

National Bank Holdings Corp  
Form 10-Q  
May 14, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2013

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-35654

**NATIONAL BANK HOLDINGS CORPORATION**

(Exact name of registrant as specified in its charter)

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**Delaware** **27-0563799**  
(State or other jurisdiction of **(I.R.S. Employer**  
**incorporation or organization)** **Identification No.)**  
**5570 DTC Parkway, Greenwood Village, Colorado, 80111**  
(Address of principal executive offices) (Zip Code)

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

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

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

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

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

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

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

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

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| Exhibit 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. 1350                                               |             |

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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

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

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

ability to execute our business strategy;

changes in the regulatory environment, including changes in regulation that affect the fees that we charge;

economic, market, operational, liquidity, credit and interest rate risks associated with our business;

our ability to identify potential candidates for, obtain regulatory approval, and consummate, acquisitions of banking franchises on attractive terms, or at all;

our ability to integrate acquisitions and to achieve synergies, operating efficiencies and/or other expected benefits within expected time-frames, or at all, or within expected cost projections, and to preserve the goodwill of acquired banking franchises;

our ability to achieve organic loan and deposit growth and the composition of such growth;

business and economic conditions generally and in the financial services industry;

increased competition in the financial services industry, nationally, regionally or locally, resulting in, among other things, lower risk-adjusted returns;

changes in the economy or supply-demand imbalances affecting local real estate values;

volatility and direction of market interest rates;

effects of any changes in trade and monetary and fiscal policies and laws, including the interest rate policies of the Federal Reserve;

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

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

failure of politicians to reach consensus on a bipartisan basis;

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

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

changes in the Company's management personnel;

continued consolidation in the financial services industry;

ability to maintain or increase market share;

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

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

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

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

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

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

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

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

changes in capital classification;

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

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

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

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

Consolidated Statements of Financial Condition (Unaudited)

(In thousands, except share and per share data)

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

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Stockholders' equity:

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

*See accompanying notes to the unaudited consolidated interim financial statements.*



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## Consolidated Statements of Operations (Unaudited)

(In thousands, except share and per share data)

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

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

*See accompanying notes to the unaudited consolidated interim financial statements.*

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## Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

(In thousands)

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

*See accompanying notes to the unaudited consolidated interim financial statements.*

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## Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

Three Months Ended March 31, 2013 and 2012

(In thousands, except share and per share data)

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

*See accompanying notes to the unaudited consolidated interim financial statements.*

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## Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

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

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|                                            |            |            |
|--------------------------------------------|------------|------------|
| Cash and cash equivalents at end of period | \$ 419,193 | \$ 844,311 |
|--------------------------------------------|------------|------------|

*Supplemental disclosure of cash flow information:*

|                                          |          |           |
|------------------------------------------|----------|-----------|
| Cash paid during the period for interest | \$ 4,906 | \$ 12,897 |
|------------------------------------------|----------|-----------|

|                                       |          |           |
|---------------------------------------|----------|-----------|
| Cash paid during the period for taxes | \$ 8,580 | \$ 17,459 |
|---------------------------------------|----------|-----------|

*Supplemental schedule of non-cash investing activities:*

|                                                            |           |           |
|------------------------------------------------------------|-----------|-----------|
| Loans transferred to other real estate owned at fair value | \$ 17,043 | \$ 40,899 |
|------------------------------------------------------------|-----------|-----------|

|                                                               |          |           |
|---------------------------------------------------------------|----------|-----------|
| FDIC indemnification asset claims transferred to other assets | \$ 9,132 | \$ 32,361 |
|---------------------------------------------------------------|----------|-----------|

|                                                                                                |    |            |
|------------------------------------------------------------------------------------------------|----|------------|
| Available-for-sale investment securities transferred to investment securities held-to-maturity | \$ | \$ 754,063 |
|------------------------------------------------------------------------------------------------|----|------------|

*See accompanying notes to the unaudited consolidated interim financial statements.*

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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

March 31, 2013

**Note 1 Basis of Presentation**

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

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

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

**Note 2 Recent Accounting Pronouncements**

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

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

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



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## NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

