	
			Discount rate	0-25%
Clawback liability	31,011	Contractually defined discounted cash flows	Intrinsic loss estimates	$323.3 million - $405 million
			Expected credit losses	
			Asset purchase premium	$98 million - $182.7 million
			Discount rate	4%
			Discount period	33-43 months
Warrant liability	4,834	Black-Scholes	Volatility	27%-67%

Note 15 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 March 31, 2013 and December 31, 2012, including methods and assumptions utilized for determining fair value of financial instruments, are set forth below (in thousands):

		March 31, 2013		December 31, 2012	
	Level in Fair Value Measurement	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value

	Hierarchy				
ASSETS:					
Cash and cash equivalents	Level 1	$ 419,193	$ 419,193	$ 769,180	$ 769,180
U.S. Treasury securities available-for-sale	Level 1			300	300
Asset backed securities available-for-sale	Level 2	68,329	68,329	90,003	90,003
Mortgage-backed securities residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises available-for-sale	Level 2	619,610	619,610	678,017	678,017
Mortgage-backed securities other residential mortgage-backed securities issued or guaranteed by U.S. Government agencies or sponsored enterprises available-for-sale	Level 2	1,418,524	1,418,524	949,289	949,289
Other securities	Level 3	419	419	419	419
Mortgage-backed securities residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises held-to-maturity	Level 2	517,017	522,867	577,486	584,551
Capital stock of FHLB	Level 2	7,927	7,927	7,976	7,976
Capital stock of FRB	Level 2	25,020	25,020	25,020	25,020
Loans receivable	Level 3	1,752,561	1,765,360	1,817,322	1,829,987
Loans held-for-sale	Level 2	7,034	7,034	5,368	5,368
Accrued interest receivable	Level 2	12,677	12,677	12,673	12,673
LIABILITIES:					
Deposit transaction accounts	Level 2	2,404,307	2,404,307	2,448,001	2,448,001
Time deposits	Level 2	1,656,494	1,662,943	1,752,718	1,759,886
Securities sold under agreements to repurchase	Level 2	53,110	53,110	53,685	53,686
Due to FDIC	Level 3	31,011	31,011	31,271	31,271
Warrant liability	Level 3	4,834	4,834	5,461	5,461
Accrued interest payable	Level 2	3,862	3,862	4,239	4,239

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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.

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.

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Securities sold under agreements to repurchase

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

Due to FDIC

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

Warrant liability

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

Accrued interest payable

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

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

The following management discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited consolidated financial statements and related notes for the three months ended March 31, 2013 and 2012, and with our annual report on Form 10-K (file number 001-35654), which includes our audited consolidated financial statements and related notes as of and for the years ended December 31, 2012, 2011, and 2010. Additional information, such as statements of assets acquired and liabilities assumed for each of our acquisitions and other financial and statistical data is also available in our prospectus included in Form S-1 filed with the Securities and Exchange Commission on September 19, 2012 (file number 333-177971). This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions that may cause actual results to differ materially from management s expectations. Factors that could cause such differences are discussed in the sections entitled Cautionary Note Regarding Forward-Looking Statements and 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 is limited. Prior to the completion of the Hillcrest Bank acquisition on October 22, 2010, we had no banking operations and our activities were limited to corporate organization matters and due diligence. Following our Hillcrest Bank acquisition, we completed three additional acquisitions: Bank Midwest on December 10, 2010, Bank of Choice on July 22, 2011 and Community Banks of Colorado on October 21, 2011. As a result, our operating results are limited to the periods since these acquisitions, and the comparability of periods is compromised due to the timing of these acquisitions. Additionally, the comparability of data related to our acquisitions prior to the respective dates of acquisition is limited because, in accordance with Accounting Standards Codification (ASC) Topic 805, Business Combinations, the assets acquired and liabilities assumed were recorded at fair value at their respective dates of acquisition and do not have a significant resemblance to the assets and liabilities of the predecessor banking franchises. The comparability of pre-acquisition data is compromised not only by the fair value accounting applied, but also by the FDIC loss sharing agreements in place that cover a portion of losses incurred on certain assets acquired in the Hillcrest Bank and the Community Banks of Colorado acquisitions. In the Bank Midwest acquisition, only specific, performing loans were chosen for acquisition. Additionally, we acquired the assets of Bank of Choice at a substantial discount from the FDIC. We received a considerable amount of cash during the settlement of these acquisitions, we paid off certain borrowings, and we contributed significant capital to each banking franchise we acquired. All of these actions materially changed the balance sheet composition, liquidity, and capital structure of the acquired banking franchises.

