National Bank Holdings Corp
Form 10-Q
August 13, 2013

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

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2013
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-35654

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

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

7800 East Orchard, Suite 300, Greenwood Village, Colorado 80111
(Address of principal executive offices) (Zip Code)
Registrant's telephone, including area code: (720) 529-3336

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý 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 ý
APPLICABLE ONLY TO CORPORATE ISSUERS:
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.
As of August 9, 2013, NBHC had outstanding 45,409,579 shares of Class A voting common stock and 5,967,619 shares of Class B non-voting common stock, each with $0.01 par value per share.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

- our ability to execute our business strategy, as well as changes in our business strategy or development plans;
- business and economic conditions generally and in the financial services industry;
- economic, market, operational, liquidity, credit and interest rate risks associated with our business;
- effects of any changes in trade, monetary and fiscal policies and laws, including the interest rate policies of the Federal Reserve Board;
- changes imposed by regulatory agencies to increase our capital to a level greater than the current level required for well-capitalized financial institutions (including the impact of the recent joint final rules promulgated by the Federal Reserve Board, Office of the Comptroller of the Currency and the FDIC revising certain regulatory capital requirements to align with the Basel III capital standards and meet certain requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act);
- effects of inflation, as well as, interest rate, securities market and monetary supply fluctuations;
- changes in the economy or supply-demand imbalances affecting local real estate values;
- changes in consumer spending, borrowings and savings habits;
- our ability to identify potential candidates for, obtain regulatory approval, and consummate, acquisitions of financial institutions on attractive terms, or at all;
- our ability to integrate acquisitions and to achieve synergies, operating efficiencies and/or other expected benefits within expected time-frames, or at all, or within expected cost projections, and to preserve the goodwill of acquired financial institutions;
- our ability to achieve organic loan and deposit growth and the composition of such growth;
- changes in sources and uses of funds, including loans, deposits and borrowings;
- increased competition in the financial services industry, nationally, regionally or locally, resulting in, among other things, lower risk-adjusted returns;
- the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters;
- continued consolidation in the financial services industry;
- our ability to maintain or increase market share and control expenses;
- costs and effects of changes in laws and regulations and of other legal and regulatory developments, including, but not limited to, changes in regulation that affect the fees that we charge, the resolution of legal proceedings or regulatory or other governmental inquiries, and the results of regulatory examinations, reviews or other inquires.
- technological changes;
- the timely development and acceptance of new products and services and perceived overall value of these products and services by our clients;

- changes in our management personnel and our continued ability to hire and retain qualified personnel;
- ability to implement and/or improve operational management and other internal risk controls and processes and our reporting system and procedures;
- inability to receive dividends from our subsidiary bank and to pay dividends to our common stockholders and satisfy obligations as they become due;
- changes in estimates of future loan reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements;
- political instability, acts of war or terrorism and natural disasters;
- impact of reputational risk on such matters as business generation and retention; and

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

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

PART I: FINANCIAL INFORMATION
Item 1: FINANCIAL STATEMENTS
NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Financial Condition (Unaudited)
(In thousands, except share and per share data)

	June 30, 2013	December 31, 2012
ASSETS		
Cash and due from banks	$62,095	$90,505
Due from Federal Reserve Bank of Kansas City	190,072	579,267
Interest bearing bank deposits	50,589	99,408
Cash and cash equivalents	302,756	769,180
Securities purchased under agreements to resell	100,000	—
Investment securities available-for-sale (at fair value)	2,046,536	1,718,028
Investment securities held-to-maturity (fair value of $586,830 and $584,551 at June 30, 2013 and December 31, 2012, respectively)	592,661	577,486
Non-marketable securities	31,775	32,996
Loans (including covered loans of $453,805 and $608,222 at June 30, 2013 and December 31, 2012, respectively)	1,723,287	1,832,702
Allowance for loan losses	(11,847)	(15,380)
Loans, net	1,711,440	1,817,322
Loans held for sale	6,288	5,368
Federal Deposit Insurance Corporation (“FDIC”) indemnification asset, net	59,883	86,923
Other real estate owned	79,299	94,808
Premises and equipment, net	120,746	121,436
Goodwill	59,630	59,630
Intangible assets, net	24,902	27,575
Other assets	84,772	100,023
Total assets	$5,220,688	$5,410,775
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing demand deposits	$667,786	$677,985
Interest bearing demand deposits	476,215	529,996
Savings and money market	1,246,760	1,240,020
Time deposits	1,596,966	1,752,718
Total deposits	3,987,727	4,200,719
Securities sold under agreements to repurchase	122,879	53,685
Due to FDIC	31,245	31,271
Other liabilities	34,594	34,541
Total liabilities	4,176,445	4,320,216
Stockholders’ equity:		
Common stock, par value $0.01 per share: 400,000,000 shares authorized; 52,463,641 and 53,279,579 shares issued; 51,377,198 and 52,327,672 shares outstanding at June 30, 2013 and December 31, 2012, respectively	514	523
Additional paid in capital	991,538	1,006,194
Retained earnings	42,941	43,273
Treasury stock of 240 shares at December 31, 2012, at cost	—	(4)
Accumulated other comprehensive income, net of tax	9,250	40,573