March 31, 2013

**Note 3 Investment Securities**

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

*Available-for-sale*

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

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

|                                                                                                                        | December 31, 2012   |                              |                               |                     |
|------------------------------------------------------------------------------------------------------------------------|---------------------|------------------------------|-------------------------------|---------------------|
|                                                                                                                        | Amortized<br>Cost   | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>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                 |
| <b>Total</b>                                                                                                           | <b>\$ 1,680,748</b> | <b>\$ 37,601</b>             | <b>\$ (321)</b>               | <b>\$ 1,718,028</b> |

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



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## NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

March 31, 2013

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

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

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

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

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

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

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

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

***Held-to-maturity***

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

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## NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

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March 31, 2013

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

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

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

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

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

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

### **Note 4 Loans**

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

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## NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

March 31, 2013

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

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

  

|                         | December 31, 2012 |                      | Total Loans  | % of Total |
|-------------------------|-------------------|----------------------|--------------|------------|
|                         | ASC 310-30 Loans  | Non ASC 310-30 Loans |              |            |
| 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. Loans accounted for under ASC Topic 310-30 were not classified as

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non-performing assets at the respective acquisition dates, at March 31, 2013 or at December 31, 2012 as the carrying value of the respective pools' cash flows were considered estimable and probable of collection. Therefore, interest income, through accretion of the difference between the carrying value of the loans and the expected cash flows, was recognized on all acquired loans accounted for under ASC Topic 310-30.



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## NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

March 31, 2013

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

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

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

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## NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

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March 31, 2013

**Total Loans December 31, 2012**

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

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

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## NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

March 31, 2013

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

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

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

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

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

### *Impaired Loans*

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



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

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

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March 31, 2013

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

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|                                                        |                  |                  |                 |                  |               |
|--------------------------------------------------------|------------------|------------------|-----------------|------------------|---------------|
| Total impaired loans with a related allowance recorded | 26,063           | 19,122           | 2,231           | 19,296           | 46            |
| <b>Total impaired loans</b>                            | <b>\$ 44,226</b> | <b>\$ 36,605</b> | <b>\$ 2,231</b> | <b>\$ 37,591</b> | <b>\$ 260</b> |

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

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

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

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

*Troubled debt restructurings*

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

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

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

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

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

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

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

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

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

*Loans accounted for under ASC Topic 310-30*

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

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

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



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

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**Note 5 Allowance for Loan Losses**

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

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

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

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

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

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

### **Note 6 FDIC Indemnification Asset**

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

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

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

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

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

**Note 7 Other Real Estate Owned**

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

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

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|                |    |        |    |         |
|----------------|----|--------|----|---------|
| Ending balance | \$ | 83,330 | \$ | 144,619 |
|----------------|----|--------|----|---------|

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

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**Note 8 Deposits**

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

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

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

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

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

**Note 9 Regulatory Capital**

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

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



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

- (1) These ratio requirements are reflective of the agreements the Company has made with its various regulators in connection with the approval of the de novo charter for NBH Bank, N.A., as described above.
- (2) Due to the conditional guarantee represented by the loss sharing agreements, the FDIC indemnification asset and covered assets are risk-weighted at 20% for purposes of risk-based capital computations.

**Note 10 FDIC Loss Sharing Income**

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

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

**Note 11 Stock-based Compensation and Employee Benefits**

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

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

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

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

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

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

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

**Note 12 Common Stock**

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

**Note 13 Income Per Share**

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The Company had 52,314,909 and 52,191,238 shares outstanding (inclusive of Class A and B) as of March 31, 2013 and 2012, respectively. Certain stock options, restricted shares and warrants are potentially dilutive securities, but are not included in the calculation of diluted earnings per share because to do so would have been anti-dilutive for three months ended March 31, 2013 and 2012, respectively.

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

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

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

**Note 14 Fair Value Measurements**

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

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

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

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

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

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Changes in the valuation inputs used for measuring the fair value of financial instruments may occur due to changes in current market conditions or other factors. Such changes may necessitate a transfer of the financial instruments to another level in the hierarchy based on the new inputs used. The Company recognizes these transfers at the end of the reporting period that the transfer occurs. During the three months ended March 31, 2013 and 2012, there were no transfers of financial instruments between the hierarchy levels.