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

Overview

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

We believe we have a disciplined approach to acquisitions, both in terms of the selection of targets and the structuring of transactions, which has been exhibited by our four acquisitions to date. As of March 31, 2013, we had $5.3 billion in assets, $4.1 billion in deposits and $1.1 billion in equity. We currently operate a network of 101 full-service banking centers, with the majority of those banking centers located in the greater Kansas City region and Colorado. We believe that our established presence positions us well for growth opportunities in our current and complementary markets.

Our strategic plan is to be a leading regional bank holding company through selective acquisitions of financial institutions, including troubled financial institutions that have stable core franchises and significant local market share, as well as other complementary businesses, while structuring transactions to limit risk. We plan to achieve this through the growth of our existing banking franchise and through conservatively structured unassisted transactions and through the acquisition of banking franchises from the FDIC. We seek acquisitions that offer opportunities for clear financial benefits through add-on transactions, long-term organic growth opportunities and expense reductions. Additionally, our acquisition strategy is to identify markets that are relatively unconsolidated, establish a meaningful presence within those markets, and take advantage of operational efficiencies and enhanced market position. Our focus is on building strong banking relationships with small to mid-sized businesses and consumers, while maintaining a low risk profile designed to generate reliable income streams and attractive returns. Through our acquisitions, we have established a solid core banking franchise with operations in the greater Kansas City region and in Colorado, with a sizable presence for deposit gathering and client relationship building necessary for growth.

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Operating Highlights and Key Challenges

Our operations resulted in the following highlights as of and for the three months ended March 31, 2013:

Low-risk balance sheet

- As of March 31, 2013, we have 68.1% of total assets in cash, securities (low-risk, high-quality agency residential MBS and CMO s), and covered loans
- As of March 31, 2013, 73.2%, or $1.3 billion, of our total loans (by dollar amount) were acquired loans and all of those loans were recorded at their estimated fair value at the time of acquisition.
- As of March 31, 2013, 30.4%, or $537.1 million, of our total loans (by dollar amount) were covered by loss sharing agreements with the FDIC.
- As of March 31, 2013, 55.0%, or $45.9 million, of our total other real estate owned (by dollar amount) was covered by loss sharing agreements with the FDIC.

Loan portfolio

- As of March 31, 2013, we have $1.2 billion of loans outstanding that are associated with a strategic client relationship - an 11.4% annualized growth during the quarter.
- Organic loan originations totaled $109 million, representing a 32.7% increase from the first quarter of 2012.
- A $67 million decrease in total loans was led by a $99 million decrease in our non-strategic loans during the quarter as we successfully worked out non-strategic loans acquired in our FDIC-assisted transactions.
- 41.4% of the loan portfolio is accounted for under ASC 310-30 (loan pools).

Credit quality

- Credit quality continued to improve, with non-performing loans to total loans improving to 2.08% at March 31, 2013 from 2.23% at December 31, 2012.
- Net charge-offs on non 310-30 loans were 0.44% annualized.
- Loans associated with our strategic client relationships had strong credit quality with only 0.6% in non-performing loans as of March 31, 2013.

Accretable yield for the acquired loans accounted for under ASC 310-30 increased $14.9 million. This was partially offset by $0.3 million in impairments.

Client deposit funded balance sheet

As of March 31, 2013, total deposits and client repurchase agreements made up 98.6% of our total liabilities.

Transaction accounts increased to 59.2% as of March 31, 2013 from 58.3% of total deposits at December 31, 2012.

Average transaction account deposit balances grew 4.8% annualized.

As of March 31, 2013, we did not have any brokered deposits.

Yields, returns and revenue stream

Our average annual yield on our loan portfolio was 8.14% during the first quarter 2013.