Total stockholders' equity	1,044,243	1,090,559
Total liabilities and stockholders' equity	$5,220,688	$5,410,775

See accompanying notes to the unaudited consolidated interim financial statements.

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations (Unaudited)
(In thousands, except share and per share data)

	For the three months ended June 30,		For the six months ended June 30,	
	2013	2012	2013	2012
Interest and dividend income:				
Interest and fees on loans	$34,320	$42,594	$70,455	$89,185
Interest and dividends on investment securities	13,596	16,454	26,844	31,560
Dividends on non-marketable securities	388	384	782	765
Interest on interest-bearing bank deposits	174	413	495	1,225
Total interest and dividend income	48,478	59,845	98,576	122,735
Interest expense:				
Interest on deposits	4,171	7,900	8,682	17,503
Interest on borrowings	20	32	38	61
Total interest expense	4,191	7,932	8,720	17,564
Net interest income before provision for loan losses	44,287	51,913	89,856	105,171
Provision for loan losses	1,670	12,226	3,087	20,062
Net interest income after provision for loan losses	42,617	39,687	86,769	85,109
Non-interest income:				
FDIC indemnification asset accretion	(2,966)	(2,646)	(7,635)	(6,333)
FDIC loss sharing income	1,193	4,076	4,469	7,775
Service charges	3,923	4,328	7,610	8,704
Bank card fees	2,558	2,383	5,027	4,684
Gain on sales of mortgages, net	474	294	780	603
Gain on sale of securities, net	—	—	—	674
Gain on previously charged-off acquired loans	451	257	894	1,790
Other non-interest income	1,691	1,357	3,330	2,422
Total non-interest income	7,324	10,049	14,475	20,319
Non-interest expense:				
Salaries and employee benefits	23,768	22,631	46,724	45,044
Occupancy and equipment	5,870	4,738	11,835	9,275
Professional fees	858	3,272	2,254	5,943
Telecommunications and data processing	3,286	3,488	6,755	7,219
Marketing and business development	732	1,612	2,111	2,530
Supplies and printing	498	828	854	1,207
Other real estate owned expenses	2,497	63	7,216	8,684
Problem loan expenses	896	2,726	3,227	4,437
Intangible asset amortization	1,337	1,331	2,673	2,667
FDIC deposit insurance	1,006	1,161	2,053	2,512
ATM/debit card expenses	1,107	1,223	2,112	1,998
Initial public offering related expenses	—	87	—	408
Acquisition related costs	—	15	—	870
Loss (gain) from the change in fair value of warrant liability	324	(589)	(303)	137
Other non-interest expense	3,051	2,715	5,603	5,343
Total non-interest expense	45,230	45,301	93,114	98,274
Income before income taxes	4,711	4,435	8,130	7,154
Income tax expense	1,813	1,733	3,150	2,809
Net income	$2,898	$2,702	$4,980	$4,345
Income per share—basic	$0.06	$0.05	$0.10	$0.08

Income per share—diluted	$0.06	$0.05	$0.10	$0.08
Weighted average number of common shares outstanding:				
Basic	52,055,434	52,191,239	52,187,295	52,184,051
Diluted	52,081,326	52,319,170	52,213,193	52,311,348

See accompanying notes to the unaudited consolidated interim financial statements.

