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)

x **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)

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 ¨ No x

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.

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;

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 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 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

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.

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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations (Unaudited)

(In thousands, except share and per share data)

	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 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

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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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

(In thousands)

	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 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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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

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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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	For the nine months ended September 30, 2012	For the nine months ended September 30, 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

Cash and cash equivalents at end of period	$ 664,699	$ 1,406,667
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 indemnificaiton 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):

	September 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
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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	December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
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):

	September 30, 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	$ 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)

	December 31, 2011					
	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	$ 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):

	September 30, 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	$ 643,661	$ 10,099	$	$ 653,760
Total investment securities held-to-maturity	$ 643,661	$ 10,099	$	$ 653,760

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	December 31, 2011			
	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	$ 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):

	September 30, 2012							
	Covered Loans			Non-Covered Loans				
	ASC 310-30	Non ASC 310-30	Total Covered Loans	ASC 310-30	Non ASC 310-30	Total Non-Covered Loans	Total Loans	% of Total
Commercial	$ 83,469	$ 57,416	$ 140,885	$ 14,195	$ 111,147	$ 125,342	$ 266,227	13.8%
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%

	December 31, 2011							
	Covered Loans			Non-Covered Loans				
	ASC 310-30	Non ASC 310-30	Total Covered Loans	ASC 310-30	Non ASC 310-30	Total Non-Covered Loans	Total Loans	% of Total
Commercial	$ 123,108	$ 79,044	$ 202,152	$ 31,482	$ 139,297	$ 170,779	$ 372,931	16.4%
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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Covered Loans

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		
	ASC 310-30	Non ASC 310-30	Total covered loans
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		
	ASC 310-30	Non ASC 310-30	Total covered loans
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 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 accreting 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					2,046	2,046		420
Jr lien 1-4 family closed end								
Sr lien 1-4 family open end					61	61		
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	

Total covered loans	$ 34,368	$ 7,618	$ 95,969	$ 137,955	$ 573,074	$ 711,029	$ 92,606	$ 5,379

	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					1,552	1,552		
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					1,762	1,762		460
Jr lien 1-4 family closed end								
Sr lien 1-4 family open end					87	87		
Jr lien 1-4 family open end					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	9,027	1,763	10,183	20,973	102,135	123,108	10,183	
Commercial real estate	13,114	19,320	98,746	131,180	494,909	626,089	98,746	
Agriculture	157	4,967	439	5,563	51,276	56,839	439	
Residential real estate			287	287	20,756	21,043	287	
Consumer					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

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	37,886	11,491	62,859	10,872	123,108
Commercial real estate	133,513	145,387	276,052	71,137	626,089
Agriculture	43,891	3,090	9,858		56,839
Residential real estate	12,116	63	8,864		21,043
Consumer	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

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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		
	ASC 310-30	Non ASC 310-30	Total non - covered loans
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		
	ASC 310-30	Non ASC 310-30	Total non - covered loans
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 accreting 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							
	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	$	$	$	$	$ 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

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	14,707	
Consumer	1,573	141	625	2,339	24,020	26,359	625	
Total non-covered loans accounted for under ASC 310-30	7,706	4,644	51,347	63,697	282,117	345,814	51,347	
Total non-covered loans	$ 13,183	$ 7,351	$ 60,836	$ 81,370	$ 1,145,400	$ 1,226,770	$ 51,397	$ 16,597

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	Non-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	$ 681	$	$	$ 681	$ 24,660	$ 25,341	$	
Manufacturing		33		33	7,162	7,195		46
Transportation/warehousing					11,501	11,501		
Finance and insurance	238			238	15,888	16,126		512
Oil & gas					20,510	20,510		
Lease					2,532	2,532		
All other commercial and industrial	3,552	434	10	3,996	52,096	56,092		202
Total commercial	4,471	467	10	4,948	134,349	139,297		760
Commercial real estate								
1-4 family construction					2,757	2,757		
1-4 family acquisition/development			37	37	13,302	13,339		92
Commercial construction								
Commercial acquisition/development		2,246	4,862	7,108	8,364	15,472		4,862
Multifamily		195		195	18,926	19,121		195
Owner-occupied	2,948			2,948	42,940	45,888		758
Non owner-occupied	2,418	1,234		3,652	166,924	170,576		16,053
Total commercial real estate	5,366	3,675	4,899	13,940	253,213	267,153		21,960
Agriculture	234	31	29	294	51,746	52,040		29
Residential real estate								
Sr lien 1-4 family closed end	791	79	668	1,538	238,035	239,573		1,571
Jr lien 1-4 family closed end	1,364		5	1,369	3,650	5,019		5
Sr lien 1-4 family open end	377	258	339	974	59,640	60,614	290	50
Jr lien 1-4 family open end	193	63	200	456	46,830	47,286		273
Total residential real estate	2,725	400	1,212	4,337	348,155	352,492	290	1,899
Consumer								
Secured	389	4		393	17,935	18,328		
Unsecured	12	1		13	2,701	2,714		1
Credit card	36	21	35	92	6,967	7,059	35	
Overdrafts					1,630	1,630		
Total consumer	437	26	35	498	29,233	29,731	35	1
Total non-covered loans excluded from ASC 310-30	13,233	4,599	6,185	24,017	816,696	840,713	325	24,649
Loans accounted for under ASC 310-30								
Commercial	1,176	60	1,334	2,570	28,912	31,482	1,334	
Commercial real estate	4,486	630	38,269	43,385	199,912	243,297	38,269	
Agriculture	419		772	1,191	12,798	13,989	772	
Residential real estate	4,109	3,727	23,863	31,699	115,540	147,239	23,862	
Consumer	432	249	478	1,159	43,457	44,616	478	
	10,622	4,666	64,716	80,004	400,619	480,623	64,715	

Total non-covered accounted for under ASC 310-30 loans								
Total non-covered loans	$ 23,855	$ 9,265	$ 70,901	$ 104,021	$ 1,217,315	$ 1,321,336	$ 65,040	$ 24,649

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Credit exposure for all non-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):

	Non-Covered Loans September 30, 2012				
	Pass	Special Mention	Substandard	Doubtful	Total
Loans excluded from ASC 310-30					
Commercial					
Wholesale	$ 14,729	$ 26	$ 748	$	$ 15,503
Manufacturing	12,238	2,405	33		14,676
Transportation/warehousing	13,948				13,948
Finance and insurance	17,381		53		17,434
Oil & gas	9,820	15			9,835
Lease	520	200	1,238		1,958
All other commercial and industrial	27,112	690	9,992	(1)	37,793
Total commercial	95,748	3,336	12,064	(1)	111,147
Commercial real estate					
1-4 family construction	692				692
1-4 family acquisition/development	4,947		234		5,181
Commercial construction	1,952				1,952
Commercial acquisition/development	2,410		571		2,981
Multifamily	9,242	3,867	1,170		14,279
Owner-occupied	43,161	927	8,664		52,752
Non owner-occupied	99,277	43,771	15,370	517	158,935
Total commercial real estate	161,681	48,565	26,009	517	236,772
Agriculture	87,335	1,640	1,398		90,373
Residential real estate					
Sr lien 1-4 family closed end	297,999	970	4,625		303,594
Jr lien 1-4 family closed end	5,694	323	762	3	6,782
Sr lien 1-4 family open end	53,658	1,563	2,341	(2)	57,560
Jr lien 1-4 family open end	42,499	505	1,383	(1)	44,386
Total residential real estate	399,850	3,361	9,111		412,322
Consumer					
Secured	22,554		35		22,589
Unsecured	2,196				2,196
Credit card	3,826				3,826
Overdrafts	1,731				1,731
Total consumer	30,307		35		30,342
Total non-covered loans excluded from ASC 310-30	774,921	56,902	48,617	516	880,956
Loans accounted for under ASC 310-30					
Commercial	5,414	1,434	7,347		14,195
Commercial real estate	67,461	14,920	101,732	3,231	187,344
Agriculture	2,861	2,526	5,819		11,206
Residential real estate	56,263	6,519	43,869	59	106,710
Consumer	23,461	1,986	912		26,359

Total non-covered loans accounted for under ASC 310-30	155,460	27,385	159,679	3,290	345,814
Total non-covered loans	$ 930,381	$ 84,287	$ 208,296	$ 3,806	$ 1,226,770

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	Non-Covered Loans December 31, 2011				
	Pass	Special Mention	Substandard	Doubtful	Total
Loans excluded from ASC 310-30					
Commercial					
Wholesale	$ 24,038	$	$ 622	$ 681	$ 25,341
Manufacturing	7,116		79		7,195
Transportation/warehousing	11,234		267		11,501
Finance and insurance	13,853	4	2,269		16,126
Oil & gas	20,510				20,510
Lease	1,519		1,013		2,532
All other commercial and industrial	36,330	7,360	12,402		56,092
Total commercial	114,600	7,364	16,652	681	139,297
Commercial real estate					
1-4 family construction	2,757				2,757
1-4 family acquisition/development	7,952	389	4,998		13,339
Commercial construction					
Commercial acquisition/development	2,447	7,555	5,470		15,472
Multifamily	16,884	1,046	1,191		19,121
Owner-occupied	34,611	3,438	7,839		45,888
Non owner-occupied	105,744	36,891	27,941		170,576
Total commercial real estate	170,395	49,319	47,439		267,153
Agriculture	48,116	2,421	1,503		52,040
Residential real estate					
Sr lien 1-4 family closed end	234,983	1,477	3,113		239,573
Jr lien 1-4 family closed end	4,840	127	52		5,019
Sr lien 1-4 family open end	57,853	2,153	608		60,614
Jr lien 1-4 family open end	45,000	637	1,649		47,286
Total residential real estate	342,676	4,394	5,422		352,492
Consumer					
Secured	18,146	172	10		18,328
Unsecured	2,713		1		2,714
Credit card	7,059				7,059
Overdrafts	1,630				1,630
Total consumer	29,548	172	11		29,731
Total non-covered loans excluded from ASC 310-30	705,335	63,670	71,027	681	840,713
Loans accounted for under ASC 310-30					
Commercial	19,464	5,491	6,455	72	31,482
Commercial real estate	83,447	53,950	103,779	2,121	243,297
Agriculture	4,315	7,311	2,363		13,989
Residential real estate	78,795	14,986	53,458		147,239
Consumer	41,705	1,773	1,138		44,616
Total non-covered loans accounted for under ASC 310-30	227,726	83,511	167,193	2,193	480,623
Total non-covered loans	$ 933,061	$ 147,181	$ 238,220	$ 2,874	$ 1,321,336

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 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. Inclusive of TDR s, the Company s unpaid principal balance of impaired loans was $56.0 million and $74.7 million at September 30, 2012 and December 31, 2011, respectively.