Cost of deposits improved 3 basis points during the first quarter of 2013 due to the continued emphasis on our commercial and consumer relationship banking strategy and lower cost transaction accounts.

Net interest margin was 3.88% during the first quarter, driven by the attractive yields on loans accounted for under ASC 310-30 loan pools and lower cost of deposits.

Expenses before problem loan/OREO workout expenses were flat for the third consecutive quarter, adjusting for third quarter IPO expenses.

Problem loan/OREO workout expenses totaled $7.1 million, decreasing $3.3 million from the first quarter of 2012.

Strong capital position

As of March 31, 2013, our consolidated tier 1 leverage ratio was 18.7% and our consolidated tier 1 risk-based capital ratio was 52.3%.

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As of March 31, 2013 we had approximately $400 million of capital available to deploy while maintaining a 10% tier 1 leverage ratio, and we had approximately $475 million of available capital to deploy at an 8% tier 1 leverage ratio.

The after-tax accretable yield on ASC 310-30 loans plus the after-tax yield on the FDIC Indemnification asset, net, in excess of 4.5%, an approximate yield on new loan originations, and discounted at 5%, adds $0.52 per share to our tangible book value per share as of March 31, 2013.

Tangible book value per share was $19.13 before consideration of the excess accretable yield value of $0.52 per share.

Key Challenges

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

Continued uncertainty about the economic outlook has strained the advancement of an economic recovery, both nationally and in our core markets. Residential real estate values have recovered somewhat from their lows, and we continue to consider this with guarded optimism. Commercial real estate values, however, remain under pressure and it is difficult to determine when that trend will change, or if it already has. Any deterioration in credit quality or elevated levels of non-performing assets, would ultimately have a negative impact on the quality of our loan portfolio. While the economic data has been mixed, any advancement in the broad economy has not yet directly translated into a substantial increase in loan demand, as many clients are relying on their cash balances for near-term investments, rather than borrowings.

The decrease of our total loan balances during the first quarter of 2013 was the result of active resolution of problem and non-strategic loans acquired in our FDIC-assisted transactions outpacing organic loan growth. Additionally, the historically low interest rate environment limits the yields we are able to obtain on interest earning assets, including both new assets acquired as we grow and assets that replace existing, higher yielding assets as they are paid down or mature. For example, our acquired loans generally have produced higher yields than our originated loans due to the recognition of accretion of fair value adjustments and accretable yield. As a result, we expect the yields on our loans to decline as our acquired loan portfolio pays down or matures and we expect downward pressure on our interest income to the extent that the runoff on our acquired loan portfolio is not replaced with comparable high-yielding loans.

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

Performance Overview

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

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

Asset quality We monitor the asset quality of our loans and OREO through a variety of metrics, and we work to resolve problem assets in an efficient manner. Specifically, we monitor the resolution of problem loans through payoffs, pay downs and foreclosure activity. We marked all of our acquired assets to fair value at the date of their respective acquisitions, taking into account our estimation of credit quality. As of March 31, 2013, 30.4% of our total loans and 55.0% of our OREO was covered by loss sharing agreements with the FDIC.

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 have historically been and currently are accounted for under ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality.* As of March 31, 2013 and December 31, 2012, 41.4% and 44.9% of our loans were accounted for under this guidance, which is described more fully below under Application of Critical Accounting Policies and in note 2 in our consolidated financial statements.

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

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

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

Capital We monitor our capital levels, including evaluating the effects of potential acquisitions, to ensure continued compliance with regulatory requirements and with the OCC Operating Agreement and FDIC Order that we entered into with our regulators in connection with our Bank Midwest acquisition, which is described under Supervision and Regulation in our Form 10-K. We review our tier 1 leverage capital ratios, our tier 1 risk-based capital ratios and our total risk-based capital ratios on a quarterly basis.