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Loss) (Unaudited)
(In thousands)

	For the three months ended June 30,		For the six months ended June 30,	
	2013	2012	2013	2012
Net income	$2,898	$2,702	$4,980	$4,345
Other comprehensive income (loss), net of tax:				
Securities available-for-sale:				
Net unrealized gains (losses) arising during the period, net of tax benefit (expense) of $15,838 and ($1,549) for the three months ended June 30, 2013 and 2012, respectively; and net of tax benefit (expense) of $17,711 and ($847) for the six months ended June 30, 2013 and 2012, respectively.	(25,300)	2,488	(27,801)	1,733
Reclassification adjustment for net securities gains included in net income, net of tax expense of $263 for the six months ended June 30, 2012.	—	—	—	(411)
Reclassification adjustment for net unrealized holding gains on securities transferred between available-for-sale and held-to-maturity, net of tax expense of $15,159 for the six months ended June 30, 2012.	—	—	—	(23,711)
	(25,300)	$2,488	(27,801)	$(22,389)
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 expense of $15,159 for the six months ended June 30, 2012.	—	—	—	23,711
Less: amortization of net unrealized holding gains to income, net of tax benefit of $987 and $1,182 for the three months ended June 30, 2013 and 2012, respectively; and net of tax benefit of $2,205 and $1,182 for the six months ended June 30, 2013 and 2012, respectively.	(1,577)	(1,913)	(3,522)	(1,913)
	(1,577)	(1,913)	(3,522)	21,798
Other comprehensive income (loss)	(26,877)	575	(31,323)	(591)
Comprehensive income (loss)	$(23,979)	$3,277	$(26,343)	$3,754

See accompanying notes to the unaudited consolidated interim financial statements.

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity (Unaudited)
Six Months Ended June 30, 2013 and 2012
(In thousands, except share and per share data)

	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Accumulated other comprehensive income, net	Total
Balance, December 31, 2011	$522	$994,705	$46,480	$—	$ 47,022	$1,088,729
Net income	—	—	4,345	—	—	4,345
Stock-based compensation	—	4,258	—	—	—	4,258
Other comprehensive loss	—	—	—	—	(591)	(591)
Balance, June 30, 2012	522	998,963	50,825	—	46,431	1,096,741
Balance, December 31, 2012	523	1,006,194	43,273	(4)	40,573	1,090,559
Net income	—	—	4,980	—	—	4,980
Stock-based compensation	—	2,667	—	—	—	2,667
(Repurchase) /retirement of shares	(9)	(17,323)	—	4	—	(17,328)
Dividends paid ($0.10 per share)	—	—	(5,312)	—	—	(5,312)
Other comprehensive loss	—	—	—	—	(31,323)	(31,323)
Balance, June 30, 2013	$514	$991,538	$42,941	$—	$ 9,250	$1,044,243

See accompanying notes to the unaudited consolidated interim financial statements.

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)
(In thousands)

	For the six months ended June 30, 2013	2012
Cash flows from operating activities:		
Net income	$4,980	$4,345
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for loan losses	3,087	20,062
Depreciation and amortization	7,683	5,596
Gain on sale of securities, net	—	(674)
Current income tax expense	3,721	—
Deferred income tax benefit	(10,445)	(2,965)
Discount accretion, net of premium amortization	10,274	2,375
Loan accretion	(46,210)	(66,135)
Net gain on sale of mortgage loans	(780)	(603)
Origination of loans held for sale	(32,678)	(26,893)
Proceeds from sales of loans held for sale	31,734	26,476
Amortization of indemnification asset	7,635	6,333
Gain on the sale of other real estate owned, net	(3,932)	(4,040)
Impairment on other real estate owned	7,148	7,213
Stock-based compensation	2,667	4,258
Decrease in due to FDIC, net	(26)	(33,981)
Decrease (increase) in other assets	(3,530)	(1,261)
Decrease in other liabilities	(3,995)	(26,349)
Net cash used in operating activities	(22,667)	(86,243)
Cash flows from investing activities:		
Purchase of FHLB of Des Moines stock	—	(4,018)
Sale of FHLB stock	1,221	—
Purchase of FRB stock	—	59
Sales of investment securities available-for-sale	—	20,794
Maturities of investment securities held-to-maturity	107,338	53,156
Maturities of investment securities available-for-sale	314,954	220,487
Purchase of investment securities held-to-maturity	(127,784)	(2,234)
Purchase of investment securities available-for-sale	(693,977)	(936,281)
Increase in securities purchased under agreements to resell	(100,000)	—
Net decrease in loans	124,430	304,587
Purchase of premises and equipment	(4,320)	(33,831)
Proceeds from sales of other real estate owned	37,672	35,851
Decrease in FDIC indemnification asset	63,052	27,715
Net cash used in investing activities	(277,414)	(313,715)
Cash flows from financing activities:		
Net decrease in deposits	(212,992)	(533,504)
Increase in repurchase agreements	69,194	9,911
Payment of dividends	(5,217)	—
Repurchase of shares	(17,328)	—
Net cash used in financing activities	(166,343)	(523,593)
Decrease in cash and cash equivalents	(466,424)	(923,551)
Cash and cash equivalents at beginning of the year	769,180	1,628,137