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At September 30, 2012, the Company s unpaid principal balance and recorded investment of impaired loans was $56.0 million and $37.6 million, respectively. Of these impaired loans, 35 were within the commercial real estate segment, with an unpaid principal balance of $25.7 million and a recorded investment of $18.1 million. Twenty-five of these commercial real estate loans, with a recorded investment of $15.9 million and an unpaid principal balance of $17.3 million were not covered by the FDIC loss sharing agreement, compared to ten loans with a recorded investment of $2.2 million and an unpaid principal balance of $8.4 million that were covered by the FDIC loss sharing agreement. The commercial loan segment had a total of 52 loans, 35 of which were not covered by the FDIC loss sharing agreement with an unpaid principal balance and a recorded investment of $10.4 million and $7.9 million, respectively. The 17 commercial loans that were covered by the FDIC loss sharing agreement had an unpaid principal balance and recorded investment of $11.2 million and $3.7 million, respectively. The residential real estate loan segment held 93 impaired loans, with an unpaid principal balance of $8.3 million and a recorded investment of $7.5 million. Of these 93 loans, two were covered by the FDIC loss sharing agreement with an unpaid principal balance and recorded investment of $1.6 million and $1.5 million, respectively, leaving 91 loans not covered by the FDIC loss sharing agreement with an unpaid principal balance of $6.8 million and a recorded investment of $6.0 million. These loans had a collective related allowance for loan losses allocated to them of $2.0 million at September 30, 2012. The table below shows additional information regarding impaired loans at September 30, 2012 (in thousands):

	Impaired Loans September 30, 2012				
	Unpaid principal balance	Recorded investment	Allowance for loan losses allocated	Average recorded investment	Interest income recognized
With no related allowance recorded:					
Commercial					
Wholesale	$ 3,672	$ 1,508	$	$ 1,733	$
Manufacturing	43	43		43	
Transportation/warehousing					
Finance and insurance	299				
All other commercial and industrial	15,530	7,970		11,262	179
Total commercial	19,544	9,521		13,038	179
Commercial real estate					
1-4 family construction					
1-4 family acquisition/development	6,303	228		231	3
Commercial construction					
Commercial acquisition/development	601	571		599	24
Multifamily	198	191		191	
Owner-occupied	5,814	5,450		5,455	118
Non-owner occupied	7,050	6,504		5,823	64
Total commercial real estate	19,966	12,944		12,299	209
Agriculture	185	178		181	1
Residential real estate					
Sr. lien 1-4 family closed end	5,529	5,291		5,395	86
Jr. lien 1-4 family closed end	505	457		459	1
Sr. lien 1-4 family open end	1,087	878		846	8
Jr. lien 1-4 family open end	491	214		216	3
Total residential real estate	7,612	6,840		6,916	98
Consumer					
Secured	193	193		194	1
Unsecured	13			1	
Credit card					
Overdrafts					
Total consumer	206	193		195	1

Total impaired loans with no related allowance recorded	$ 47,513	$ 29,676	$	$ 32,629	$ 488

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	Unpaid principal balance	Recorded investment	Allowance for loan losses allocated	Average recorded investment	Interest income recognized
With a related allowance recorded:					
Commercial					
Wholesale	135	135	6	174	8
Manufacturing					
Transportation/warehousing					
Finance and insurance					
All other commercial and industrial	1,931	1,930	1,085	2,011	
Total commercial	2,066	2,065	1,091	2,185	8
Commercial real estate					
1-4 family construction					
1-4 family acquisition/development					
Commercial construction					
Commercial acquisition/development					
Multifamily					
Owner-occupied					
Non-owner occupied	5,688	5,123	517	5,284	
Total commercial real estate	5,688	5,123	517	5,284	
Agriculture					
Residential real estate					
Sr. lien 1-4 family closed end	445	421	421	440	
Jr. lien 1-4 family closed end	271	271	3	271	
Sr. lien 1-4 family open end					
Jr. lien 1-4 family open end					
Total residential real estate	716	692	424	711	
Consumer					
Secured					
Unsecured					
Credit card					
Overdrafts					
Total consumer					
Total impaired loans with a related allowance recorded	8,470	7,880	2,032	8,180	8
Total impaired loans	$ 55,983	$ 37,556	$ 2,032	$ 40,809	$ 496

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At December 31, 2011, the Company s unpaid principal balance and recorded investment of impaired loans was $74.7 million and $50.1 million, respectively. Of these impaired loans, 26 were within the commercial real estate segment, with an unpaid principal balance of $58.2 million and a recorded investment of $41.1 million. Of the 26 impaired commercial real estate loans, the FDIC loss sharing agreements covered five of those loans with a recorded investment of $8.2 million and an unpaid principal balance of $23.3 million and 21 commercial real estate loans, with a recorded investment of $32.9 million and an unpaid principal balance of $34.9 million, were not covered by FDIC loss sharing agreements. The commercial loan segment had a total of 20 loans; ten of these were not covered by the FDIC loss sharing agreements and carried an unpaid principal balance and recorded investment of $0.8 million and $0.8 million, respectively. The 10 commercial loans that were covered by the FDIC loss sharing agreements had an unpaid principal balance and recorded investment of $11.9 million and $4.6 million, respectively. The residential real estate loan segment held 43 impaired loans, with an unpaid principal balance of $3.9 million and a recorded investment of $3.6 million. Of these 43 loans, three were covered by the FDIC loss sharing agreement with an unpaid principal balance and recorded investment of $1.7 million and $1.7 million, respectively, leaving 40 loans not covered by the FDIC loss sharing agreement with an unpaid principal balance of $2.2 million and a recorded investment of $1.9 million. These loans had a collective related allowance for loan losses allocated to them of $0.8 million at December 31, 2011. The table below shows additional information regarding impaired loans at December 31, 2011 (in thousands):

	Impaired Loans December 31, 2011				
	Unpaid principal balance	Recorded investment	Allowance for loan losses allocated	Average recorded investment	Interest income recognized
With no related allowance recorded:					
Commercial					
Wholesale	$ 3,205	$ 1,069	$	$ 2,137	$
Manufacturing	48	46		46	
Transportation/warehousing					
Finance and insurance	1,412	679		1,044	
All other commercial and industrial	8,008	3,580		5,793	
Total commercial	12,673	5,374		9,020	
Commercial real estate					
1-4 family construction					
1-4 family acquisition/development	27,205	12,007		19,484	24
Commercial construction					
Commercial acquisition/development	5,717	5,470		5,579	3
Multifamily	203	195		199	
Owner-occupied	2,856	2,678		2,746	6
Non-owner occupied	9,963	9,335		9,397	17
Total commercial real estate	45,944	29,685		37,405	50
Agriculture	30	29		30	
Residential real estate					
Sr. lien 1-4 family closed end	2,756	2,712		2,730	5
Jr. lien 1-4 family closed end	5	5		5	
Sr. lien 1-4 family open end	89	50		70	
Jr. lien 1-4 family open end	468	273		371	
Total residential real estate	3,318	3,040		3,176	5
Consumer					
Secured					
Unsecured	1	1		1	
Credit card					
Overdrafts					
Total consumer	1	1		1	

Total impaired loans with no related allowance recorded	61,966	38,129	49,632	55

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	Unpaid principal balance	Recorded investment	Allowance for loan losses allocated	Average recorded investment	Interest income recognized
With a related allowance recorded:					
Commercial					
Wholesale	$	$	$	$	$
Manufacturing					
Transportation/warehousing					
Finance and insurance					
All other commercial and industrial					
Total commercial					
Commercial real estate					
1-4 family construction					
1-4 family acquisition/development					
Commercial construction					
Commercial acquisition/development					
Multifamily					
Owner-occupied					
Non-owner occupied	12,304	11,508	608	11,508	
Total commercial real estate	12,304	11,508	608	11,508	
Agriculture					
Residential real estate					
Sr. lien 1-4 family closed end					
Jr. lien 1-4 family closed end					
Sr. lien 1-4 family open end	460	460	174	460	
Jr. lien 1-4 family open end					
Total residential real estate	460	460	174	460	
Consumer					
Secured					
Unsecured					
Credit card					
Overdrafts					
Total consumer					
Total impaired loans with a related allowance recorded	12,764	11,968	782	11,968	
Total impaired loans	$ 74,730	$ 50,097	$ 782	$ 61,600	$ 55

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 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 September 30, 2012 and December 31, 2011, the Company had $15.6 million and $12.3 million, respectively, of accruing TDR s that had been restructured from the original terms in order to facilitate repayment. Of these, $3.6 million and $1.4 million, respectively, were covered by FDIC loss sharing agreements. Accruing TDR s in the commercial loan segment were primarily comprised of nineteen loans with a recorded investment of $6.9 million that were not covered by loss sharing agreements at September 30, 2012. Commercial real estate TDR s totaled $5.2 million, of which seven were non-covered with a recorded investment of $4.2

million and two were covered with a recorded investment of $1.0 million. The remaining accruing TDR s were primarily made up of 23 loans from the single family residential segment, with a recorded investment of $2.9 million. Of these loans, 22 were non-covered and had a recorded investment of $1.8 million and one was covered, with a recorded investment of $1.1 million.

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Non-accruing TDR s at September 30, 2012 and December 31, 2011 totaled $9.3 million and $16.3 million, respectively. Of these, $1.5 million were covered as of September 30, 2012 and none were covered as of December 31, 2011. At September 30, 2012 the non-accruing commercial real estate segment was primarily comprised of four non-covered loans with a recorded investment of $6.8 million. The commercial loan segment held non-accruing TDR s, which included three covered loans with a recorded investment of $0.9 million and three non-covered loans with a recorded investment of $0.6 million. The remaining non-accruing TDR balance was from the single family residential segment, which included four non-covered loans and one covered loan, with a recorded investment of $0.5 million and $0.4 million, respectively.