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

Net interest income Net interest income represents the amount by which interest income on interest earning assets exceeds interest expense incurred on interest bearing liabilities. We generate interest income through interest and dividends on investment securities, interest bearing bank deposits and loans. Our acquired loans have generally produced higher yields than our originated loans due to the recognition of accretion of fair value adjustments and accretable yield and, as a result, we expect downward pressure on our interest income to the extent that the runoff of our acquired loan portfolio is not replaced with comparable high-yielding loans. We incur interest expense on our interest bearing deposits and repurchase agreements and would also incur interest expense on any future borrowings, including any debt assumed in acquisitions. We strive to maximize our interest income by acquiring and originating loans and investing excess cash in investment securities. Furthermore, we seek to minimize our interest expense through low-cost funding sources, thereby maximizing our net interest income.

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

Non-interest income Non-interest income consists primarily of service charges, bank card fees, gains on sales of investment securities, and other non-interest income. Also included in non-interest income is FDIC indemnification asset accretion and other FDIC loss sharing income, which consists of reimbursement of costs related to the resolution of covered assets, and amortization of our clawback liability. For additional information, see Application of Critical Accounting Policies Acquisition Accounting Application and the Valuation of Assets Acquired and Liabilities Assumed in our Form 10-K and note 2 in our audited consolidated financial statements. Due to fluctuations in the accretion rates on the FDIC indemnification asset and the amortization of clawback liability and due to varying levels of expenses related to the resolution of covered assets, the FDIC loss sharing income is not consistent on a period-to-period basis and, absent additional acquisitions with FDIC loss sharing agreements, is expected to decline over time as covered assets are resolved.

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

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

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

	As of and for the three months ended		
	March 31, 2013	December 31, 2012	March 31, 2012
Key Ratios (1)			
Return on average assets	**0.16%**	0.22%	0.11%
Return on average tangible assets (2)	**0.23%**	0.28%	0.16%
Return on average equity	**0.78%**	1.10%	0.60%
Return on average tangible common equity (2)	**1.17%**	1.51%	0.99%
Return on risk weighted assets (2)	**0.46%**	0.64%	0.32%
Interest-earning assets to interest-bearing liabilities (end of period) (3)	**137.52%**	134.44%	128.62%
Loans to deposits ratio (end of period)	**43.65%**	43.76%	44.14%
Non-interest bearing deposits to total deposits (end of period)	**16.11%**	16.14%	13.35%
Net interest margin (4)	**3.88%**	4.09%	3.91%
Interest rate spread (5)	**3.74%**	3.94%	3.72%
Yield on earning assets (3)	**4.27%**	4.51%	4.62%
Cost of interest bearing liabilities (3)	**0.53%**	0.57%	0.90%
Cost of deposits	**0.45%**	0.48%	0.79%
Non-interest expense to average assets	**3.67%**	3.77%	3.45%
Efficiency ratio (6)	**88.29%**	85.43%	81.28%
Asset Quality Data (7) (8) (9)			
Non-performing loans to total loans	**2.08%**	2.23%	1.77%
Covered non-performing loans to total non-performing loans	**27.27%**	27.14%	19.85%
Non-performing assets to total assets	**2.31%**	2.53%	3.06%
Covered non-performing assets to total non-performing assets	**46.45%**	41.70%	49.41%
Allowance for loan losses to total loans	**0.73%**	0.84%	0.59%
Allowance for loan losses to total non-covered loans	**1.05%**	1.26%	1.00%
Allowance for loan losses to non-performing loans	**35.05%**	37.64%	33.42%
Net charge-offs to average loans	**0.88%**	1.00%	1.28%

(1) Ratios are annualized.
(2) Ratio represents non-GAAP financial measure.
(3) Interest earning assets include assets that earn interest/accretion or dividends, except for the FDIC indemnification asset that may earn accretion but is not part of interest earning assets. Any market value adjustments on investment securities are excluded from interest-earning assets. Interest bearing liabilities include liabilities that must be paid interest.
(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.
(7) Non-performing loans consist of non-accruing loans, loans 90 days or more past due and still accruing interest and restructured loans, but exclude any loans accounted for under ASC 310-30 in which the pool is still performing. These ratios may, therefore, not be comparable to similar ratios of our peers.
(8) Non-performing assets include non-performing loans, other real estate owned and other repossessed assets.
(9) Total loans are net of unearned discounts and fees.