Cash and cash equivalents at end of period	$302,756	$704,586
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$9,241	$22,048
Cash paid during the period for taxes	$9,892	$20,441

Supplemental schedule of non-cash investing activities:		
Loans transferred to other real estate owned at fair value	$25,379	$56,100
FDIC indemnification asset claims transferred to other assets	$21,049	$74,075
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)
June 30, 2013

Note 1 Basis of Presentation

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

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

The Company's significant accounting policies followed in the preparation of the consolidated financial statements are disclosed in Note 2 of the audited financial statements and notes for the year ended December 31, 2012 are contained in the Company's Annual Report on Form 10-K, referenced above. During the six months ended June 30, 2013, the Company began entering into agreements with certain financial institutions whereby the Company purchases securities under agreements to resell as of a specified future date at a specified price plus accrued interest. The securities purchased under agreements to resell are carried at the contractual amounts at which the securities will subsequently be resold, including accrued interest. The securities purchased under agreement to resell are subject to a master netting arrangement; however, the Company has not offset any of the amounts shown in the consolidated financial statements. The securities are pledged as collateral by the counterparties and are held by a third party custodian. The collateral is valued daily and additional collateral may be obtained or refunded as necessary to maintain full collateralization of these transactions. There have been no other significant changes to the application of significant accounting policies since December 31, 2012.

GAAP requires management to make estimates that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. By their nature, estimates are based on judgment and available information. Management has made significant estimates in certain areas, such as the amount and timing of expected cash flows from assets, the valuation of the FDIC indemnification asset and clawback liability, the valuation of other real estate owned (“OREO”), the fair value adjustments on assets acquired and liabilities assumed, the valuation of core deposit intangible assets, the deferred tax assets, the evaluation of investment securities for other-than-temporary impairment (“OTTI”), the fair values of financial instruments, the allowance for loan losses

(“ALL”), and contingent liabilities. Because of the inherent uncertainties associated with any estimation process and future changes in market and economic conditions, it is possible that actual results could differ significantly from those estimates.

Note 2 Recent Accounting Pronouncements

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income—In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-02, Comprehensive Income-Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This guidance requires entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component. Entities are also required to present significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required to be reclassified to net income in its entirety in the same accounting period. Other amounts that are not required to be reclassified to net income are to be cross-referenced to other disclosures that provide additional detail about those amounts. The Company was required to adopt this update in 2013 with retrospective application. Adoption of this update affects the presentation of the components of comprehensive income in the

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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
June 30, 2013

Company's financial statements, but did not have an impact on the Company's consolidated statements of financial condition, results of operations or liquidity.

