

National Bank Holdings Corp
Form 10-Q
November 14, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

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: 000-26335

NATIONAL BANK HOLDINGS CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer (do not check if a smaller reporting company) Smaller Reporting Company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

There were 52,327,910 shares of the Registrant's common stock, \$0.01 par value per share, outstanding as of November 14, 2012.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This discussion and analysis 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, estimate, plans, projects, continuing, ongoing, expects, intends and similar words or phrases. These statements are only predictions and estimates, 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 quarterly 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;

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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;

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

changes in the Company's management personnel;

continued consolidation in the financial services industry;

ability to maintain or increase market share;

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

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

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

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

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

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

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

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

changes in capital classification;

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

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

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

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forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events or circumstances, except as required by applicable law.

Table of Contents**PART I: FINANCIAL INFORMATION****Item 1: FINANCIAL STATEMENTS****NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES**

Consolidated Statements of Condition (Unaudited)

(In thousands, except share and per share data)

	September 30, 2012	December 31, 2011
ASSETS		
Cash and due from banks	\$ 65,452	\$ 93,862
Due from Federal Reserve Bank of Kansas City	496,893	1,421,734
Federal funds sold and interest bearing bank deposits	102,354	112,541
Cash and cash equivalents	664,699	1,628,137
Investment securities available-for-sale, (at fair value)	1,739,632	1,862,699
Investment securities held-to-maturity (fair value of \$653,760 and \$6,829 at September 30, 2012 and December 31, 2011, respectively)	643,661	6,801
Non-marketable securities	33,046	29,117
Loans receivable, net - covered	711,029	952,715
Loans receivable, net - non-covered	1,226,770	1,321,336
Total loans	1,937,799	2,274,051
Allowance for loan losses	(17,496)	(11,527)
Loans, net	1,920,303	2,262,524
Federal Deposit Insurance Corporation (FDIC) indemnification asset, net	113,195	223,402
Other real estate owned	129,345	120,636
Premises and equipment, net	118,385	87,315
Goodwill	59,630	59,630
Intangible assets, net	28,901	32,923
Other assets	72,029	38,842
Total assets	\$ 5,522,826	\$ 6,352,026
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing demand deposits	\$ 648,808	\$ 678,735
Interest bearing demand deposits	484,760	537,160
Savings and money market	1,202,938	1,062,562
Time deposits	1,945,218	2,784,596
Total deposits	4,281,724	5,063,053
Securities sold under agreements to repurchase	46,192	47,597
Due to FDIC	32,502	67,972
Other liabilities	66,573	84,675

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Total liabilities	4,426,991	5,263,297
Stockholders' equity:		
Common Stock, par value \$0.01 per share: 400,000,000 shares authorized and 52,191,239 and 52,157,697 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively	522	522
Additional paid in capital	1,005,627	994,705
Retained earnings	42,934	46,480
Accumulated other comprehensive income, net of tax	46,752	47,022
Total stockholders' equity	1,095,835	1,088,729
Total liabilities and stockholders' equity	\$ 5,522,826	\$ 6,352,026

See accompanying notes to the unaudited consolidated interim financial statements.

Table of Contents**NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES**

Consolidated Statements of Operations (Unaudited)

(In thousands, except share and per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Interest and dividend income:				
Interest and fees on loans	\$ 40,105	\$ 33,928	\$ 129,290	\$ 89,473
Interest and dividends on investment securities	15,190	15,754	46,750	44,250
Dividends on non-marketable securities	377	276	1,142	780
Interest on interest-bearing bank deposits	370	609	1,595	1,717
Total interest and dividend income	56,042	50,567	178,777	136,220
Interest expense:				
Interest on deposits	6,519	9,764	24,022	30,657
Interest on borrowings	27	50	88	91
Total interest expense	6,546	9,814	24,110	30,748
Net interest income before provision for loan losses	49,496	40,753	154,667	105,472
Provision for loan losses	5,263	3,760	25,325	16,446
Net interest income after provision for loan losses	44,233	36,993	129,342	89,026
Non-interest income:				
FDIC loss sharing income	(1,329)	(6,226)	113	173
Service charges	4,466	4,717	13,170	12,180
Bank card fees	2,484	1,856	7,168	5,396
Bargain purchase gain		60,520		60,520
Gain on sales of mortgages, net	283	356	886	817
Gain on sale of securities, net		(813)	674	(621)
Gain on recoveries of previously charged-off acquired loans	837	3,423	2,627	3,470
Other non-interest income	1,322	233	3,744	2,224
Total non-interest income	8,063	64,066	28,382	84,159
Non-interest expense:				
Salaries and employee benefits	27,182	22,098	72,226	52,115
Occupancy and equipment	5,570	4,392	14,845	9,652
Professional fees	2,669	3,101	8,612	7,372
Telecommunications and data processing	4,475	3,754	11,694	8,675
Marketing and business development	1,760	1,229	4,290	2,972
Other real estate owned expenses	3,468	1,013	12,152	5,466
Problem loan expenses	2,267	341	6,704	2,366
Intangible asset amortization	1,353	1,122	4,020	3,079
FDIC deposit insurance	1,152	893	3,664	3,333
ATM/debit card expenses	1,102	664	3,100	2,057
Initial public offering related expenses	7,566	600	7,974	600
Acquisition related costs		3,819	870	4,293