About Non-GAAP Financial Measures

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

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We believe that these measures provide useful information to management and investors that is supplementary to our financial condition, results of operations and cash flows computed in accordance with GAAP; however we acknowledge that our non-GAAP financial measures have a number of limitations relative to GAAP financial measures. 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).

	As of and for the three months ended		
	March 31, 2013	December 31, 2012	March 31, 2012
Total stockholders equity	**$ 1,086,743**	$ 1,090,559	$ 1,091,389
Less: goodwill	**(59,630)**	(59,630)	(59,630)
Less: intangibles	**(26,239)**	(27,575)	(31,587)
Tangible common equity	**$ 1,000,874**	$ 1,003,354	$ 1,000,172
Total assets	**$ 5,257,543**	$ 5,410,775	$ 6,074,807
Less: goodwill	**(59,630)**	(59,630)	(59,630)
Less: intangibles	**(26,239)**	(27,575)	(31,587)
Tangible assets	**$ 5,171,674**	$ 5,323,570	$ 5,983,590
Total stockholders equity to total assets	**20.67%**	20.16%	17.97%
Less: impact of goodwill and intangibles	**-1.32%**	-1.31%	-1.25%
Tangible common equity to tangible assets	**19.35%**	18.85%	16.72%
Return on average assets	**0.16%**	0.22%	0.11%
Add: impact of goodwill and intangibles	**0.00%**	0.00%	0.00%
Add: impact of core deposit intangible expense, after tax	**0.07%**	0.06%	0.05%
Return on average tangible assets	**0.23%**	0.28%	0.16%
Return on average equity	**0.78%**	1.10%	0.60%
Add: impact of goodwill and intangibles	**0.07%**	0.09%	0.06%
Add: impact of core deposit intangible expense, after tax	**0.32%**	0.32%	0.33%
Return on average tangible common equity	**1.17%**	1.51%	0.99%
Common book value per share calculations:			
Total stockholders equity	**$ 1,086,743**	$ 1,090,559	$ 1,091,389
Divided by: ending shares outstanding	**52,314,909**	52,327,672	52,191,238
Common book value per share	**$ 20.77**	$ 20.84	$ 20.91
Tangible common book value per share calculations:			
Tangible common equity	**$ 1,000,874**	$ 1,003,354	$ 1,000,172
Divided by: ending shares outstanding	**52,314,909**	52,327,672	52,191,238
Tangible common book value per share	**$ 19.13**	$ 19.17	$ 19.16

Application of Critical Accounting Policies

We use accounting principles and methods that conform to GAAP and general banking practices. We are required to apply significant judgment and make material estimates in the preparation of our financial statements and with regard to various accounting, reporting and disclosure matters. Assumptions and estimates are required to apply these principles where actual measurement is not possible or practical. The most significant of these estimates relate to the fair value determination of assets acquired and liabilities assumed in business combinations and the application of acquisition accounting, the accounting for acquired loans and the related FDIC indemnification asset, the determination of the ALL, and the valuation of stock-based compensation. These critical accounting policies and estimates are summarized in the sections captioned Application of Critical Accounting Policies in Management s Discussion and Analysis in our 2012 Annual Report on Form 10-K, and are further analyzed with other significant accounting policies in note 2, Summary of Significant Accounting Policies in the notes to our consolidated financial statements for the year ended 2012. There have been no significant changes to the application of critical accounting policies since December 31, 2012.

Financial Condition

Total assets at March 31, 2013 were $5.3 billion compared to $5.4 billion at December 31, 2012, a decrease of $0.1 billion. The decrease in total assets was largely driven by a decrease in non-strategic loan balances of $98.7 million, which was a reflection of our workout progress on troubled loans (many of which were covered) that we acquired with our various acquisitions. We also originated $109.4 million of loans during the three months ended March 31, 2013, which offset normal client payments and grew the loan balances in our strategic portfolio at an annualized rate of 11.4%. We coupled the total loan balance decrease with an $139.9 million decrease in total deposits, as we sought to retain only those depositors who were interested in time deposits at market rate and developing a banking relationship and continued our focus on migrating toward a client-based deposit mix with higher concentrations of lower cost demand, savings and money market (transaction) deposits. We also utilized available cash and purchased $554.4 million of investment securities during the three months ended March 31, 2013. Our FDIC indemnification asset decreased $11.2 million during the three months ended March 31, 2013 as a result of $9.1 million of payments from and claims submitted to the FDIC for reimbursement on continued workout progress on our covered loans and OREO, coupled with an increase in actual and expected cash flows on our covered assets. These increases in cash flows also contributed to a net reclassification of $14.9 million of non-accretable difference to accretable yield during the period, which is being accreted to income over the remaining life of the loans.