Note 3 Investment Securities
The Company's investment securities portfolio is comprised of available-for-sale and held-to-maturity investment securities. These investment securities totaled $2.6 billion at June 30, 2013, an increase from $2.3 billion at December 31, 2012. Included in the aforementioned $2.6 billion was $2.0 billion of available-for-sale securities and $0.6 billion of held-to-maturity securities.
Available-for-sale
Available-for-sale investment securities are summarized as follows as of the dates indicated (in thousands):

	June 30, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Asset backed securities	$43,568	$10	$—	$43,578
Mortgage-backed securities ("MBS"):				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	553,871	8,376	(2,112)	560,135
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	1,456,908	12,706	(27,210)	1,442,404
Other securities	419	—	—	419
Total	$2,054,766	$21,092	$(29,322)	$2,046,536

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

At June 30, 2013 and December 31, 2012, mortgage-backed securities represented 97.9% and 94.7%, respectively, of the Company's available-for-sale investment portfolio and all mortgage-backed securities were backed by government sponsored enterprises ("GSE") collateral such as Federal Home Loan Mortgage Corporation ("FHLMC") and Federal National Mortgage Association ("FNMA"), and the government sponsored agency Government National Mortgage Association ("GNMA").

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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
June 30, 2013

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

	June 30, 2013					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities ("MBS"):						
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$264,915	$(2,111)	$15	$(1)	$264,930	$(2,112)
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	1,010,827	(27,210)	—	—	1,010,827	(27,210)
Total	$1,275,742	$(29,321)	$15	$(1)	$1,275,757	$(29,322)

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

Management evaluated all of the securities in an unrealized loss position and concluded that no other-than-temporary-impairment existed at June 30, 2013 or December 31, 2012. The Company had no intention to sell these securities before recovery of their amortized cost and believes it will not be required to sell the securities before the recovery of their amortized cost.
The Company pledges certain securities as collateral for public deposits, securities sold under agreements to repurchase and to secure borrowing capacity at the Federal Reserve Bank, if needed. The fair value of available-for-sale investment securities pledged as collateral totaled $166.1 million at June 30, 2013 and $89.2 million December 31, 2012. The increase of pledged available-for-sale investment securities was primarily attributable to the increase in securities sold under agreements to repurchase during the six months ended June 30, 2013. Certain

investment securities may also be pledged as collateral should the Company utilize its line of credit at the FHLB of Des Moines; however, no investment securities were pledged for this purpose at June 30, 2013 or December 31, 2012.

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The table below summarizes the contractual maturities, as of the last scheduled repayment date, of the available-for-sale investment portfolio as of June 30, 2013 (in thousands):

	Amortized Cost	Fair Value
Due in one year or less	$—	$—
Due after one year through five years	43,576	43,586
Due after five years through ten years	220,611	219,889
Due after ten years	1,790,160	1,782,642
Other securities	419	419
Total investment securities available-for-sale	$2,054,766	$2,046,536

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 3.8 years as of June 30, 2013 and 3.4 years as of December 31, 2012. This estimate is based on assumptions and actual results may differ. Other securities of $0.4 million have no stated contractual maturity date as of June 30, 2013.

Held-to-maturity

At June 30, 2013 and December 31, 2012 the Company held $592.7 million and $577.5 million of held-to-maturity investment securities, respectively. During the first quarter of 2012 the Company transferred securities with a fair value of $754.1 million from an available-for-sale classification to the held-to-maturity classification. During the six months ended June 30, 2013, the Company purchased $127.8 million of held-to-maturity investment securities. Held-to-maturity investment securities are summarized as follows as of the dates indicated (in thousands):

	June 30, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities ("MBS"):				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$509,690	$—	$(3,528)	$506,162
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	82,971	—	(2,303)	80,668
Total investment securities held-to-maturity	$592,661	$—	$(5,831)	$586,830

	December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities ("MBS"):				

Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$577,486	$7,065	$—	$584,551
Total investment securities held-to-maturity	$577,486	$7,065	$—	$584,551

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	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	592,661	586,830
Other securities	—	—
Total investment securities held-to-maturity	$592,661	$586,830

The carrying value of held-to-maturity investment securities pledged as collateral totaled $149.5 million and $127.9 million at June 30, 2013 and December 31, 2012, respectively. Actual maturities of mortgage-backed securities may differ from scheduled maturities depending on the repayment characteristics and experience of the underlying financial instruments. The estimated weighted average expected life of the held-to-maturity mortgage-backed securities portfolio as of June 30, 2013 and December 31, 2012 was 4.0 and 3.8 years, respectively. This estimate is based on assumptions and actual results may differ.