During the three and nine months ended September 30, 2012, the Company restructured 30 loans with a recorded investment of $7.3 million and 65 loans with a recorded investment of $14.7 million, respectively, to facilitate repayment. 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 September 30, 2012 and December 31, 2011 (in thousands):

	September 30, 2012			
	Recorded investment	Average year-to-date recorded investment	Unpaid principal balance	Unfunded commitments to fund TDR s
Commercial	$ 6,946	$ 8,981	$ 7,277	$ 5,476
Commercial real estate	5,188	5,305	5,356	
Agriculture				
Residential real estate	3,281	3,266	3,286	35
Consumer	165	166	165	
Total	$ 15,580	$ 17,718	$ 16,084	$ 5,511

	December 31, 2011			
	Recorded investment	Average year-to-date recorded investment	Unpaid principal balance	Unfunded commitments to fund TDR s
Commercial	$	$	$	$ 60
Commercial real estate	11,184	11,184	11,678	24
Agriculture				
Residential real estate	1,141	1,141	1,141	60
Consumer				
Total	$ 12,325	$ 12,325	$ 12,819	$ 144

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The following table summarizes the Company s carrying value of non-accrual TDR s as of September 30, 2012 and December 31, 2011 (in thousands):

	Non - Accruing TDR s			
	September 30, 2012		December 31, 2011	
	Covered	Non-covered	Covered	Non-covered
Commercial	$ 933	$ 643	$	$ 119
Commercial real estate	112	6,765		16,108
Agriculture				
Residential real estate	421	437		61
Consumer				
Total	$ 1,466	$ 7,845	$	$ 16,288

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 two TDR s that had been modified within the past 12 months that defaulted on its restructured terms during the nine months ended September 30, 2012. 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 non-owner occupied commercial real estate loan with a balance of $0.6 million and a C&I loan with a balance of $0.9 at September 30, 2012 and the maximum amount defaulted during the period was $1.5 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 nine months ended September 30, 2012 (in thousands):

Accretable yield balance at December 31, 2011	$ 186,494
Reclassification from non-accretable difference	46,974
Reclassification to non-accretable difference	(8,348)
Accretion	(76,252)
Accretable yield balance at September 30, 2012	$ 148,868

Below is the composition of the net book value for loans accounted for under ASC Topic 310-30 at September 30, 2012 and December 31, 2011 (in thousands):

	September 30, 2012	December 31, 2011
Contractual cash flows	$ 1,617,451	$ 2,030,374
Non-accretable difference	(497,547)	(536,171)
Accretable yield	(148,868)	(186,494)
Loans accounted for under ASC Topic 310-30	$ 971,036	$ 1,307,709

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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 and nine months ended September 30, 2012 (in thousands):

	Three months ended September 30, 2012					
	Commercial	Commercial real estate	Agriculture	Residential real estate	Consumer	Total
Beginning balance	$ 3,318	$ 7,797	$ 660	$ 4,872	$ 647	$ 17,294
Non 310-30 beginning balance	1,725	3,578	284	3,813	635	10,035
Charge-offs	(297)	(35)		(351)	(566)	(1,249)
Recoveries	279	(195)	4	(47)	(41)	
Provision	842	(15)	(22)	274	521	1,600
Non 310-30 ending balance	2,549	3,333	266	3,689	549	10,386
310-30 beginning balance	1,593	4,219	376	1,059	12	7,259
Charge-offs	(1)	(3,500)	(144)	(169)		(3,814)
Recoveries		2				2
Provision	(1,592)	6,012		(747)	(10)	3,663
310-30 ending balance		6,733	232	143	2	7,110
Ending balance	$ 2,549	$ 10,066	$ 498	$ 3,832	$ 551	$ 17,496

	Nine months ended September 30, 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	(3,056)	(2,448)	(8)	(815)	(1,161)	(7,488)
Recoveries	279	24	4	49	252	608
Provision	3,729	2,368	116	1,032	682	7,927
Non 310-30 ending balance	2,549	3,333	266	3,689	549	10,386
310-30 beginning balance	1,362		128	698		2,188
Charge-offs	(216)	(11,643)	(144)	(729)	(19)	(12,751)
Recoveries		275				275
Provision	(1,146)	18,101	248	174	21	17,398
310-30 ending balance		6,733	232	143	2	7,110
Ending balance	$ 2,549	$ 10,066	$ 498	$ 3,832	$ 551	$ 17,496

Ending allowance balance attributable to:						
Non 310-30 loans individually evaluated for impairment	$ 1,091	$ 517	$	$ 424	$	$ 2,032
Non 310-30 loans collectively evaluated for impairment	1,458	2,816	266	3,265	549	8,354
310-30 loans acquired w/ deteriorated credit		6,733	232	143	2	7,110
Total ending allowance balance	$ 2,549	$ 10,066	$ 498	$ 3,832	$ 551	$ 17,496
Loans:						
Non 310-30 individually evaluated for impairment	$ 10,958	$ 16,676	$	$ 3,386	$	$ 31,020
Non 310-30 collectively evaluated for impairment	157,605	231,177	105,312	411,307	30,342	935,743
310-30 loans acquired w/ deteriorated credit	97,664	664,771	55,944	126,294	26,363	971,036
Total loans	$ 266,227	$ 912,624	$ 161,256	$ 540,987	$ 56,705	$ 1,937,799

During the nine months ended September 30, 2012, 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 impairment of $17.4 million, which was primarily driven by impairments of $7.8 million in the land and development pools, $4.9 million of which was in the acquired Community Banks of Colorado portfolio and $2.9 million of which was in the acquired Hillcrest Bank portfolio, and impairments of $7.4 million in the commercial real estate portfolio, which included impairments of $6.7 million in the acquired Hillcrest Bank portfolio, a $0.4 million impairment in the acquired Bank of Choice portfolio, and $0.3

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million impairment in the acquired Community Banks of Colorado portfolio. The commercial construction pool experienced an impairment of $2.6 million resulting from a $2.1 million impairment in the acquired Bank of Choice portfolio and a $0.5 million impairment in the acquired Community Banks of Colorado portfolio. Other notable impairments included a $0.2 million impairment in the agriculture pools and a $0.2 million impairment in the residential real estate pools. The commercial and industrial pool experienced a reversal of impairment of $1.1 million which was primarily the result of gross cash flow improvements.

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 nine months ended September 30, 2012, the Company recorded $7.9 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 and in new loan originations.

The Company charged off $6.9 million, net of recoveries, of non-ASC Topic 310-30 loans during the nine months ended September 30, 2012, $2.4 million of which was the result of a large commercial and industrial loan that is not considered indicative of future charge-offs in the commercial and industrial loan category. The Company also charged off $2.4 million of commercial real estate loans, primarily the result of three commercial real estate loans outside of our core market areas totaling $2.1 million. Consumer charge-offs, net of recoveries, totaled $0.9 million which is primarily the result of overdrafts on consumer accounts.

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 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 nine months ended September 30, 2012 and 2011 (in thousands):

	For the nine months ended	
	September 30, 2012	September 30, 2011
Balance at beginning of period	$ 223,402	$ 161,395
Accretion	(9,165)	(2,237)
Reduction for claims filed	(101,042)	(85,777)
Balance at end of period	$ 113,195	$ 73,381

During the nine months ended September 30, 2012, the Company recognized $9.2 million of negative accretion on the FDIC indemnification asset, and reduced the carrying value of the FDIC indemnification asset by $101.0 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

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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 nine months ended September 30, 2012, the Company submitted $109.1 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 2011 through the second quarter of 2012. Included in the $109.1 million were $8.1 million of claims related to additional losses incurred during the period that were not previously considered in the carrying amount of the indemnification asset. 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 nine months ended September 30, 2012, the FDIC paid $75.9 million, $33.1 million of which was related to losses incurred during the fourth quarter of 2011 and $42.8 million of which was related to losses incurred during the six months ended June 30, 2012 and submitted to the FDIC during the three months ended September 30, 2012. The remaining claimed amounts are anticipated to be received during the fourth quarter of 2012 and are included in other assets.

Note 7 Premises and Equipment

Premises and equipment consisted of the following at September 30, 2012 and December 31, 2011 (in thousands):

	September 30, 2012	December 31, 2011
Land	$ 29,699	$ 25,186
Buildings and improvements	70,560	48,933
Equipment	25,689	15,960
Total	125,948	90,079
Less: accumulated depreciation and amortization	(7,563)	(2,764)
Premises and equipment, net	$ 118,385	$ 87,315

Premises and equipment increased $31.1 million from December 31, 2011 to September 30, 2012, primarily because the Company purchased 26 banking center premises from the FDIC in connection with the Community Banks of Colorado acquisition. The Company incurred $1.9 million and $0.9 million of depreciation expense during the three months ended September 30, 2012 and 2011 and $4.9 million and $1.6 million of depreciation expense during the nine months ended September 30, 2012 and 2011, respectively, which is included in occupancy and equipment expense.

Note 8 Other Real Estate Owned

A summary of the activity in the OREO balances during the nine months ended September 30, 2012 and 2011 is as follows (in thousands):

	For the nine months ended September 30, 2012	2011
Balance at December 31	$ 120,636	$ 54,078
Purchases through acquisition, at fair value		34,335
Transfers from loan portfolio, at fair value	67,741	39,736
Impairments	(8,638)	(2,848)
Sales, net of gains and losses	(50,394)	(30,397)
Balance at September 30	$ 129,345	$ 94,904

The OREO balance of $129.3 million at September 30, 2012 includes the interests of several outside participating banks totaling $17.1 million, for which an offsetting liability is recorded in other liabilities and excludes $12.2 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 $129.3 million of OREO at September 30, 2012, $64.5 million, or 49.9%, 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 nine months ended September 30, 2012, the Company sold $57.2 million of OREO and realized net gains on these sales of $6.8 million, and during the nine months ended September 30, 2011, the Company sold $31.4 million of OREO and realized net gains of $1.0 million.

Note 9 Deposits

As of September 30, 2012 and December 31, 2011, deposits totaled $4.3 billion and $5.1 billion, respectively. Time deposits decreased from $2.8 billion at December 31, 2011 to $1.9 billion at September 30, 2012. The following table summarizes the Company s time deposits, based upon contractual maturity, at September 30, 2012 and December 31, 2011, by remaining maturity (in thousands):

	September 30, 2012 Balance	September 30, 2012 Weighted Average Rate	December 31, 2011 Balance	December 31, 2011 Weighted Average Rate
Three months or less	$ 522,725	0.89%	$ 746,835	1.30%
Over 3 months through 6 months	355,530	0.79%	554,740	1.15%
Over 6 months through 12 months	477,321	0.75%	1,014,949	1.23%
Over 12 months through 24 months	399,187	0.96%	309,848	1.58%
Over 24 months through 36 months	105,769	1.69%	52,879	2.01%
Over 36 months through 48 months	50,630	2.10%	54,678	2.65%
Over 48 months through 60 months	27,120	1.58%	43,550	1.89%
Thereafter	6,936	2.28%	7,117	2.77%
Total time deposits	$ 1,945,218	0.94%	$ 2,784,596	1.33%

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 September 30, 2012 and December 31, 2011, the Company had approximately $232.0 million and $1.1 billion, respectively, of time deposits that were subject to penalty-free withdrawals.

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

	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Interest bearing demand deposits	$ 271	$ 387	$ 1,007	$ 609
Money market accounts	1,005	1,048	3,076	3,476
Savings accounts	65	66	226	277
Time deposits	5,178	8,263	19,713	26,295
Total	$ 6,519	$ 9,764	$ 24,022	$ 30,657

Note 10 Regulatory Capital

NBH Bank, N.A. is subject to the regulatory capital adequacy requirements of the Federal Reserve Board, the FDIC, and the OCC, as applicable. Failure to meet the minimum capital requirements can initiate certain mandatory and possibly further discretionary actions by regulators that could have a material adverse effect on the Company s consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, banks must meet specific capital requirements that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classifications are subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Typically, mature banks are required to maintain a Tier I risk-based capital ratio of 4.00%, a total risk-based capital ratio of 8.00% and a Tier 1 leverage ratio of 4.00% in order to meet minimum, adequately capitalized regulatory requirements. To be considered well-capitalized (under prompt corrective action provisions), banks must maintain minimum capital ratios of 6.00% for Tier I risk-based capital, 10.00% for total risk-based capital and 5.00% for the Tier 1 leverage ratio. However, in connection with the approval of the de novo charter for NBH Bank, N.A., the Company has agreed with its regulators to maintain capital levels of at least 10% Tier 1 leverage ratio, 11% Tier 1 risk-based capital ratio and 12% total risk-based capital ratio through the fourth quarter of 2013.