Investment Securities

Available-for-sale

Total investment securities available-for-sale were $2.1 billion at March 31, 2013, compared to $1.7 billion at December 31, 2012, an increase of $0.4 billion, or 22.6%. During the three months ended March 31, 2013, we purchased $554.4 million of available-for-sale securities, which was partially offset by $158.5 million of maturities and paydowns. The purchases included mortgage backed securities. Our available-for-sale investment securities portfolio is summarized as follows for the periods indicated (in thousands):

	March 31, 2013				December 31, 2012			
	Amortized Cost	**Fair Value**	**Percent of Portfolio**	**Weighted Average Yield**	**Amortized Cost**	**Fair Value**	**Percent of Portfolio**	**Weighted Average Yield**
U.S. Treasury securities	$	$	0.00%	0.00%	$ 300	$ 300	0.02%	0.13%
U.S. Government sponsored agency and government sponsored enterprises obligations			0.00%	0.00%			0.00%	0.00%
Asset backed securities	68,253	68,329	3.24%	0.61%	89,881	90,003	5.24%	0.61%
Mortgage-backed securities (MBS):								
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	602,092	619,610	29.41%	2.00%	658,169	678,017	39.46%	2.03%
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	1,403,209	1,418,524	67.33%	1.82%	931,979	949,289	55.26%	2.13%
Other securities	419	419	0.02%	0.00%	419	419	0.02%	0.00%
	$ 2,073,973	$ 2,106,882	100.00%	1.83%	$ 1,680,748	$ 1,718,028	100.00%	2.01%

Total investment securities available-for-sale	

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As of March 31, 2013, approximately 96.7% of the available-for-sale investment portfolio is backed by mortgages. The residential mortgage pass-through securities portfolio is comprised of both fixed rate and adjustable rate Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA) and Government National Mortgage Association (GNMA) securities. The other mortgage-backed securities are comprised of securities backed by FHLMC, FNMA and GNMA securities.

At March 31, 2013, adjustable rate securities comprised 8.5% of the available-for-sale MBS portfolio and the remainder of the portfolio was comprised of fixed rate securities with 10 to 30 year maturities, with a weighted average coupon of 2.3% per annum.

During the three months ended March 31, 2013, we did not sell any securities.

The available-for-sale investment portfolio included $32.9 million and $37.3 million of net unrealized gains, inclusive of $1.7 million and $321 thousand of unrealized losses, at March 31, 2013 and December 31, 2012, respectively. We do not believe that any of the securities with unrealized losses were other-than-temporarily-impaired.

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

	Due in one year or less		**Due after one year through five years**		**Due after five years through ten years**		**Due after ten years**		**Other securities**		**Total**	
	Carrying Value	**Weighted Average Yield**	**Carrying Value**	**Weighted Average Yield**	**Carrying Value**	**Weighted Average Yield**	**Carrying Value**	**Weighted Average Yield**	**Carrying Value**	**Weighted Average Yield**	**Carrying Value**	**Weighted Average Yield**
U.S. Treasury securities	$	0.00%	$	0.00%	$	0.00%	$	0.00%	$	0.00%	$	0.00%
Asset backed securities		0.00%	68,329	0.61%		0.00%		0.00%		0.00%	68,329	0.61%
Mortgage-backed securities (MBS):												
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises		0.00%	4	2.54%	229,332	1.23%	390,274	2.46%		0.00%	619,610	2.00%
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises		0.00%		0.00%	13,076	2.37%	1,405,448	1.81%		0.00%	1,418,524	1.82%
Other securities									419		419	
Total	$ 0	0.00%	$ 68,333	0.61%	$ 242,408	1.29%	$ 1,795,722	1.95%	$ 419	0.00%	$ 2,106,882	1.83%

The estimated weighted average life of the available-for-sale MBS portfolio as of March 31, 2013 and December 31, 2012 was 3.6 years and 3.4 years. This estimate is based on various assumptions, including repayment characteristics, and actual results may differ. As of March 31, 2013, the duration of the total available-for-sale investment portfolio was 3.3 years and the asset-backed securities portfolio within the available-for-sale investment portfolio had a duration of 0.4 year.