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Other non-interest expense	1,393	3,633	8,080	7,827
Total non-interest expense	59,957	46,659	158,231	109,807
Income (loss) before income taxes	(7,661)	54,400	(507)	63,378
Income tax expense	230	20,648	3,039	23,868
Net income (loss)	\$ (7,891)	\$ 33,752	\$ (3,546)	\$ 39,510
Income (loss) per share - basic	\$ (0.15)	\$ 0.65	\$ (0.07)	\$ 0.76
Income (loss) per share - diluted	\$ (0.15)	\$ 0.65	\$ (0.07)	\$ 0.76
Weighted average number of common shares outstanding:				
Basic	52,191,239	51,936,280	52,186,465	51,936,280
Diluted	52,191,239	52,242,834	52,186,465	52,239,061

See accompanying notes to the unaudited consolidated interim financial statements.

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Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

(In thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Net Income (loss)	\$ (7,891)	\$ 33,752	\$ (3,546)	\$ 39,510
Other comprehensive income (loss), net of tax:				
Securities available-for-sale:				
Net unrealized (losses) gains arising during the period, net of tax of \$1,498 and \$21,538 for the three months ended September 30, 2012 and 2011, respectively, and net of tax of \$2,624 and \$29,992 for the nine months ended September 30, 2012 and 2011, respectively	2,357	34,920	4,074	46,413
Reclassification adjustment for net securities (gains) losses included in net income, net of tax expense of \$0 and \$60 for the three months ended September 30, 2012 and 2011, respectively, and net of tax (benefit) expense of (\$263) and \$217 for the nine months ended September 30, 2012 and 2011, respectively		528	(411)	404
Reclassification adjustment for net unrealized holding gains on securities transferred between available-for-sale and held-to-maturity			(23,711)	
	2,357	35,448	(20,048)	46,817
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 \$15,159			23,711	
Less: amortization of net unrealized holding gains to income, net of tax of \$1,302 and \$0 for the three months ended September 30, 2012 and 2011, respectively, and net of tax of \$2,515 and \$0 for the nine months ended September 30, 2012 and 2011, respectively	(2,036)		(3,933)	
	(2,036)		19,778	
Other comprehensive income (loss)	321	35,448	(270)	46,817
Comprehensive income (loss)	\$ (7,570)	\$ 69,200	\$ (3,816)	\$ 86,327

See accompanying notes to the unaudited consolidated interim financial statements.

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Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

Nine Months Ended September 30, 2012 and 2011

(In thousands)

	Common stock	Additional paid-in capital	Retained earnings (loss)	Accumulated other comprehensive income, net	Total
Balance, December 31, 2010	\$ 520	\$ 982,637	\$ 4,517	\$ 6,085	\$ 993,759
Stock based compensation		14,472			14,472
Net income			39,510		39,510
Other comprehensive income				46,817	46,817
Balance, September 30, 2011	\$ 520	\$ 997,109	\$ 44,027	\$ 52,902	\$ 1,094,558
Balance, December 31, 2011	\$ 522	\$ 994,705	\$ 46,480	\$ 47,022	\$ 1,088,729
Stock based compensation		10,922			10,922
Net loss			(3,546)		(3,546)
Other comprehensive loss				(270)	(270)
Balance, September 30, 2012	\$ 522	\$ 1,005,627	\$ 42,934	\$ 46,752	\$ 1,095,835

See accompanying notes to the unaudited consolidated interim financial statements.