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

***Fair Value of Financial Instruments Measured on a Recurring Basis***

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

***Warrant liability*** The Company measures the fair value of the warrant liability on a recurring basis using a Black-Scholes option pricing model. The Company's shares became publicly traded on September 20, 2012 and prior to that, had limited private trading; therefore, expected volatility was estimated based on the median historical volatility, for a period commensurate with the expected term of the warrants, of 17 comparable companies with publicly traded shares, and is deemed a significant unobservable input to the valuation model.

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

The tables below present the financial instruments measured at fair value on a recurring basis as of March 31, 2013 and December 31, 2012 on the consolidated statements of financial condition utilizing the hierarchy structure described above (in thousands):

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

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|                                 |    |              |           |              |
|---------------------------------|----|--------------|-----------|--------------|
| Total assets at fair value      | \$ | \$ 2,106,463 | \$ 419    | \$ 2,106,882 |
| <b>Liabilities:</b>             |    |              |           |              |
| Warrant liability               | \$ | \$           | \$ 4,834  | \$ 4,834     |
| Clawback liability              |    |              | 31,011    | 31,011       |
| Total liabilities at fair value | \$ | \$           | \$ 35,845 | \$ 35,845    |



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

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

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

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

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

The Company records collateral dependent loans that are considered to be impaired at their estimated fair value. A loan is considered impaired when it is probable that the Company will be unable to collect all contractual amounts due in accordance with the terms of the loan agreement. Collateral dependent impaired loans are measured based on the fair value of the collateral. The Company relies on third-party appraisals and internal assessments in determining the estimated fair values of these loans. The inputs used to determine the fair values of loans are considered level 3 inputs in the fair value hierarchy. During the three months ended March 31, 2013, the Company measured 25 loans not accounted for under ASC Topic 310-30 at fair value on a non-recurring basis. These loans carried specific reserves totaling \$2.2 million at March 31, 2013.

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

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

OREO is recorded at the lower of the loan balance or the fair value of the collateral less estimated selling costs. The estimated fair values of OREO are updated periodically and further write-downs may be taken to reflect a new basis. The Company recognized \$4.6 million of OREO impairments in its consolidated statements of financial condition during the three months ended March 31, 2013, of which \$3.1 million, or 67.5%, were on OREO that was covered by loss sharing agreements with the FDIC. The fair values of OREO are derived from third party price opinions or appraisals that generally use an income approach or a market value approach. If reasonable comparable appraisals are not available, then the Company may use internally developed models to determine fair values. The inputs used to determine the fair values of OREO are considered level 3 inputs in the fair value hierarchy.

The table below provides information regarding the assets recorded at fair value on a non-recurring basis during the three months ended March 31, 2013 (in thousands):

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

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

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

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

**Note 15 Fair Value of Financial Instruments**

The fair value of a financial instrument is the amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is determined based upon quoted market prices to the extent possible; however, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques that may be significantly impacted by the assumptions used, including the discount rate and estimates of future cash flows. Changes in any of these assumptions could significantly affect the fair value estimates. The fair value of the financial instruments listed below does not reflect a premium or discount that could result from offering all of the Company's holdings of financial instruments at one time, nor does it reflect the underlying value of the Company, as ASC Topic 825 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. In connection with the Hillcrest Bank, Bank Midwest, Bank of Choice and Community Banks of Colorado acquisitions, the Company recorded all of the acquired assets and assumed liabilities at fair value at the respective dates of acquisition. The fair value of financial instruments at March 31, 2013 and December 31, 2012, including methods and assumptions utilized for determining fair value of financial instruments, are set forth below (in thousands):

| Level<br>in Fair<br>Value<br>Measurement | March 31, 2013     |                         | December 31, 2012  |                         |
|------------------------------------------|--------------------|-------------------------|--------------------|-------------------------|
|                                          | Carrying<br>Amount | Estimated<br>Fair Value | Carrying<br>Amount | Estimated<br>Fair Value |

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

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*Cash and cash equivalents*

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

*Investment securities*

The estimated fair value of investment securities is based on quoted market prices or bid quotations received from securities dealers. Other investment securities, including securities that are held for regulatory purposes are carried at cost, less any other than temporary impairment.