At September 30, 2012 and December 31, 2011, 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):

	September 30, 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	17.7%	$ 980,654	N/A	N/A	4%	$ 221,566
NBH Bank, N.A. (2)	15.9%	865,172	10%	542,508	4%	217,003
Tier 1 risk-based capital ratio (3)						
Consolidated	51.6%	$ 980,654	6%	$ 114,220	4%	$ 76,147
NBH Bank, N.A. (2)	46.0%	865,172	11%	206,697	4%	75,162
Total risk-based capital ratio (3)						
Consolidated	52.4%	$ 998,461	10%	$ 190,367	8%	$ 152,293
NBH Bank, N.A. (2)	47.0%	882,979	12%	225,487	8%	150,325

	December 31, 2011					
	Actual		Required to be considered well capitalized (1)		Required to be considered adequately capitalized	
	Ratio	Amount	Ratio	Amount	Ratio	Amount
Tier 1 leverage ratio						
Consolidated	15.1%	$ 949,154	N/A	N/A	4%	$ 251,514
NBH Bank, N.A. (2)	13.4%	828,321	10%	$ 616,919	4%	246,768
Tier 1 risk-based capital ratio (3)						
Consolidated	49.4%	$ 949,154	6%	$ 114,077	4%	$ 76,051
NBH Bank, N.A. (2)	44.2%	828,321	11%	206,258	4%	75,003
Total risk-based capital ratio (3)						
Consolidated	50.5%	$ 960,681	10%	$ 190,129	8%	$ 152,103
NBH Bank, N.A. (2)	44.8%	839,848	12%	225,009	8%	150,006

(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) In November 2011, Hillcrest Bank, N.A. was merged into NBH Bank, N.A. The capital ratios shown are reflective of the merger.
(3) 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 11 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 changes in the FDIC indemnification asset and the clawback liability, in addition to the actual reimbursement of costs of resolution of covered assets from the FDIC, in FDIC loss sharing income in the consolidated statements of operations. The table below provides additional details of the Company s FDIC loss sharing income during the three and nine months ended September 30, 2012 and 2011 (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	2012	2011
FDIC indemnification asset accretion	$ (2,832)	$ (5,976)	$ (9,165)	$ (2,237)
Clawback liability amortization	(355)	(180)	(1,066)	(507)
Clawback liability remeasurement	(820)		247	(1,152)
Reimbursement to FDIC for gain on sale	(1,842)	(535)	(1,408)	(652)
Reimbursement to FDIC for recoveries	(2)	(1,181)	(3)	(1,204)
FDIC reimbursement of costs of resolution of covered assets	4,522	1,646	11,508	5,925
Total	$ (1,329)	$ (6,226)	$ 113	$ 173

Note 12 Stock-Based Compensation and Employee Benefits

The Company provides stock-based compensation in accordance with the NBH Holdings Corp. 2009 Equity Incentive Plan (the Plan). The Plan provides the compensation committee of the board of directors of the Company the authority to grant, from time to time, awards of options, stock appreciation rights, restricted stock, restricted stock units, stock awards, or stock bonuses to eligible persons. The aggregate number of shares of stock which may be granted under the Plan was 5,750,000 and the maximum number of restricted shares and restricted share units that may be granted was 1,725,000 at September 30, 2012.

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To date, the Company has issued stock options and restricted stock under the Plan. The compensation committee sets the option exercise price at the time of grant but in no case is the exercise price less than the fair market value of a share of stock at the date of grant. The Company used information provided by third parties, including independent valuation specialists, as required by the Plan, to assist in the determination of estimates regarding fair values associated with the Company s stock-based compensation issued prior to the Company s initial public offering and listing on a national exchange, including contemporaneous valuations of grant date fair values. The Company is responsible for the assumptions used therein and the resulting values.

The Company issued stock options and restricted stock during the nine months ended September 30, 2012. The expense associated with the awarded stock options was measured at fair value using a Black-Scholes option-pricing model. The time vesting component of the restricted stock was valued at the same price as the common shares since they are assumed to be held beyond the vesting period. The market vesting component of the restricted stock was valued using a Monte Carlo Simulation with 100,000 simulation paths to assess the expected percentage of vested shares. A Geometric Brownian Motion was used for simulating the equity prices for a period of 10 years and if the restricted stock were not vested during the 10-year period it was assumed they were forfeited.

Below are the weighted average assumptions used in the Black-Scholes option pricing model and the Monte Carlo Simulation to determine fair value of the Company s stock options and the market-vesting portion of the Company s restricted stock granted during the nine months ended September 30, 2012:

	Black-Scholes	**Monte Carlo**
Risk-free interest rate	1.06%	1.10%
Expected volatility	38.00%	38.00%
Expected term (years)	6	10
Dividend yield	0.00%	0.00%

At the time of issuance, the Company s shares were not yet publicly traded and 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 options, of 13 comparable companies with publicly traded shares. 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 and the dividend yield was assumed to be zero.

The following table summarizes the material vesting terms of the stock options granted in 2012:

	Number of Options Granted in 2012
Options are time-vested with 1/3 vesting on each of the first, second and third anniversary of the date of grant, and further subject to the Company s shares becoming publicly listed	240,000
Total options granted in 2012	240,000

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The following table summarizes option activity for the year ended December 31, 2011 and for the three months ended March 31, 2012, June 30, 2012 and September 30, 2012:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years	Aggregate Intrinsic Value
Outstanding at December 31, 2010	2,357,332	$ 20.00		$
Granted during the three months ended March 31, 2011	203,500	20.00		
Granted during the three months ended June 30, 2011	63,500	20.00		
Granted during the three months ended September 30, 2011	26,500	20.00		
Granted during the three months ended December 31, 2011	993,000	20.00		
Forfeited	(402,500)	20.00		
Surrendered		20.00		
Exercised		20.00		
Outstanding at December 31, 2011	3,241,332	$ 20.00	9.7	$
Granted during the three months ended March 31, 2012	215,000	20.00		
Granted during the three months ended June 30, 2012	25,000	20.00		
Granted during the three months ended September 30, 2012		20.00		
Forfeited	(38,000)	20.00		
Outstanding at September 30, 2012	3,443,332	$ 20.00	7.1	$
Options fully vested and exercisable at September 30, 2012	1,070,416	$ 20.00	7.2	
Options expected to vest	2,302,520	$ 20.00	7.0	

Options granted during the nine months ended September 30, 2012 had weighted average grant date fair values of $8.77.

Stock option expense is included in salaries and employee benefits in the accompanying consolidated statements of operations and totaled $3.9 million and $3.0 million, respectively, for the three months ended September 30, 2012 and 2011, and $5.9 million and $7.4 million for the nine months ended September 30, 2012 and 2011, respectively. The options to acquire 240,000 shares of common stock granted during the nine months ended September 30, 2012 and the options to acquire 993,000 shares of common stock granted during the fourth quarter of 2011 are subject to an additional vesting requirement of the Company s shares being publicly listed on a national exchange. In accordance with ASC Topic 718, the Company deferred recognition of the compensation expense on the grants that have vesting requirements tied to the Company s shares becoming listed on a national exchange subsequent to that vesting requirement being fulfilled, with an expense recognition catch-up for the portion of the expense that was deferred until that vesting criteria was met. As a result, no expense was recorded on these particular grants during the six months ended June 30, 2012 or during 2011. Upon listing on a national exchange in September 2012, the Company immediately recognized an expense catch-up for the portion of the expense that had been deferred until that vesting criterion was met. The deferred portion of expense related to stock option awards that have a public listing vesting requirement that was recognized during the three months ended September 30, 2012 was $2.8 million. At September 30, 2012, there was $3.7 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 0.8 years.

Restricted stock may also be issued under the Plan as described above. Compensation expense for the portion of the restricted stock that contains a market vesting condition is recognized over the derived service period based on the fair value of the awards on the grant date. Compensation expense for the portion of the restricted stock that contains performance and service vesting conditions is recognized over the requisite service period based on fair value of the awards on the grant date. The Company did not recognize any expense related to the restricted stock awards that have vesting requirements tied to the Company s shares becoming listed on a national exchange, but has recognized this expense subsequent to that vesting requirement being fulfilled, as described above.

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The following table summarizes restricted stock activity for the nine months ended September 30, 2012:

	Restricted Stock	Weighted Average Grant Date Fair Value
Unvested at December 31, 2011	1,108,334	$ 15.58
Vested	(33,542)	20.00
Granted	100,000	19.94
Forfeited	(5,000)	14.19
Surrendered		
Unvested at September 30, 2012	1,169,792	$ 15.83

As of September 30, 2012, there was $3.3 million of total unrecognized compensation cost related to non-vested restricted shares granted under the Plan. The cost is expected to be recognized over a weighted average period of 0.8 years. Expense related to restricted stock totaled $2.7 million and $2.9 million during the three months ended September 30, 2012 and 2011, respectively, and $5.0 million and $7.1 million during the nine months ended September 30, 2012 and 2011, respectively, and is included in salaries and employee benefits in the Company s unaudited consolidated statements of operations. The deferred portion of expense related to restricted stock awards that have a public listing vesting requirement that was recognized during the three months ended September 30, 2012 was $2.1 million.

Note 13 Warrants

At September 30, 2012 and December 31, 2011, the Company had 830,750 outstanding warrants to purchase Company stock. The warrants were granted to certain lead stockholders of the Company, all with an exercise price of $20.00 per share. The term of the warrants is for ten years from the date of grant and the expiration dates of the warrants range from October 20, 2019 to September 30, 2020. The fair value of the warrants was estimated to be $5.8 million and $6.9 million at September 30, 2012 and December 31, 2011, respectively. The fair value of the warrants was estimated using a Black-Scholes option pricing model utilizing the following assumptions at the indicated dates:

	September 30, 2012	December 31, 2011
Risk-free interest rate	1.13%	1.56%
Expected volatility	38.00%	34.93%
Expected term (years)	7-8	8-9
Dividend yield	1.03%	0.00%

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 18 comparable companies with publicly traded shares. The risk-free rate for the expected term of the warrants 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 based on the contractual term of the warrants. The dividend yield was assumed to be 1.027%.

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The Company recorded a benefit of $1.2 million and $0.0 during the three months ended September 30, 2012 and 2011, respectively. During the nine months ended September 30, 2012 and 2011, the Company recorded a benefit of $1.0 million and an expense of $0.8 million, respectively, in the unaudited consolidated statements of operations resulting from the change in fair value on the revaluation of the warrant liability.