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Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	For the nine months ended September 30,	
	2012	2011
Cash flows from operating activities:		
Net income (loss)	\$ (3,546)	\$ 39,510
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Provision for loan losses	25,325	16,446
Depreciation and amortization	8,946	4,643
(Gain) loss on sale of securities, net	(674)	621
Deferred income tax expense and benefit	(10,575)	18,108
Discount accretion, net of premium amortization	13,110	623
Loan accretion	(93,497)	(63,618)
Amortization of indemnification asset	9,165	2,237
Bargain purchase gain		(60,520)
Gain on the sale of other real estate owned, net	(6,792)	(1,030)
Impairment on other real estate owned	8,638	2,848
Stock-based compensation	10,922	14,472
(Decrease) increase in due to FDIC, net	(35,470)	1,016
(Increase) decrease in other assets	(378)	522
Decrease in other liabilities	(31,416)	(9,165)
Net cash used in operating activities	(106,242)	(33,287)
Cash flows from investing activities:		
Purchase of FHLB of Des Moines stock	(4,018)	(3,467)
Sale of FHLB stock	89	1,000
Sales of investment securities available-for-sale	20,794	238,215
Maturities of investment securities available-for-sale	465,727	122,857
Purchase and settlement of investment securities	(1,005,827)	(1,463,779)
Net decrease in loans	359,759	352,747
Purchase of premises and equipment	(35,994)	(17,650)
Proceeds from sales of other real estate owned	57,186	31,427
Decrease in FDIC indemnification asset	67,822	86,822
Net cash provided from acquisitions		399,321
Net cash used in investing activities	(74,462)	(252,507)
Cash flows from financing activities:		
Net decrease in deposits	(781,329)	(112,553)
(Decrease) increase in repurchase agreements	(1,405)	14,432
Repayment of FHLB advances		(117,148)
Net cash used in financing activities	(782,734)	(215,269)
Decrease in cash and cash equivalents	(963,438)	(501,063)
Cash and cash equivalents at beginning of the period	1,628,137	1,907,730

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Cash and cash equivalents at end of period	\$ 664,699	\$ 1,406,667
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Supplemental disclosure of cash flow information:

Cash paid during the year for interest	\$ 30,428	\$ 34,099
Cash paid during the year for taxes	\$ 29,228	\$ 16,508

Supplemental schedule of non-cash investing activities:

Loans transferred to other real estate owned at fair value	\$ 67,741	\$ 39,736
FDIC indemnification asset claims transferred to other assets	\$ 33,220	\$ 10,319
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)

September 30, 2012

Note 1 Basis of Presentation

National Bank Holdings Corporation, formerly known as NBH Holdings Corp., (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. The results of operations of each acquisition is included from the respective dates of the acquisition (October 22, 2010 for Hillcrest Bank, N.A., December 10, 2010 for Bank Midwest, N.A., July 22, 2011 for Bank of Choice, and October 21, 2011 for Community Banks of Colorado, collectively referred to herein as the Banks), and as such, the operating results for the three or nine months ended September 30, 2011 do not reflect any operations for Community Banks of Colorado and only include a partial quarter of operations of Bank of Choice for the three months ended September 30, 2011.

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. The unaudited consolidated interim financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results presented. All such adjustments are of a normal recurring nature. All significant intercompany balances and transactions have been eliminated in consolidation. The unaudited consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ending December 31, 2011. Certain reclassifications of prior years' amounts are made whenever necessary to conform to current period presentation. Operating results for the three and nine months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

The Company's significant accounting policies followed in the preparation of the consolidated financial statements are disclosed in Note 2 of the Company's audited consolidated financial statements and related notes for the year ended December 31, 2011. 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 covered assets, the valuation of the FDIC indemnification asset and clawback liability, the valuation of other real estate owned, 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.

Pursuant to the Jumpstart Our Business Startups Act (the JOBS Act), the Company qualifies as an emerging growth company and can elect to opt out of the extended transition period for any new or revised accounting standards that may be issued by the Financial Accounting Standards Board or the SEC. The Company has elected to opt out of such extended transition period, which election is irrevocable.

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The Company is still evaluating the JOBS Act and may take advantage of some or all of the reduced regulatory and reporting requirements that will be available so long as the Company qualifies as an emerging growth company, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved.

Note 2 Investment Securities

During the nine months ended September 30, 2012, the Company re-evaluated the securities classified as available-for-sale and identified securities that the Company intends to hold until maturity. As a result, during the first quarter of 2012, the Company transferred residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises with a collective fair value of \$754.1 million from an available-for-sale classification to the held-to-maturity classification. The \$754.1 million of securities transferred to held-to-maturity included \$38.9 million of unrealized gains, net. As a result of the change in intent, the transferred securities were transferred to held-to-maturity at their fair value on the date of the transfer. The unrealized net gain continues to reside in Accumulated other comprehensive income, net of tax in the Company's unaudited consolidated statement of financial condition and will be accreted into interest income over the remaining life of the securities. This accretion is simultaneously offset by the amortization of the discount that was recorded to the investment securities balance at the time of the transfer, which represents the fair value adjustment, resulting in no impact to earnings.