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Held-to-maturity

At March 31, 2013 and December 31, 2012, we held $517.0 and $577.5 million of held-to-maturity investment securities, respectively. During the first quarter of 2012 the Company transferred securities with a fair value of $754.1 million from an available-for-sale classification to the held-to-maturity classification. During the three month ended March 31, 2013 the Company has not purchased or sold any held-to-maturity securities. Held-to-maturity investment securities are summarized as follows as of the dates indicated (in thousands):

	March 31, 2013			
	Amortized Cost	Fair Value	Percent of Portfolio	Weighted Average Yield
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ 517,017	$ 522,867	100.00%	3.59%
Total investment securities held-to-maturity	$ 517,017	$ 522,867	100.00%	3.59%

	December 31, 2012			
	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	$ 577,486	$ 584,551	100.00%	3.60%
Total investment securities held-to-maturity	$ 577,486	$ 584,551	100.00%	3.60%

The residential mortgage pass-through held-to-maturity investment portfolio is comprised of fixed rate FNMA and GNMA securities.

At March 31, 2013 and December 31, 2012, the fair value of the held-to-maturity investment portfolio was $522.9 million and $584.6 million with $5.9 and $7.1 million of unrealized gains, respectively. The table below summarizes the contractual maturities, as of the last scheduled repayment date, of our held-to-maturity investment portfolio as of March 31, 2013 (in thousands):

	Amortized Cost	Weighted Average Yield
Due in one year or less	$	
Due after one year through five year		
Due after five years through ten years		
Due after ten years	517,017	3.59%
Other Securities		
Total	$ 517,017	3.59%

The estimated weighted average life of the held-to-maturity investment portfolio as of March 31, 2013 was 3.8 years. As of March 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 3.4 years.

Non-marketable securities

Non-marketable securities include Federal Reserve Bank stock and FHLB stock. At March 31, 2013 and December 31, 2012, we held $25.0 million of Federal Reserve Bank stock and at March 31, 2013 and December 31, 2012 we also held $7.9 million $8.0 million of FHLB stock, respectively. We hold these securities in accordance with debt and regulatory requirements. These are restricted securities which lack a market and are therefore carried at cost.

Loans Overview

Our loan portfolio at March 31, 2013 was comprised of loans that were acquired in connection with our four acquisitions to date, in addition to new loans that we have originated. The majority of the loans acquired in the Hillcrest Bank and Community Banks of Colorado transaction are covered by loss sharing agreements with the FDIC.

As discussed in note 2 to our audited consolidated financial statements, in accordance with applicable accounting guidance, all acquired loans are recorded at fair value at the date of acquisition, and an allowance for loan losses is not carried over with the loans but, rather, the fair value of the loans encompasses both credit quality and market considerations. Loans that exhibit signs of credit deterioration at the date of acquisition are accounted for in accordance with the provisions of ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality (ASC 310-30).* Management accounted for all loans acquired in the Hillcrest Bank, Bank of Choice, and Community Banks of Colorado acquisitions under ASC Topic 310-30, with the exception of loans with revolving privileges which were outside the scope of ASC Topic 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 Topic 310-30.

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Consistent with differences in the accounting, the loan portfolio is presented in two categories: (i) ASC 310-30 loans and (ii) Non ASC 310-30 loans. The portfolio is further stratified based on (i) loans covered by FDIC loss sharing agreements, or covered loans, and (ii) loans that are not covered by FDIC loss sharing agreements, or non-covered loans. Additionally, inherent in the nature of acquiring troubled banks, only certain of our acquired clients conform to our long-term business model of in-market, relationship-oriented banking. We have developed a management tool to evaluate the progress of working out the troubled loans acquired in our FDIC-assisted acquisitions and the progress of organic loan growth, whereby we have designated loans as strategic or non-strategic. 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 March 31, 2013, strategic loans totaled $1.2 billion and had strong credit quality as represented by a non-performing loans ratio of 0.6%. We believe this presentation of our loan portfolio provides a meaningful basis to understand the underlying drivers of changes in our loan portfolio balances.