Note 14 Common Stock

The Company had 46,232,050 shares of Class A common stock and 5,959,189 shares of Class B common stock outstanding as of September 30, 2012 and 44,612,344 shares of Class A common stock and 7,545,353 shares of Class B common stock outstanding as of December 31, 2011. Additionally, as of September 30, 2012 and December 31, 2011, respectively, the Company had 1,169,792 and 1,108,334 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 15 Income (Loss) Per Share

The Company had 52,191,239 and 51,936,280 shares issued and outstanding (inclusive of Class A & B) as of September 30, 2012 and 2011, respectively, inclusive of 250,000 shares of founders shares that were issued in 2009 at par value. Stock options, certain 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 the three and nine months ended September 30, 2012 and 2011. The Company also has Value Appreciation Rights (VAR s) issued to the FDIC in conjunction with the acquisition of Bank of Choice and Community Banks of Colorado that are potentially dilutive should the FDIC choose to settle this right in the Company s stock. The exercisability of the VAR s is contingent upon the Company having a triggering event 30 trading days following the public listing of its stock or a sale event, and as a result, the VAR s are not included in the calculations of diluted earnings per share.

The following table illustrates the computation of basic and diluted income per share for the three and nine months ended September 30, 2012 and 2011 (in thousands except earnings (loss) per share):

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	2012	2011
Basic earnings (loss) per share:				
Income (loss) available to common stockholders (numerator)	($ 7,891)	$ 33,752	($ 3,546)	$ 39,510
Weighted average common shares outstanding (denominator)	52,191	51,936	52,186	51,936
Basic earnings (loss) per share	$ (0.15)	$ 0.65	$ (0.07)	$ 0.76
Diluted earnings (loss) per share:				
Income (loss) available to common stockholders (numerator)	($ 7,891)	$ 33,752	($ 3,546)	$ 39,510
Weighted average common shares outstanding	52,191	51,936	52,186	51,936
Plus: effect of dilutive securities				
Restricted stock (with no performance restrictions)		307		303
Weighted average shares applicable to diluted earnings per share (denominator)	52,191	52,243	52,186	52,239
Diluted earnings (loss) per share	$ (0.15)	$ 0.65	$ (0.07)	$ 0.76

The Company had 3,443,332 and 2,620,832 outstanding stock options to purchase common stock at $20.00 per share at September 30, 2012 and 2011, 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 September 30, 2012 and 2011. The warrants have an exercise price of $20.00, which was out-of-the-money for purposes of dilution calculations. The Company had 1,174,792 and 1,299,168 restricted shares outstanding as of September 30, 2012 and 2011, 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 16 Commitments and Contingencies

Financial instrument commitments and contingencies

In the normal course of business, the Company enters into various off-balance sheet commitments to help meet the financing needs of clients. These financial instruments include commitments to extend credit, commercial and consumer lines of credit and standby letters of credit. The same credit policies are applied to these commitments as the loans on the consolidated statements of financial condition; however, these commitments involve varying degrees of credit risk in excess of the amount recognized in the consolidated statements of financial condition. At September 30, 2012 and December 31, 2011, the Company had loan commitments totaling $352.8 million and $341.1 million, respectively, and standby letters of credit that totaled $11.3 million and $20.0 million, respectively. The total amounts of unused commitments do not necessarily represent future credit exposure or cash requirements, as commitments often expire without being drawn upon. However, the contractual amount of these commitments represents the Company s potential credit loss exposure. Amounts funded at Hillcrest Bank and Community Banks of Colorado under non-cancelable commitments in effect at the date of acquisition are covered under the respective loss sharing agreements if certain conditions are met.

Total unfunded commitments at September 30, 2012 and December 31, 2011 were as follows (in thousands):

	September 30, 2012			December 31, 2011		
	Covered	Non Covered	Total	Covered	Non Covered	Total
Commitments to fund loans						
Residential	$	$ 75,679	$ 75,679	$ 1,517	$ 30,194	$ 31,711
Commercial and commercial real estate	1,966	45,120	47,086	2,437	38,937	41,374
Construction and land development	426	5,370	5,796	3,565	776	4,341
Consumer		1,503	1,503		39,690	39,690
Credit card lines of credit		17,135	17,135		20,738	20,738
Unfunded commitments under lines of credit	25,922	179,672	205,594	68,223	135,001	203,224
Commercial and standby letters of credit	4,114	7,228	11,342	3,051	16,986	20,037
Total	$ 32,428	$ 331,707	$ 364,135	$ 78,793	$ 282,322	$ 361,115

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

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

Unfunded commitments under lines of credit In the ordinary course of business, the Company extends revolving credit to its clients through the use of bank-issued credit cards. These arrangements may require the payment of a fee.

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

Contingencies

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

Note 17 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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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. The Company classified its U.S. Treasury securities as level 1 in the fair value hierarchy as of September 30, 2012 and December 31, 2011. When quoted market prices in active markets for identical assets or liabilities are not available, quoted prices of securities with similar characteristics, discounted cash flows or other pricing characteristics are used to estimate fair values and the securities are then classified as level 2. At September 30, 2012 and December 31, 2011, the Company s level 2 securities included asset backed securities, mortgage-backed securities comprised of residential mortgage pass-through securities, other residential mortgage-backed securities, and at December 31, 2011 also included other mortgage-backed securities, all of which were issued or guaranteed by U.S. Government agencies or sponsored enterprises. All other investment securities are classified as level 3. There were no transfers between levels 1 or 2 during the nine months ended September 30, 2012 or 2011.

Value appreciation rights issued to the FDIC The Company measures the fair value of the VAR on a recurring basis and is based on the spread between the strike price of the VAR and the average multiple of price to tangible book value indicated by national and regional bank indices, multiplied by the maximum number of applicable units.

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

Clawback liability The Company 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 agreements on a recurring basis. 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.

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The tables below present the financial instruments measured at fair value on a recurring basis as of September 30, 2012 (unaudited) and December 31, 2011 on the consolidated statements of financial condition utilizing the hierarchy structure described above (in thousands):

	September 30, 2012			
	Level 1	Level 2	Level 3	Total
Assets:				
Investment Securities available-for-sale:				
U.S. Treasury securities	$ 300	$	$	$ 300
Asset backed securities		92,867		92,867
Mortgage-backed securities (MBS):				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises		740,619		740,619
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises		905,427		905,427
Other securities			419	419
Total assets at fair value	$ 300	$ 1,738,913	$ 419	$ 1,739,632
Liabilities:				
Value appreciation rights issued to FDIC	$	$	$ 285	$ 285
Warrant liability			5,829	5,829
Clawback liability			30,813	30,813
Total liabilities at fair value	$	$	$ 36,927	$ 36,927

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Assets:				
Investment Securities available-for-sale:				
U.S. Treasury securities	$ 3,300	$	$	$ 3,300
U.S. Government sponsored agency obligations	3,010			3,010
Mortgage-backed securities (MBS):				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises		1,191,537		1,191,537
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises		643,625		643,625
Other MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises		20,808		20,808
Other securities			419	419
Total assets at fair value	$ 6,310	$ 1,855,970	$ 419	$ 1,862,699
Liabilities:				
Value appreciation rights issued to FDIC	$	$	$ 1,767	$ 1,767
Warrant liability			6,845	6,845
Clawback liability			29,994	29,994
Total liabilities at fair value	$	$	$ 38,606	$ 38,606

The table below details the changes in Level 3 financial instruments during the nine months ended September 30, 2012 (in thousands):

	Value appreciation rights issued to FDIC	Warrant liability	Clawback liability
Balance at December 31, 2011	$ 1,767	$ 6,845	$ 29,994
Change in value	(1,482)	(1,016)	
Accretion			1,066
Clawback revaluation			(247)
Net change in Level 3	(1,482)	(1,016)	819
Balance at September 30, 2012	$ 285	$ 5,829	$ 30,813

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Fair Value of Instruments Measured on a Non-recurring Basis

The Company records collateral dependent loans that are considered to be impaired at their estimated fair value. A loan is considered impaired when it is probable that the Company will be unable to collect all contractual amounts due in accordance with the terms of the loan agreement. Collateral dependent impaired loans are measured based on the fair value of the collateral. The Company relies on third-party appraisals and internal assessments in determining the estimated fair values of these loans. The inputs used to determine the fair values of loans are considered level 3 inputs in the fair value hierarchy. During the nine months ended September 30, 2012, the Company measured 14 loans not accounted for under ASC Topic 310-30 at fair value on a non-recurring basis. These loans carried specific reserves totaling $2.0 million. During the nine months ended September 30, 2012 the Company added specific reserves of $1.1 million for 4 loans within the commercial segment with carrying balances of $2.1 million and $0.3 million for 3 loans within the residential real estate segment with carrying balances of $0.7 million. In addition, specific reserves totaling $91 thousand were eliminated in the commercial real estate segment primarily due to two loans charged off totaling $0.6 million offset by a specific reserve totaling $0.5 million added for one loan.

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 $8.6 million of OREO impairments during the nine months ended September 30, 2012, of which $7.5 million, or 86.3%, were on OREO that was covered by loss sharing agreements with the FDIC. The fair values of OREO are derived from third party price opinions or appraisals that generally use an income approach or a market value approach. If reasonable comparable appraisals are not available, then the Company may use internally developed models to determine fair values. The inputs used to determine the fair values of OREO are considered level 3 inputs in the fair value hierarchy

The table below provides information regarding the assets recorded at fair value on a non-recurring basis during the nine months ended September 30, 2012 (in thousands):

	Nine months ended September 30, 2012				
	Level 1	Level 2	Level 3	Total	Losses From Fair Value Changes
Other real estate owned	$	$	$ 129,345	$ 129,345	$ (8,638)
Impaired loans	$	$	$ 37,556	$ 37,556	$ (14,169)

The Company did not record any liabilities for which the fair value was made on a non-recurring basis during the nine months ended September 30, 2012.

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The following table provides information about the valuation techniques and unobservable inputs used in the valuation of financial instruments falling within level 3 of the fair value hierarchy as of September 30, 2012 (in thousands):

	Fair Value at September 30, 2012	Valuation Technique	Unobservable Input	Quantitative measures
Other securities	$ 419	Cash investment in private equity fund	Cash investment	
Impaired loans	37,556	Appraised value	Appraised values	
			Discount rate	0-25%
Clawback liability	30,813	Contractually defined	Intrinsic loss estimates	$323.3 million - $405 million
		Discounted Cash Flows	Expected credit losses	
			Asset purchase premium	$98 million - $182.7 million
			Discount rate	4%
			Discount period	
Value appreciation rights issued to FDIC	285	Contractual	Tangible book value per share	
Warrant liability	5,829	Black-Scholes	Volatility	37% - 41%

Note 18 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.