Available-for-sale

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

	Amortized Cost	September 30, 2012		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Treasury securities	\$ 300	\$	\$	\$ 300
Asset backed securities	92,689	178		92,867
Mortgage-backed securities (MBS):				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	717,238	23,382	(1)	740,619
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	885,165	20,505	(243)	905,427
Other securities	419			419
Total	\$ 1,695,811	\$ 44,065	\$ (244)	\$ 1,739,632

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	Amortized Cost	December 31, 2011		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Treasury securities	\$ 3,300	\$	\$	\$ 3,300
U.S. Government sponsored agency obligations	3,009	1		3,010
Mortgage-backed securities (MBS):				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	1,139,058	52,480	(1)	1,191,537
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	620,122	23,503		643,625
Other MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	20,123	685		20,808
Other securities	419			419
Total	\$ 1,786,031	\$ 76,669	\$ (1)	\$ 1,862,699

At September 30, 2012 and December 31, 2011, mortgage-backed securities represented 94.6% and 99.6%, 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).

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

	Less than 12 months		September 30, 2012		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	\$ 26	\$ (1)	\$	\$	\$ 26	\$ (1)
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	161,432	(243)			161,432	(243)
Total	\$ 161,458	\$ (244)	\$	\$	\$ 161,458	\$ (244)

	Less than 12 months		December 31, 2011		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	\$ 20	\$ (1)	\$	\$	\$ 20	\$ (1)
Total	\$ 20	\$ (1)	\$	\$	\$ 20	\$ (1)

Management evaluated all of the securities in an unrealized loss position and concluded that no other-than-temporary-impairment existed at September 30, 2012 or December 31, 2011. 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.

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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 \$76.5 million at September 30, 2012 and \$198.6 million December 31, 2011. The decrease of pledged available-for-sale investment securities was primarily attributable to the transfer of a significant amount of pledged securities from available-for-sale to held-to-maturity. Investment securities may also be pledged as collateral should the Company utilize its line of credit at the FHLB of Des Moines; however, no investment securities were pledged for this purpose at September 30, 2012 or December 31, 2011.

The table below summarizes the contractual maturities of our available-for-sale investment portfolio as of September 30, 2012 (in thousands):

	Amortized Cost	Fair Value
Due in one year or less	\$ 300	\$ 300
Due after one year through five years	92,694	92,872
Due after five years through ten years	275,890	280,611
Due after ten years	1,326,508	1,365,430
Other securities	419	419
 Total investment securities available-for-sale	 \$ 1,695,811	 \$ 1,739,632

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 3.4 years as of September 30, 2012 and December 31, 2011. This estimate is based on assumptions and actual results may differ.

The Company's U.S. Treasury securities have contractual maturities of less than one year. Other securities of \$0.4 million have no stated contractual maturity date.

Held-to-maturity

At September 30, 2012 and December 31, 2011 the Company held \$643.7 million and \$6.8 million of held-to-maturity investment securities, respectively. The increase was attributable to the transfer of securities with a fair value of \$754.1 million from an available-for-sale classification to the held-to-maturity classification during the first quarter of 2012. Held-to-maturity investment securities are summarized as follows as of the dates indicated (in thousands):

	Amortized Cost	September 30, 2012		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Mortgage-backed securities (MBS):				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	\$ 643,661	\$ 10,099	\$	\$ 653,760
 Total investment securities held-to-maturity	 \$ 643,661	 \$ 10,099	 \$	 \$ 653,760

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	Amortized Cost	December 31, 2011		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Mortgage-backed securities (MBS):				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	\$ 6,801	\$ 28	\$	\$ 6,829
Total investment securities held-to-maturity	\$ 6,801	\$ 28	\$	\$ 6,829

The table below summarizes the contractual maturities of our held-to-maturity investment portfolio at September 30, 2012 (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	643,661	653,760
Other securities		
Total investment securities held-to-maturity	\$ 643,661	\$ 653,760

The carrying value of held-to-maturity investment securities pledged as collateral totaled \$135.6 million at September 30, 2012. At December 31, 2011, none of the \$6.8 million of held-to-maturity investment securities were pledged as collateral. Actual maturities of mortgage-backed securities may differ from scheduled maturities depending on the repayment characteristics and experience of the underlying financial instruments. The estimated weighted average expected life of the held-to-maturity mortgage-backed securities portfolio as of September 30, 2012 was 3.9 years and 6.4 years as of December 31, 2011. This estimate is based on assumptions and actual results may differ.