Note 4 Loans
The loan portfolio is comprised of new loans originated by the Company and loans that were acquired in connection with the Company’s acquisitions of Bank of Choice and Community Banks of Colorado in 2011, and Hillcrest Bank and Bank Midwest in 2010. The majority of the loans acquired in the Hillcrest Bank and Community Banks of Colorado transactions are covered by loss sharing agreements with the FDIC, and covered loans are presented separately from non-covered loans due to the FDIC loss sharing agreements associated with these loans. Covered loans comprised 26.3% of the total loan portfolio at June 30, 2013, compared to 33.2% of the total loan portfolio at December 31, 2012.

The table below shows the loan portfolio composition including carrying value by segment of loans accounted for under ASC Topic 310-30 Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality and loans not accounted for under this guidance, which includes our originated loans. The table also shows the amounts covered by the FDIC loss sharing agreements as of June 30, 2013 and December 31, 2012. The carrying value of loans are net of discounts on loans excluded from Accounting Standards Codification (“ASC”) Topic 310-30 , and fees and costs of $15.6 million and $20.4 million as of June 30, 2013 and December 31, 2012, respectively (in thousands):

	June 30, 2013				
	ASC 310-30 Loans	Non ASC 310-30 Loans	Total Loans	% of Total	
Commercial	$73,326	$203,889	$277,215	16.1	%
Commercial real estate	409,361	267,655	677,016	39.3	%

Agriculture	42,121	113,428	155,549	9.0	%
Residential real estate	81,779	492,354	574,133	33.3	%
Consumer	10,878	28,496	39,374	2.3	%
Total	$617,465	$1,105,822	$1,723,287	100.0	%
Covered	$389,484	$64,321	$453,805	26.3	%
Non-covered	227,981	1,041,501	1,269,482	73.7	%
Total	$617,465	$1,105,822	$1,723,287	100.0	%

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

Loans are considered past due or delinquent when the contractual principal or interest due in accordance with the terms of the loan agreement remains unpaid after the due date of the scheduled payment. All loans accounted for under ASC 310-30 were classified as performing assets at December 31, 2012, regardless of past due status, as the carrying value of all of the respective pools' cash flows were considered estimable. During the six months ended June 30, 2013, the Company determined that the cash flows of one covered commercial and industrial loan pool, with a balance of $18.7 million at June 30, 2013, were no longer reasonably estimable, and in accordance with the guidance in ASC 310-30, this pool was put on non-accrual status. Interest income was recognized on all accruing loans accounted for under ASC 310-30 through accretion of the difference between the carrying value of the loans and the expected cash flows.

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Pooled loans accounted for under ASC 310-30 that are 90 days or more past due and still accreting are generally considered to be performing and are included in loans 90 days or more past due and still accruing. At June 30, 2013 and December 31, 2012, $14.2 million and $23.1 million, respectively, of loans excluded from the scope of ASC 310-30 were on non-accrual and $18.7 million of loans accounted for under ASC 310-30 were on non-accrual status at June 30, 2013. Loan delinquency for all loans is shown in the following tables at June 30, 2013 and December 31, 2012, respectively (in thousands):

	Total Loans June 30, 2013							
	30-59 days past due	60-89 days past due	Greater than 90 days past due	Total past due	Current	Total loans	Loans > 90 days past due and still accruing	Non-accrual
Loans excluded from ASC 310-30								
Commercial	$604	$81	$879	$1,564	$202,325	$203,889	$20	$1,714
Commercial real estate								
Construction	—	—	—	—	6,516	6,516	—	—
Acquisition/development	47	404	—	451	10,727	11,178	—	1
Multifamily	935	—	—	935	7,802	8,737	—	186
Owner-occupied	71	172	106	349	70,106	70,455	—	893
Non owner-occupied	138	—	4,713	4,851	165,918	170,769	—	5,277
Total commercial real estate	1,191	576	4,819	6,586	261,069	267,655	—	6,357
Agriculture	20	—	—	20	113,408	113,428	—	205
Residential real estate								
Senior lien	1,149	102	1,417	2,668	437,779	440,447	—	5,214
Junior lien	151	47	220	418	51,489	51,907	—	458
Total residential real estate	1,300	149	1,637	3,086	489,268	492,354	—	5,672
Consumer	320	17	5					