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In connection with the Hillcrest Bank, Bank Midwest, Bank of Choice and Community Banks of Colorado acquisitions, the Company recorded all of the acquired assets and assumed liabilities at fair value at the respective dates of acquisition. The fair value of financial instruments at September 30, 2012 and December 31, 2011, including methods and assumptions utilized for determining fair value of financial instruments, are set forth below (in thousands):

	Level in Fair Value Measurement Hierarchy	September 30, 2012 Carrying Amount	September 30, 2012 Estimated Fair Value	December 31, 2011 Carrying Amount	December 31, 2011 Estimated Fair Value
ASSETS:					
Cash and cash equivalents	Level 1	$ 664,699	$ 664,699	$ 1,628,137	$ 1,628,137
U.S. Treasury securities available-for-sale	Level 1	300	300	3,300	3,300
U.S. Government sponsored agency obligations available-for-sale	Level 1			3,010	3,010
Asset backed securities available-for-sale	Level 2	92,867	92,867		
Mortgage-backed securities - residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises available-for-sale	Level 2	740,619	740,619	1,191,537	1,191,537
Mortgage-backed securities - other residential mortgage-backed securities issued or guaranteed by U.S. Government agencies or sponsored enterprises available-for-sale	Level 2	905,427	905,427	643,625	643,625
Mortgage-backed securities - other mortgage-backed securities issued or guaranteed by U.S. Government agencies or sponsored enterprises available-for-sale	Level 2			20,808	20,808
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	643,661	653,760	6,801	6,829
Capital stock of FHLB	Level 2	8,026	8,026	4,097	4,097
Capital stock of FRB	Level 2	25,020	25,020	25,020	25,020
Loans receivable	Level 3	1,920,303	1,933,431	2,262,525	2,272,886
Accrued interest receivable	Level 2	14,216	14,216	16,022	16,022
LIABILITIES:					
Deposit transaction accounts	Level 2	2,336,506	2,336,506	2,278,457	2,278,457
Time deposits	Level 2	1,945,218	1,937,469	2,784,596	2,790,314
Securities sold under agreements to repurchase	Level 2	46,192	46,192	47,597	47,597
Due to FDIC	Level 3	32,502	32,502	67,972	67,972
Warrant liability	Level 3	5,829	5,829	6,845	6,845
Accrued interest payable	Level 2	4,699	4,699	11,017	11,017

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 and covered loans

The estimated fair value of the loan portfolio is estimated using a discounted cash flow analysis using a discount rate based on interest rates currently being offered 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.

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 date, for deposits of similar remaining maturities.

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. The amounts due to the FDIC in connection with the value appreciation rights is fully described in note 4 of the Company s December 31, 2011 audited consolidated financial statements.

Warrant liability

The warrant liability is estimated using a Black-Scholes model, the assumptions of which are detailed in note 17.

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 and nine months ended September 30, 2012 and 2011, with our audited consolidated financial statements and related notes as of and for the years ended December 31, 2011 and 2010, and for the period from June 16, 2009 (date of inception) through December 31, 2009, as well as the statements of assets acquired and liabilities assumed for each of our acquisitions and with the other financial and statistical data previously filed 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 registration statement on Form S-1, 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.

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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 Class A 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 September 30, 2012, we had approximately $5.5 billion in assets, $4.3 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 become 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 the transactions to limit risk. We plan to achieve this through the acquisition of banking franchises from the FDIC and through conservatively structured unassisted transactions. 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- and mid-sized businesses and consumers, while maintaining a low risk profile designed to generate reliable income streams and attractive risk-adjusted 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.

Operating Highlights and Key Challenges

Prior to 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 acquisition due diligence. Our first full year with banking operations was 2011 and includes the results of operations of Hillcrest Bank and NBH Bank for the entire year, Bank of Choice from July 22, 2011 and Community Banks of Colorado from October 21, 2011. The nine months ended September 30, 2012 marked our first three full quarters with the operations of all four of our acquisitions. These operations resulted in the following highlights as of and for the nine months ended September 30, 2012:

Attractive risk profile.

As of September 30, 2012, 80.8%, or $1.6 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.

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As of September 30, 2012, 36.7%, or $711.0 million, of our total loans (by dollar amount) were covered by loss sharing agreements with the FDIC.

As of September 30, 2012, 49.9%, or $64.5 million, of our total other real estate owned (by dollar amount) was covered by loss sharing agreements with the FDIC.

Strong capital position.

As of September 30, 2012, our tier 1 leverage ratio was 17.7% and our tier 1 risk-based capital ratio was 51.6%.

As of September 30, 2012, we had approximately $375 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.

Tangible book value per share increased from $17.60 at December 31, 2010 to $19.10 at December 31, 2011 and to $19.30 at September 30, 2012.

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 $0.56 per share to our tangible book value per share as of September 30, 2012.

Foundation for loan growth.

As of September 30, 2012, we have over $1.0 billion of loans outstanding that are associated with a strategic client relationship.

Loans associated with our strategic client relationships had strong credit quality with less than 0.2% 90 days or more past due as of September 30, 2012.

For the nine months ended September 30, 2012, organic loan originations totaled $295 million, representing an increase of over three times from $85 million in the first nine months of 2011.

100% of the decrease in loans during the nine months ended September 30, 2012 was from the non-strategic portfolio.

Client deposit funded balance sheet.

As of September 30, 2012, total deposits made up 96.7% of our total liabilities.

Transaction deposit accounts increased from 45.0% of total deposits at December 31, 2011 to 54.6% as of September 30, 2012.

As of September 30, 2012, we did not have any brokered deposits.

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Attractive risk-adjusted returns and revenue streams.

For the nine months ended September 30, 2012, our adjusted pre-tax pre-provision net revenue was 3.08% of total risk weighted assets (for reconciliation, see About Non-GAAP Financial Measures).

Our average annual yield on our loan portfolio was 8.37% during the nine months ended September 30, 2012.

Cost of deposits declined 25 basis points during the nine months ended September 30, 2012 and has decreased 35 basis points from the third quarter of 2011 to the third quarter of 2012 due to the continued emphasis on our consumer banking strategy and lower cost transaction accounts.

Non-interest expense to average assets was 3.58% for the nine months ended September 30, 2012.

Integrated operating platform.

We have successfully integrated all of our acquired banks onto a common operating platform across our franchise.

During 2011 and early 2012, we completed the deployment of much of the cash received in our acquisitions into our investment securities portfolio. We also actively worked to resolve the troubled loans and OREO that we acquired through our acquisition of three failed banks. Accordingly, our continued steady resolution of troubled assets, coupled with loan payoffs, may offset loan originations in the near-term. As a result, we expect that our investment securities portfolio will continue to be one of the largest components of our balance sheet.

We have worked to actively grow our banking franchise and implement consistent lending policies and a technology infrastructure designed to support our acquisition strategy, provide for future growth and achieve operational efficiencies. This included the implementation of a scalable data processing and operating platform and hiring key personnel to execute our relationship banking strategy. In May and July 2012, we completed the integration of Community Banks of Colorado and Bank of Choice, respectively, onto our operating platform and we now have all of our operations on a common operating platform. We expect that the integration of these operations will provide additional efficiencies and enable us to support growth.

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 high quality borrowers.

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Broad economic conditions, including those in our core markets, remain strained and both commercial and residential real estate values remain under pressure, which may lead to continued deterioration in credit quality and further elevated levels of non-performing assets, ultimately having a negative impact on the quality of our loan portfolio. Excluding the new loan balances contributed by our two 2011 acquisitions, loan balances declined during the first nine months of 2012 and during 2011 due to the repayment and resolution of existing loans that have been outpacing organic loan growth resulting from curtailed real estate activities and constrained economic activity. 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 passage of 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 intend 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. Due to our short operating history, comparisons to our prior historical performance are limited, but are used to the extent practical.

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 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. Additionally, the majority of the loans and all of the OREO acquired in the Hillcrest Bank acquisition are covered by loss sharing agreements with the FDIC, and, as of the date of acquisition, approximately 61.8% of loans and 83.5% of OREO acquired in the Community Banks of Colorado acquisition were covered by a loss sharing agreement. As of September 30, 2012, 36.7% of our total loans and 49.9% of our OREO was covered by loss sharing agreements with the FDIC.

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Many of the loans that we acquired in the Hillcrest Bank, Bank of Choice and Community Banks of Colorado acquisitions had deteriorated credit quality at the respective dates of acquisition. These loans are accounted for under ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality.* As of September 30, 2012 and December 31, 2011, 50.1% and 57.5% of our loans were accounted for under this guidance. Loans accounted for under ASC Topic 310-30 may be considered performing upon and subsequent to acquisition, regardless of whether the client is contractually delinquent, if the timing and expected cash flows on such loans can be reasonably estimated and if collection of the new carrying value of such loans is expected.

Our evaluation of traditional credit quality metrics and the allowance for loan losses (ALL) levels 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, and may not be comparable to industry averages or to other financial institutions. 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.

Deposit balances We monitor our deposit levels by type, market and rate. Our loans are funded primarily 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. 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. 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

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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 high-yielding 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 Topic 310-30 as a result of a decrease in the net present value of the expected future cash flows during the periodic re-measurement 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 loss sharing income (expense), which consists of accretion of our FDIC indemnification asset and reimbursement of costs related to the resolution of covered assets, and amortization of our clawback liability. For additional information on our clawback liability, see Application of Critical Accounting Policies Acquisition Accounting Application and the Valuation of Assets Acquired and Liabilities Assumed 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 (expense) 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, and during the three months ended September 30, 2012, also included initial public offering expenses. 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 periods indicated:

Key Ratios (1)	**For the three months ended September 30, 2012**	For the three months ended June 30, 2012	For the three months ended September 30, 2011	**For the nine months ended September 30, 2012**	For the nine months ended September 30, 2011
Return on average assets	**-0.56%**	0.18%	2.49%	**-0.08%**	1.08%
Return on average tangible assets	**-0.51%**	0.25%	2.58%	**-0.03%**	1.15%
Adjusted return on average assets (2) (3)	**0.28%**	0.28%	0.30%	**0.26%**	0.42%
Adjusted return on average tangible assets (2) (3)	**0.34%**	0.34%	0.37%	**0.32%**	0.48%
Return on average equity	**-2.86%**	0.99%	12.28%	**-0.43%**	5.12%
Return on average tangible common equity	**-2.79%**	1.42%	13.52%	**-0.15%**	5.81%
Adjusted return on average equity (2) (3)	**1.45%**	1.48%	1.49%	**1.40%**	1.98%
Adjusted return on average tangible equity (2) (3)	**1.91%**	1.96%	1.88%	**1.86%**	2.40%
Return on risk weighted assets	**-1.65%**	0.55%	8.35%	**-0.25%**	3.29%
Pre-tax, pre-provision net revenue to risk weighted assets (2)	**-0.50%**	3.37%	14.39%	**1.74%**	6.65%
Adjusted pre-tax, pre-provision net revenue to risk weighted assets (2) (3)	**2.48%**	3.81%	2.17%	**3.08%**	3.28%
Interest earning assets to interest bearing liabilities (end of period) (4)	**133.44%**	130.30%	132.45%	**133.44%**	132.45%
Loans to deposits ratio (end of period)	**45.26%**	43.80%	38.71%	**45.26%**	38.71%
Non-interest bearing deposits to total deposits (end of period)	**15.15%**	14.00%	11.16%	**15.15%**	11.16%
Yield on earning assets (4)	**4.44%**	4.61%	4.15%	**4.56%**	4.16%
Cost of interest bearing liabilities (4)	**0.68%**	0.78%	1.04%	**0.79%**	1.21%
Interest rate spread (5)	**3.76%**	3.83%	3.11%	**3.77%**	2.95%
Net interest margin (6)	**3.92%**	4.00%	3.35%	**3.95%**	3.22%
Non-interest expense to average assets	**4.22%**	3.09%	3.45%	**3.58%**	3.00%
Adjusted non-interest expense to average assets (2) (3)	**3.22%**	2.94%	2.69%	**3.13%**	2.46%
Efficiency ratio (7)	**101.82%**	70.96%	43.44%	**84.25%**	56.28%
Adjusted efficiency ratio (2) (3)	**77.09%**	67.45%	78.18%	**73.72%**	67.34%
Asset Quality Data (8) (9) (10)					
Non-performing loans to total loans	**1.94%**	2.51%	2.49%	**1.94%**	2.49%
Covered non-performing loans to total non-performing loans	**19.98%**	15.59%	35.89%	**19.98%**	35.89%
Non-performing assets to total assets	**3.05%**	3.26%	2.53%	**3.05%**	2.53%
Covered non-performing assets to total non-performing assets	**43.12%**	45.41%	52.88%	**43.12%**	52.88%
Allowance for loan losses to total loans	**0.90%**	0.87%	0.48%	**0.90%**	0.48%
Allowance for loan losses to total non-covered loans	**1.43%**	1.42%	0.73%	**1.43%**	0.73%
Allowance for loan losses to non-performing loans	**46.52%**	34.69%	19.40%	**46.52%**	19.40%
Net charge-offs to average loans	**1.03%**	1.45%	0.24%	**1.25%**	0.77%
Consolidated Capital Ratios					
Total stockholders equity to total assets	19.84%	18.95%	20.44%	19.84%	20.44%
Tangible common equity to tangible assets (2) (11)	18.54%	17.67%	19.21%	18.54%	19.21%
Tier 1 leverage	17.70%	17.02%	18.30%	17.70%	18.30%

Tier 1 risk-based capital	51.51%	49.32%	59.82%	51.51%	59.82%
Total risk-based capital	17.70%	50.21%	60.31%	52.45%	60.31%

(1) Ratio is annualized.
(2) Ratio represents non-GAAP financial measure.
(3) Adjusted calculations exclude bargain purchase gains, initial public offering related expenses, stock based compensation expense (related to the initial public offering and those not related to the initial public offering), acquisition costs, and loss (gain) on sale of investment securities. Tax adjustments are calculated at a rate equal to the effective tax rate for each period, with the exception of the three and nine months ended September 30, 2012. These periods were calculated at a tax rate of 38.24%, which is adjusted for the effects of the non-deductibility of the expenses related to our initial public offering.
(4) Interest earning assets include assets that earn interest/accretion or dividends, except for the FDIC indemnification asset that earns 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 much be paid interest.
(5) Interest rate spread represents the difference between the weighted average yield on interest earning assets and the weighted average costs of interest bearing
(6) Net interest margin represents net interest income, including accretion income, as a percentage of average interest-earning assets.
(7) The efficiency ratio represents non-interest expense, less intangible asset amortization, as a percentage of net interest income plus non-interest income.
(8) Non-performing loans consists 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.
(9) Non-performing assets include non-performing loans, OREO and other repossessed assets.
(10) Total loans are net of unearned discounts and fees.
(11) Tangible common equity to tangible assets is a non-GAAP financial measure. For purposes of computing tangible common equity to tangible common assets, tangible common equity is calculated as common stockholders equity less goodwill and other intangible assets, net, and tangible assets is calculated as total assets less goodwill and other intangible assets, net. We believe that the most directly comparable GAAP financial measure is total stockholders equity to total assets. See the reconciliation under About Non-GAAP Financial Measures.

About Non-GAAP Financial Measures

Certain of the financial measures and ratios we present, including tangible common equity, tangible book value, tangible book value per share, and pre-tax, pre-provision net revenue to risk weighted assets 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.

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. First, certain non-GAAP financial measures exclude provisions for loan losses and income taxes, and both of these expenses significantly impact our financial statements. Additionally, 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 the following 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.

Below is a reconciliation of our non-GAAP financial measures to the comparable GAAP financial measures:

	September 30, 2012	June 30, 2012	September 30, 2011	December 31, 2011
Total stockholders equity	**$ 1,095,835**	$ 1,096,741	$ 1,094,558	$ 1,088,729
Less: goodwill	**(59,630)**	(59,630)	(52,442)	(59,630)
Less: intangibles	**(28,901)**	(30,255)	(29,385)	(32,923)
Tangible common equity	**$ 1,007,304**	$ 1,006,856	$ 1,012,731	$ 996,176
Total assets	**$ 5,522,826**	$ 5,789,075	$ 5,354,853	$ 6,352,026
Less: goodwill	**(59,630)**	(59,630)	(52,442)	(59,630)
Less: intangibles	**(28,901)**	(30,255)	(29,385)	(32,923)
Tangible assets	**$ 5,434,295**	$ 5,699,190	$ 5,273,026	$ 6,259,473
Total stockholders equity to total assets	**19.84%**	18.95%	20.44%	17.14%
Less: impact of goodwill	**-0.88%**	-0.85%	-0.79%	-0.79%
Less: impact of intangibles	**-0.42%**	-0.43%	-0.44%	-0.44%
Tangible common equity to tangible assets	**18.54%**	17.67%	19.21%	15.91%

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	For the three months ended September 30, 2012	For the three months ended June 30, 2012	For the three months ended September 30, 2011	For the nine months ended September 30, 2012	For the nine months ended September 30, 2011
Net income (loss)	**$ (7,891)**	$ 2,702	$ 33,752	**$ (3,546)**	$ 39,510
Less: bargain purchase gain, after tax			(36,589)		(36,589)
Add: impact of initial public offering related expenses	**7,566**	87	600	**7,974**	600
Add: impact of non initial public offering related stock-based compensation, after tax	**1,068**	1,261	3,536	**3,699**	8,749
Add: impact of initial public offering related stock-based compensation, after tax	**3,267**			**3,267**	
Add: impact of acquisition costs, after tax		9	2,309	**537**	2,595
Less:Gain (loss) on sale of investment securities, after tax			492	**(416)**	375
Adjusted net revenue, after tax	**$ 4,010**	$ 4,059	$ 4,100	**$ 11,515**	$ 15,240
Net income (loss)	**$ (7,891)**	$ 2,702	$ 33,752	**$ (3,546)**	$ 39,510
Add: impact of income taxes	**230**	1,733	20,648	**3,039**	23,868
Add: impact of provision	**5,263**	12,226	3,760	**25,325**	16,446
Pre-tax, pre-provision net income	**(2,398)**	16,661	58,160	**24,818**	79,824
Less: bargain purchase gain			(60,520)		(60,520)
Add: impact of initial public offering related expenses	**7,566**	87	600	**7,974**	600
Add: impact of non initial public offering related stock-based compensation	**1,730**	2,076	5,848	**5,988**	14,471
Add: impact of initial public offering related stock-based compensation	**4,934**			**4,934**	
Add: impact of acquisition costs		15	3,819	**870**	4,293
Less: gain (loss) on sale of investment securities			813	**(674)**	621
Adjusted pre-tax, pre-provision net revenue	**$ 11,832**	$ 18,839	$ 8,720	**$ 43,910**	$ 39,289
Non-interest expense	**59,957**	45,301	46,659	**158,231**	109,807
Less: impact of initial public offering related expenses	**(7,566)**	(87)	(600)	**(7,974)**	(600)
Less: impact of non initial public offering related stock-based compensation	**(1,730)**	(2,076)	(5,848)	**(5,988)**	(14,471)
Less: impact of initial public offering related stock-based compensation	**(4,934)**			**(4,934)**	
Less: impact of acquisition costs		(15)	(3,819)	**(870)**	(4,293)
Adjusted non-interest expense	**$ 45,727**	$ 43,123	$ 36,392	**$ 138,465**	$ 90,443

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	For the three months ended September 30, 2012	For the three months ended June 30, 2012	For the three months ended September 30, 2011	**For the nine months ended September 30, 2012**	For the nine months ended September 30, 2011
Return on average assets	**-0.56%**	0.18%	2.49%	**-0.08%**	1.08%
Less: bargain purchase gain, after tax	**0.00%**	0.00%	-2.70%	**0.00%**	-1.00%
Add: impact of initial public offering related expenses, after tax	**0.53%**	0.01%	0.04%	**0.18%**	0.02%
Add: impact of non initial public offering related stock-based compensation, after tax	**0.08%**	0.09%	0.26%	**0.08%**	0.24%
Add: impact of initial public offering related stock-based compensation, after tax	**0.23%**	0.00%	0.00%	**0.07%**	0.00%
Add: impact of acquisition costs, after tax	**0.00%**	0.00%	0.17%	**0.01%**	0.07%
Less: gain (loss) on sale of investment securities, after tax	**0.00%**	0.00%	0.04%	**-0.01%**	0.01%
Adjusted return on average assets	**0.28%**	0.28%	0.30%	**0.26%**	0.42%
Return on average tangible assets	**-0.51%**	0.25%	2.58%	**-0.03%**	1.15%
Less: bargain purchase gain, after tax	**0.00%**	0.00%	-2.74%	**0.00%**	-1.02%
Add: impact of initial public offering related expenses, after tax	**0.54%**	0.01%	0.04%	**0.18%**	0.02%
Add: impact of non initial public offering related stock-based compensation, after tax	**0.08%**	0.09%	0.27%	**0.08%**	0.24%
Add: impact of initial public offering related stock-based compensation, after tax	**0.23%**	0.00%	0.00%	**0.07%**	0.00%
Add: impact of acquisition costs, after tax	**0.00%**	0.00%	0.17%	**0.01%**	0.07%
Less: gain (loss) on sale of investment securities, after tax	**0.00%**	0.00%	0.04%	**-0.01%**	0.01%
Adjusted return on average tangible assets	**0.34%**	0.34%	0.37%	**0.32%**	0.48%
Return on average equity	**-2.86%**	0.99%	12.28%	**-0.43%**	5.12%
Less: bargain purchase gain, after tax	**0.00%**	0.00%	-13.32%	**0.00%**	-4.74%
Add: impact of initial public offering related expenses, after tax	**2.74%**	0.03%	0.22%	**0.97%**	0.08%
Add: impact of non initial public offering related stock-based compensation, after tax	**0.39%**	0.46%	1.29%	**0.45%**	1.13%
Add: impact of initial public offering related stock-based compensation, after tax	**1.18%**	0.00%	0.00%	**0.40%**	0.00%
Add: impact of acquisition costs, after tax	**0.00%**	0.00%	0.84%	**0.07%**	0.34%
Less: gain (loss) on sale of investment securities, after tax	**0.00%**	0.00%	0.18%	**-0.05%**	0.05%
Adjusted return on average equity	**1.45%**	1.48%	1.49%	**1.40%**	1.98%
Return on average tangible equity	**-2.79%**	1.42%	13.52%	**-0.15%**	5.81%
Less: bargain purchase gain, after tax	**0.00%**	0.00%	-14.37%	**0.00%**	-5.14%
Add: impact of initial public offering related expenses, after tax	**2.98%**	0.04%	0.24%	**1.06%**	0.08%
Add: impact of non initial public offering related stock-based compensation, after tax	**0.42%**	0.51%	1.39%	**0.49%**	1.23%
Add: impact of initial public offering related stock-based compensation, after tax	**1.29%**	0.00%	0.00%	**0.43%**	0.00%
Add: impact of acquisition costs, after tax	**0.00%**	0.00%	0.91%	**0.07%**	0.36%
Less: gain (loss) on sale of investment securities, after tax	**0.00%**	0.00%	0.19%	**-0.06%**	0.05%