Note 3 Non-marketable Securities

Non-marketable securities include Federal Reserve Bank stock and FHLB stock. At September 30, 2012, the Company held \$25.0 million of Federal Reserve Bank stock, \$7.5 million of FHLB Des Moines stock, and \$0.5 million of FHLB San Francisco stock, for regulatory or debt facility purposes. At December 31, 2011 the Company held \$25.0 million of Federal Reserve Bank stock, \$3.5 million of FHLB Des Moines stock, and \$0.6 million of FHLB San Francisco stock.

This stock is restricted and is carried at cost, less any other than temporary impairment. There have been no identified events or changes in circumstances that may have an adverse effect on the investments carried at cost.

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.

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Covered loans comprised 36.7% of the total loan portfolio at September 30, 2012, compared to 41.9% of the total loan portfolio at December 31, 2011. The table below shows the loan portfolio composition and the amounts of loans that are accounted for in accordance with ASC Topic 310-30 (in thousands):

	Covered Loans			September 30, 2012 Non-Covered Loans			Total Loans	% of Total
	ASC 310-30	Non ASC 310-30	Total Covered Loans	ASC 310-30	Non ASC 310-30	Total Non-Covered Loans		
	Commercial	\$ 83,469	\$ 57,416	\$ 140,885	\$ 14,195	\$ 111,147		
Commercial real estate	477,427	11,081	488,508	187,344	236,772	424,116	912,624	47.1%
Agriculture	44,738	14,939	59,677	11,206	90,373	101,579	161,256	8.3%
Residential real estate	19,584	2,371	21,955	106,710	412,322	519,032	540,987	27.9%
Consumer	4		4	26,359	30,342	56,701	56,705	2.9%
Total	\$ 625,222	\$ 85,807	\$ 711,029	\$ 345,814	\$ 880,956	\$ 1,226,770	\$ 1,937,799	100%

	Covered Loans			December 31, 2011 Non-Covered Loans			Total Loans	% of Total
	ASC 310-30	Non ASC 310-30	Total Covered Loans	ASC 310-30	Non ASC 310-30	Total Non-Covered Loans		
	Commercial	\$ 123,108	\$ 79,044	\$ 202,152	\$ 31,482	\$ 139,297		
Commercial real estate	626,089	15,939	642,028	243,297	267,153	510,450	1,152,478	50.6%
Agriculture	56,839	28,535	85,374	13,989	52,040	66,029	151,403	6.7%
Residential real estate	21,043	2,111	23,154	147,239	352,492	499,731	522,885	23.0%
Consumer	7		7	44,616	29,731	74,347	74,354	3.3%
Total	\$ 827,086	\$ 125,629	\$ 952,715	\$ 480,623	\$ 840,713	\$ 1,321,336	\$ 2,274,051	100%

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The following tables summarize the carrying value of all covered loans by segment as of September 30, 2012 and December 31, 2011, net of deferred discounts on loans excluded from ASC Topic 310-30, fees and costs of \$4.3 million and \$13.1 million, respectively (in thousands):

	September 30, 2012		Total covered loans
	ASC 310-30	Non ASC 310-30	
Commercial			
Commercial and industrial	\$ 83,469	\$ 53,693	\$ 137,162
Leases		3,723	3,723
Total commercial	83,469	57,416	140,885
Commercial real estate			
Commercial construction	76,999	14	77,013
Commercial real estate	161,647	6,025	167,672
Land and development	192,529	3,478	196,007
Multifamily	46,252	1,564	47,816
Total commercial real estate	477,427	11,081	488,508
Agriculture	44,738	14,939	59,677
Residential real estate	19,584	2,371	21,955
Consumer	4		4
Total covered loans	\$ 625,222	\$ 85,807	\$ 711,029
	December 31, 2011		Total covered loans
	ASC 310-30	Non ASC 310-30	
Commercial			
Commercial and industrial	\$ 123,108	\$ 73,183	\$ 196,291
Leases		5,861	5,861
Total commercial	123,108	79,044	202,152
Commercial real estate			
Commercial construction	112,331	20	112,351
Commercial real estate	219,176	4,141	223,317
Land and development	246,520	10,226	256,746
Multifamily	48,062	1,552	49,614
Total commercial real estate	626,089	15,939	642,028
Agriculture	56,839	28,535	85,374
Residential real estate	21,043	2,111	23,154
Consumer	7		7
Total covered loans	\$ 827,086	\$ 125,629	\$ 952,715