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

To analyze:	We look at:
Loan growth and production efforts	Strategic balances and loan originations
Workout efforts of our 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

The table below shows the loan portfolio composition and the breakdown of the portfolio between ASC 310-30 loans, non ASC 310-30 loans, along with the amounts that are covered and non-covered, at March 31, 2013 and December 31, 2012. Covered loans comprised 30.4% of the total loan portfolio at March 31, 2013, compared to 33.2% at December 31, 2012 (dollars in thousands):

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

	December 31, 2012			
	ASC 310-30 Loans	Non ASC 310-30 Loans	Total Loans	% of Total
Commercial	$ 83,169	$ 187,419	$ 270,588	14.8%
Commercial real estate	566,035	238,964	804,999	43.9%
Agriculture	47,733	125,674	173,407	9.5%
Residential real estate	106,100	427,277	533,377	29.1%
Consumer	18,984	31,347	50,331	2.7%
	$ 822,021	$ 1,010,681	$ 1,832,702	100.0%

Covered	$ 527,948	$ 80,274	$ 608,222	33.2%
Non-covered	294,073	930,407	1,224,480	66.8%
Total	$ 822,021	$ 1,010,681	$ 1,832,702	100.0%

Strategic loans comprised 65.3% of the total loan portfolio at March 31, 2013, compared to 61.2% at December 31, 2012. The table below shows the loan portfolio composition categorized between strategic and non-strategic at the respective dates (dollars in thousands):

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	March 31, 2013			December 31, 2012		
	Strategic	Non-Strategic	Total	Strategic	Non-Strategic	Total
Commercial	$ 171,128	$ 93,602	$ 264,730	$ 163,193	$ 107,395	$ 270,588
Commercial real estate	299,853	446,887	746,740	278,907	526,092	804,999
Agriculture	152,619	12,118	164,737	160,963	12,444	173,407
Residential real estate	492,767	54,804	547,571	474,769	58,608	533,377
Consumer	37,143	4,529	41,672	44,266	6,065	50,331
Total	$ 1,153,510	$ 611,940	$ 1,765,450	$ 1,122,098	$ 710,604	$ 1,832,702

Total loans decreased $67.3 million from December 31, 2012, ending at $1.8 billion at March 31, 2013. The decrease in total loans was primarily driven by a $98.7 million decrease in our non-strategic loan portfolio as our enterprise-level, dedicated special asset resolution team successfully worked out non-strategic loans acquired in our FDIC-assisted transactions, coupled with the repayment of certain loans that do not conform to our business model of in-market, relationship-oriented loans with credit metrics commensurate with our current underwriting standards. Strategic loans increased $31.4 million, or 11.4% annualized, at March 31, 2013 compared to December 31, 2012, driven by originations of $109.4 million. We successfully increased our balances in our strategic commercial, commercial real estate and residential real estate portfolios as we continued to generate new relationships with individuals and small to mid-sized businesses.

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

New loan origination is a direct result of our ability to recruit and retain top banking talent, connect with clients in our markets and provide needed services at competitive rates. New loan originations of $109.4 million were down slightly from the prior quarter, largely due to seasonality, but have increased 32.7% from the first quarter of 2012 as a result of the deployment of bankers and the development of our market presence has increased. The following table represents new loan originations for the last five quarters (in thousands):

	First quarter 2013	Fourth quarter 2012	Third quarter 2012	Second quarter 2012	First quarter 2012
Commercial	$ 15,150	$ 30,988	$ 25,640	$ 10,799	$ 20,102
Commercial real estate	36,749	20,993	11,135	6,816	18,546
Agriculture	9,446	28,978	24,328	22,444	7,570
Residential real estate	45,808	52,778	60,320	40,123	33,016
Consumer	2,211	6,025	6,505		