Adjusted return on average tangible equity	**1.91%**	1.96%	1.88%	**1.86%**	2.40%
Net income to risk weighted assets	**-1.65%**	0.55%	8.35%	**-0.25%**	3.29%
Add: impact of income taxes	**0.05%**	0.35%	5.11%	**0.21%**	1.99%
Add: impact of provision	**1.10%**	2.47%	0.93%	**1.78%**	1.37%
Pre-tax, pre-provision net revenue to risk weighted assets	**-0.50%**	3.37%	14.39%	**1.74%**	6.65%
Less: bargain purchase gain	**0.00%**	0.00%	-14.96%	**0.00%**	-5.04%
Add: impact of initial public offering related expenses	**1.58%**	0.02%	0.15%	**0.56%**	0.05%
Add: impact of non initial public offering related stock-based compensation	**0.36%**	0.42%	1.45%	**0.42%**	1.21%
Add: impact of initial public offering related stock-based compensation	**1.03%**	0.00%	0.00%	**0.35%**	0.00%
Add: impact of acquisition costs	**0.00%**	0.00%	0.94%	**0.06%**	0.36%
Less: gain (loss) on sale of investment securities	**0.00%**	0.00%	0.20%	**-0.05%**	0.05%
Adjusted pre-tax, pre-provision net revenue to risk weighted assets	**2.48%**	3.81%	2.17%	**3.08%**	3.28%
Non-interest expense to average assets	**4.22%**	3.09%	3.45%	**3.58%**	3.00%
Add: impact of initial public offering related expenses	**-0.53%**	-0.01%	-0.04%	**-0.18%**	-0.02%
Add: impact of non initial public offering related stock-based compensation	**-0.12%**	-0.14%	-0.44%	**-0.14%**	-0.40%
Add: impact of initial public offering related stock-based compensation	**-0.35%**	0.00%	0.00%	**-0.11%**	0.00%
Less: impact of acquisition costs	**0.00%**	0.00%	-0.28%	**-0.02%**	-0.12%
Adjusted non-interest expense to average assets	**3.22%**	2.94%	2.69%	**3.13%**	2.46%
Efficiency ratio	**101.82%**	70.96%	43.44%	**84.25%**	56.28%
Less: bargain purchase gain	**0.00%**	0.00%	57.83%	**0.00%**	26.16%
Add: impact of initial public offering related expenses	**-13.14%**	-0.14%	-1.33%	**-4.37%**	-0.46%
Add: impact of non initial public offering related stock-based compensation	**-3.00%**	-3.35%	-12.96%	**-3.28%**	-11.15%
Add: impact of initial public offering related stock-based compensation	**-8.57%**	0.00%	0.00%	**-2.71%**	0.00%
Add: impact of acquisition costs	**0.00%**	-0.02%	-8.47%	**-0.48%**	-3.31%
Less: gain (loss) on sale of investment securities	**0.00%**	0.00%	-0.33%	**0.31%**	-0.18%
Adjusted efficiency ratio	**77.09%**	67.45%	78.18%	**73.72%**	67.34%

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 our registration statement on Form S-1, and are further analyzed with other significant accounting policies in Note 2 to the Summary of Significant Accounting Policies in the notes to the audited consolidated financial statements for the year ended December 31, 2011.

Implications of and Elections Under the JOBS Act

National Bank Holdings Corporation qualifies as an emerging growth company under the Jumpstart Our Business Act (JOBS Act.) Pursuant to the JOBS Act, an emerging growth company 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. We have elected to opt out of such extended transition period, which election is irrevocable.

Although we are still evaluating the JOBS Act, we may take advantage of some or all of the reduced regulatory and reporting requirements that will be available to us so long as we qualify 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.

Financial Condition

Total assets at September 30, 2012 were $5.5 billion compared to $6.4 billion at December 31, 2011, a decrease of $0.9 billion. The decrease in total assets was largely driven by a decrease in non-strategic loan balances of $337.1 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 $295 million of loans during the nine months ended September 30, 2012, which offset normal client payments and sustained the loan balances in our strategic portfolio. We coupled the overall loan balance decrease with a $781.3 million decrease in total deposits, as we rolled off high-priced time deposits that we assumed in our FDIC-assisted acquisitions 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 $1.0 billion of investment securities during the nine months ended September 30, 2012. Our FDIC indemnification asset decreased $110.2 million during the nine months ended September 30, 2012 as a result of continued progress on our acquired problem loan resolutions and an increase in actual and expected cash flows on our covered assets. These increases in cash flows also contributed to a net reclassification of $38.6 million of non-accretable difference to accretable yield during the period, which will be accreted to income over the remaining life of those loans.

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Investment Securities

Available-for-sale

Total investment securities available-for-sale were $1.7 billion at September 30, 2012, compared to $1.9 billion at December 31, 2011, a decrease of $0.2 billion, or 6.61%. During the first quarter of 2012, we re-evaluated the securities in our available-for-sale investment portfolio and identified securities that we now intend to hold until maturity. The securities that were transferred included residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises with a collective amortized cost of approximately $715.2 million and net unrealized gains of approximately $39 million on the date of transfer. These securities were classified as available-for-sale at December 31, 2011. During the nine months ended September 30, 2012, we also purchased $1.0 billion of available-for-sale securities, which was partially offset by $466.6 million of maturities and paydowns. The purchases included mortgage backed securities and asset backed securities. Our available-for-sale investment securities portfolio is summarized as follows for the periods indicated (in thousands):

	September 30, 2012				December 31, 2011			
	Amortized Cost	Fair Value	Percent of Portfolio	Weighted Average Yield Earned Year-to-Date	Amortized Cost	Fair Value	Percent of Portfolio	Weighted Average Yield Earned Year-to-Date
U.S. Treasury securities	$ 300	$ 300	0.02%	0.13%	$ 3,300	$ 3,300	0.18%	0.27%
U.S. Government sponsored agency and government sponsored enterprises obligations					3,009	3,010	0.16%	0.63%
Asset backed securities	92,689	92,867	5.34%	0.61%				
Mortgage-backed securities (MBS):								
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	717,238	740,619	42.57%	2.10%	1,139,058	1,191,537	63.97%	3.21%
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	885,165	905,427	52.05%	2.35%	620,122	643,625	34.55%	2.97%
Other MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises					20,123	20,808	1.12%	2.73%
Other securities	419	419	0.02%	0.00%	419	419	0.02%	0.00%
Total investment securities available-for-sale	$ 1,695,811	$ 1,739,632	100.00%	2.14%	$ 1,786,031	$ 1,862,699	100.00%	3.11%

As of September 30, 2012, approximately 94.6% 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.

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At September 30, 2012, adjustable rate securities comprised 12.3% 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 3.0% per annum.

During the nine months ended September 30, 2012, we sold approximately $20.8 million of available-for-sale investment securities, all of which occurred during the first quarter. The sale was comprised of one fixed-rate collateralized mortgage obligation backed by commercial property. We realized a gross gain of $674 thousand on the sale of the security, which is included in gain on sale of securities, net in the accompanying consolidated statements of operations.

During the three and nine months ended September 30, 2011, we sold approximately $122.2 million and $238.2 million, respectively, of available-for-sale investment securities. We realized losses on the sale of these securities of $0.8 million and $0.6 million during the three and nine months ended September 30, 2011, respectively, which is included in gain (loss) on sale of securities in the accompanying consolidated statements of operations.

The available-for-sale investment portfolio included $43.8 million and $76.7 million of net unrealized gains, inclusive of $243 thousand and $1 thousand of unrealized losses, at September 30, 2012 and December 31, 2011, 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 September 30, 2012 (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	$ 300	0.13%	$	0.00%	$	0.00%	$	0.00%	$	0.00%	$ 300	0.13%
U.S. Government sponsored agency obligations		0.00%		0.00%		0.00%		0.00%		0.00%		0.00%
Asset backed securities		0.00%	92,867	0.61%		0.00%		0.00%		0.00%	92,867	0.61%
Mortgage-backed securities (MBS):												
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises		0.00%	5	1.98%	266,582	1.78%	474,032	2.19%		0.00%	740,619	2.10%
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises		0.00%		0.00%	14,029	2.81%	891,398	2.34%		0.00%	905,427	2.35%
Other MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises		0.00%		0.00%		0.00%		0.00%		0.00%		0.00%
Other securities									419		419	
Total	$ 300	0.13%	$ 92,872	0.61%	$ 280,611	1.83%	$ 1,365,430	2.29%	$ 419		$ 1,739,632	2.14%

The estimated weighted average life of the available-for-sale MBS portfolio as of September 30, 2012 and December 31, 2011 was 3.4 years and 3.4 years, respectively. This estimate is based on various assumptions, including repayment characteristics, and actual results may differ. The U.S. Treasury securities have contractual maturities of less than one year. As of September 30, 2012, the duration of the total available-for-sale investment portfolio was 3.1 years and the asset backed securities portfolio within the available-for-sale investment portfolio had a duration of 0.7 years.

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Held-to-maturity

At September 30, 2012, we held $643.7 million of held-to-maturity investment securities. As previously discussed, during the first quarter of 2012, we re-evaluated the securities in our available-for-sale investment portfolio and identified securities that we now intend to hold until maturity. We transferred residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises with a collective amortized cost of approximately $715.2 million and unrealized gains of approximately $39 million on the date of transfer. These securities were classified as available-for-sale at December 31, 2011. During the nine months ended September 30, 2012, we also purchased $2.2 million of held-to-maturity securities.

At December 31, 2011 the Company held $6.8 million of held-to-maturity investment securities, of which $3.2 million were purchased by the Company under the classification of available-for-sale and transferred to the held-to-maturity classification and $3.6 million were purchased under the classification of held-to-maturity. Held-to-maturity investment securities are summarized as follows as of the dates indicated (in thousands):

	September 30, 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	$ 643,661	$ 653,760	100.00%	3.60%
Total investment securities held-to-maturity	$ 643,661	$ 653,760	100.00%	3.60%

	December 31, 2011			
	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	$ 6,801	$ 6,829	100.00%	2.44%
Total investment securities held-to-maturity	$ 6,801	$ 6,829	100.00%	