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 September 30, 2012 or at December 31, 2011 as the carrying value of the respective

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loans or pools of loans cash flows were considered estimable and probable of collection. Therefore, interest income, through accretion of the difference between the carrying value of the loans 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 accruing are considered to be performing and are included in loans 90 days or more past due and still accruing. At September 30, 2012 and December 31, 2011, \$5.4 million and \$13.1 million, respectively, of covered loans accounted for outside the scope of ASC Topic 310-30 were on non-accrual. Loan delinquency for covered loans is shown in the following tables at September 30, 2012 and December 31, 2011, respectively, (in thousands):

	Covered Loans September 30, 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								
Wholesale	\$	\$	\$ 894	\$ 894	\$ 2,291	\$ 3,185	\$	\$ 894
Manufacturing			10	10	245	255		10
Transportation/warehousing					279	279		
Finance and insurance					3,449	3,449		
Oil & gas								
Lease	221	27		248	3,475	3,723		135
All other commercial and industrial	6,247	17	1,373	7,637	38,888	46,525		2,607
Total commercial	6,468	44	2,277	8,789	48,627	57,416		3,646
Commercial real estate								
1-4 family construction								
1-4 family acquisition/development					3,478	3,478		
Commercial construction					14	14		
Commercial acquisition/development								
Multifamily					1,564	1,564		
Owner-occupied			1,074	1,074	3,379	4,453		1,252
Non owner-occupied					1,572	1,572		
Total commercial real estate			1,074	1,074	10,007	11,081		1,252
Agriculture		7	12	19	14,920	14,939		61
Residential real estate								
Sr lien 1-4 family closed end								
Jr lien 1-4 family closed end					2,046	2,046		420
Sr lien 1-4 family open end								
Jr lien 1-4 family open end	44			44	220	264		
Total residential real estate	44			44	2,327	2,371		420
Total loans excluded from ASC Topic 310-30	6,512	51	3,363	9,926	75,881	85,807		5,379
Loans accounted for under ASC 310-30								
Commercial	11,586	1,035	4,068	16,689	66,780	83,469		4,068
Commercial real estate	16,269	6,459	80,528	103,256	374,171	477,427		80,528
Agriculture		73	4,784	4,857	39,881	44,738		4,784
Residential real estate	1		3,226	3,227	16,357	19,584		3,226
Consumer					4	4		
Total accounted for under ASC 310-30 loans	27,856	7,567	92,606	128,029	497,193	625,222		92,606

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Total covered loans	\$ 34,368	\$ 7,618	\$ 95,969	\$ 137,955	\$ 573,074	\$ 711,029	\$ 92,606	\$ 5,379
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Table of Contents**Covered Loans December 31, 2011**

	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								
Wholesale	\$ 319	\$	\$ 1,069	\$ 1,388	\$ 4,043	\$ 5,431	\$	\$ 1,069
Manufacturing	50			50	270	320		
Transportation/warehousing					500	500		
Finance and insurance			167	167	2,730	2,897		167
Oil & gas					241	241		
Lease	1,940	108	100	2,148	3,713	5,861	60	40
All other commercial and industrial	674	2,760	2,990	6,424	57,370	63,794	118	3,338
Total commercial	2,983	2,868	4,326	10,177	68,867	79,044	178	4,614
Commercial real estate								
1-4 family construction								
1-4 family acquisition/development			7,009	7,009	3,217	10,226		7,009
Commercial construction					20	20		
Commercial acquisition/development								
Multifamily								
Owner-occupied	789	149	1,099	2,037	496	2,533	149	1,038
Non owner-occupied					1,608	1,608		
Total commercial real estate	789	149	8,108	9,046	6,893	15,939	149	8,047
Agriculture	133			133	28,402	28,535		
Residential real estate								
Sr lien 1-4 family closed end								
Jr lien 1-4 family closed end					1,762	1,762		460
Sr lien 1-4 family open end								
Jr lien 1-4 family open end					87	87		
					262	262		
Total residential real estate					2,111	2,111		460
Total loans excluded from ASC Topic 310-30	3,905	3,017	12,434	19,356	106,273	125,629	327	13,121
Loans accounted for under ASC 310-30								
Commercial								
Commercial real estate	9,027	1,763	10,183	20,973	102,135	123,108	10,183	
Agriculture	13,114	19,320	98,746	131,180	494,909	626,089	98,746	
Residential real estate	157	4,967	439	5,563	51,276	56,839	439	
Consumer			287	287	20,756	21,043	287	
					7	7		
Total accounted for under ASC 310-30 loans	22,298	26,050	109,655	158,003	669,083	827,086	109,655	
Total covered loans	\$ 26,203	\$ 29,067	\$ 122,089	\$ 177,359	\$ 775,356	\$ 952,715	\$ 109,982	\$ 13,121

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Credit exposure for all covered loans as determined by the Company's internal risk rating system was as follows as of September 30, 2012 and December 31, 2011, respectively (in thousands):

	Covered Loans September 30, 2012				
	Pass	Special Mention	Substandard	Doubtful	Total
Loans excluded from ASC 310-30					
Commercial					
Wholesale	\$ 150	\$	\$ 3,035	\$	\$ 3,185
Manufacturing	176	69	10		255
Transportation/warehousing	147	132			279
Finance and insurance	456		2,993		3,449
Oil & gas					
Lease	3,588		135		3,723
All other commercial and industrial	12,034	9,110	23,927	1,454	46,525
Total commercial	16,551	9,311	30,100	1,454	57,416
Commercial real estate					
1-4 family construction					
1-4 family acquisition/development			3,478		3,478
Commercial construction	14				14
Commercial acquisition/development					
Multifamily	1,564				1,564
Owner-occupied	2,455	709	1,289		4,453
Non owner-occupied	421	199	952		1,572
Total commercial real estate	4,454	908	5,719		11,081
Agriculture	13,940	384	615		14,939
Residential real estate					
Sr lien 1-4 family closed end	510		1,115	421	2,046
Jr lien 1-4 family closed end					
Sr lien 1-4 family open end	61				61
Jr lien 1-4 family open end	264				264
Total residential real estate	835		1,115	421	2,371
Consumer					
Secured					
Unsecured					
Credit card					
Overdrafts					
Total consumer					
Total covered loans excluded from ASC 310-30	35,780	10,603	37,549	1,875	85,807
Loans accounted for under ASC 310-30					
Commercial	28,595	1,748	46,256	6,870	83,469
Commercial real estate	107,494	79,562	278,366	12,005	477,427
Agriculture	33,825	1,588	9,325		44,738
Residential real estate	10,191		9,393		19,584
Consumer	4				4

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Total covered loans accounted for under ASC 310-30	180,109	82,898	343,340	18,875	625,222
Total covered loans	\$ 215,889	\$ 93,501	\$ 380,889	\$ 20,750	\$ 711,029

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	Covered Loans December 31, 2011				
	Pass	Special Mention	Substandard	Doubtful	Total
Loans excluded from ASC 310-30					
Commercial					
Wholesale	\$ 286	\$	\$ 5,145	\$	\$ 5,431
Manufacturing	270	50			320
Transportation/warehousing	323	177			500
Finance and insurance	869		2,028		2,897
Oil & gas	112		129		241
Lease	5,821		40		5,861
All other commercial and industrial	18,571	13,160	29,213	2,850	63,794
Total commercial	26,252	13,387	36,555	2,850	79,044
Commercial real estate					
1-4 family construction					
1-4 family acquisition/development	262		4,497	5,467	10,226
Commercial construction	20				20
Commercial acquisition/development					
Multifamily	1,552				1,552
Owner-occupied	740	755	1,038		2,533
Non owner-occupied	728	76	804		1,608
Total commercial real estate	3,302	831	6,339	5,467	15,939
Agriculture	25,393	977	2,165		28,535
Residential real estate					
Sr lien 1-4 family closed end	162		1,600		1,762
Jr lien 1-4 family closed end					
Sr lien 1-4 family open end	87				87
Jr lien 1-4 family open end	252	10			262
Total residential real estate	501	10	1,600		2,111
Consumer					
Secured					
Unsecured					
Credit card					
Overdrafts					
Total consumer					
Total covered loans excluded from ASC 310-30	55,448	15,205	46,659	8,317	125,629
Loans accounted for under ASC 310-30					
Commercial					
Commercial real estate	37,886	11,491	62,859	10,872	123,108
Agriculture	133,513	145,387	276,052	71,137	626,089
Residential real estate	43,891	3,090	9,858		56,839
Consumer	12,116	63	8,864		21,043
	7				7
Total covered loans accounted for under ASC 310-30	227,413	160,031	357,633	82,009	827,086
Total covered loans	\$ 282,861	\$ 175,236	\$ 404,292	\$ 90,326	\$ 952,715

Table of Contents**Non-covered loans**

The following tables summarize the carrying value of all non-covered loans by segment net of deferred discounts on loans excluded from ASC Topic 310-30, fees and costs of \$18.8 and \$28.4 million, as of September 30, 2012 and December 31, 2011, respectively (in thousands):

	September 30, 2012		Total non - covered loans
	ASC 310-30	Non ASC 310-30	
Commercial			
Commercial and industrial	\$ 14,195	\$ 109,189	\$ 123,384
Leases		1,958	1,958
Total commercial	14,195	111,147	125,342
Commercial real estate			
Commercial construction	42,790	1,952	44,742
Commercial real estate	144,506	211,687	356,193
Land and development	48	8,854	8,902
Multifamily		14,279	14,279
Total commercial real estate	187,344	236,772	424,116
Agriculture	11,206	90,373	101,579
Residential real estate	106,710	412,322	519,032
Consumer	26,359	30,342	56,701
Total non-covered loans	\$ 345,814	\$ 880,956	\$ 1,226,770

	December 31, 2011		Total non - covered loans
	ASC 310-30	Non ASC 310-30	
Commercial			
Commercial and industrial	\$ 31,482	\$ 136,765	\$ 168,247
Leases		2,532	2,532
Total commercial	31,482	139,297	170,779
Commercial real estate			
Commercial construction	62,749		62,749
Commercial real estate	180,548	216,464	397,012
Land and development		31,568	31,568
Multifamily		19,121	19,121
Total commercial real estate	243,297	267,153	510,450
Agriculture	13,989	52,040	66,029
Residential real estate	147,239	352,492	499,731
Consumer	44,616	29,731	74,347
Total non-covered loans	\$ 480,623	\$ 840,713	\$ 1,321,336

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The following tables reflect the carrying value and loan delinquency of non-covered loans at September 30, 2012 and December 31, 2011 (in thousands). Pooled loans accounted for under ASC Topic 310-30 that are 90 days or more past due and still accruing are included in loans 90 days or more past due and still accruing interest and are considered to be performing.

	Non-Covered Loans September 30, 2012							Loans > 90 days past due and still accruing	Non-accrual
	30-59 days past due	60-89 days past due	Greater than 90 days past due	Total past due	Current	Total loans			
Loans excluded from ASC 310-30									
Commercial									
Wholesale	\$	\$	\$	\$	\$ 15,503	\$ 15,503	\$	\$	613
Manufacturing			33	33	14,643	14,676			33
Transportation/warehousing					13,948	13,948			
Finance and insurance	5	155		160	17,274	17,434			
Oil & gas					9,835	9,835			
Lease		401		401	1,557	1,958			
All other commercial and industrial	21		195	216	37,577	37,793			347
Total commercial	26	556	228	810	110,337	111,147			993
Commercial real estate									
1-4 family construction					692	692			
1-4 family acquisition/development	48	1,525	172	1,745	3,436	5,181			234
Commercial construction					1,952	1,952			
Commercial acquisition/development					2,981	2,981			
Multifamily			191	191	14,088	14,279			191
Owner-occupied	3,083		122	3,205	49,547	52,752			1,000
Non owner-occupied			7,241	7,241	151,694	158,935			10,205
Total commercial real estate	3,131	1,525	7,726	12,382	224,390	236,772			11,630
Agriculture	11			11	90,362	90,373			116
Residential real estate									
Sr lien 1-4 family closed end	1,042	441	870	2,353	301,241	303,594			2,711
Jr lien 1-4 family closed end	37	27	106	170	6,612	6,782			378
Sr lien 1-4 family open end	708		421	1,129	56,431	57,560	32		527
Jr lien 1-4 family open end	312	137	92	541	43,845	44,386			214
Total residential real estate	2,099	605	1,489	4,193	408,129	412,322	32		3,830
Consumer									
Secured	138		28	166	22,423	22,589			28
Unsecured	4	12		16	2,180	2,196			
Credit card	68	9	18	95	3,731	3,826	18		
Overdrafts					1,731	1,731			
Total consumer	210	21	46	277	30,065	30,342	18		28
Total non-covered loans excluded from ASC 310-30									
	5,477	2,707	9,489	17,673	863,283	880,956	50		16,597

Loans accounted for under ASC 310-30

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Commercial	158	2,393	1,607	4,158	10,037	14,195	1,607
Commercial real estate	1,176	1,217	34,210	36,603	150,741	187,344	34,210
Agriculture		50	198	248	10,958	11,206	198
Residential real estate	4,799	843	14,707	20,349	86,361	106,710	