*Loans receivable*

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

*Loans held-for-sale*

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

*Accrued interest receivable*

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

*Deposits*

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

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*Securities sold under agreements to repurchase*

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

*Due to FDIC*

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

*Warrant liability*

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

*Accrued interest payable*

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

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

*The following management discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited consolidated financial statements and related notes for the three months ended March 31, 2013 and 2012, and with our annual report on Form 10-K (file number 001-35654), which includes our audited consolidated financial statements and related notes as of and for the years ended December 31, 2012, 2011, and 2010. Additional information, such as statements of assets acquired and liabilities assumed for each of our acquisitions and other financial and statistical data is also available in our prospectus included in Form S-1 filed with the Securities and Exchange Commission on September 19, 2012 (file number 333-177971). This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions that may cause actual results to differ materially from management's expectations. Factors that could cause such differences are discussed in the sections entitled "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors" in the annual report on Form 10-K, referenced above, and should be read herewith.*

*Readers are cautioned that meaningful comparability of current period financial information to prior periods is limited. Prior to the completion of the Hillcrest Bank acquisition on October 22, 2010, we had no banking operations and our activities were limited to corporate organization matters and due diligence. Following our Hillcrest Bank acquisition, we completed three additional acquisitions: Bank Midwest on December 10, 2010, Bank of Choice on July 22, 2011 and Community Banks of Colorado on October 21, 2011. As a result, our operating results are limited to the periods since these acquisitions, and the comparability of periods is compromised due to the timing of these acquisitions. Additionally, the comparability of data related to our acquisitions prior to the respective dates of acquisition is limited because, in accordance with Accounting Standards Codification (ASC) Topic 805, Business Combinations, the assets acquired and liabilities assumed were recorded at fair value at their respective dates of acquisition and do not have a significant resemblance to the assets and liabilities of the predecessor banking franchises. The comparability of pre-acquisition data is compromised not only by the fair value accounting applied, but also by the FDIC loss sharing agreements in place that cover a portion of losses incurred on certain assets acquired in the Hillcrest Bank and the Community Banks of Colorado acquisitions. In the Bank Midwest acquisition, only specific, performing loans were chosen for acquisition. Additionally, we acquired the assets of Bank of Choice at a substantial discount from the FDIC. We received a considerable amount of cash during the settlement of these acquisitions, we paid off certain borrowings, and we contributed significant capital to each banking franchise we acquired. All of these actions materially changed the balance sheet composition, liquidity, and capital structure of the acquired banking franchises.*

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

#### **Overview**

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

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

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





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### **Operating Highlights and Key Challenges**

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

#### *Low-risk balance sheet*

As of March 31, 2013, we have 68.1% of total assets in cash, securities (low-risk, high-quality agency residential MBS and CMOs), and covered loans

As of March 31, 2013, 73.2%, or \$1.3 billion, of our total loans (by dollar amount) were acquired loans and all of those loans were recorded at their estimated fair value at the time of acquisition.

As of March 31, 2013, 30.4%, or \$537.1 million, of our total loans (by dollar amount) were covered by loss sharing agreements with the FDIC.

As of March 31, 2013, 55.0%, or \$45.9 million, of our total other real estate owned (by dollar amount) was covered by loss sharing agreements with the FDIC.

#### *Loan portfolio*

As of March 31, 2013, we have \$1.2 billion of loans outstanding that are associated with a strategic client relationship - an 11.4% annualized growth during the quarter.

Organic loan originations totaled \$109 million, representing a 32.7% increase from the first quarter of 2012.

A \$67 million decrease in total loans was led by a \$99 million decrease in our non-strategic loans during the quarter as we successfully worked out non-strategic loans acquired in our FDIC-assisted transactions.

41.4% of the loan portfolio is accounted for under ASC 310-30 (loan pools).

#### *Credit quality*

Credit quality continued to improve, with non-performing loans to total loans improving to 2.08% at March 31, 2013 from 2.23% at December 31, 2012.

Net charge-offs on non 310-30 loans were 0.44% annualized.

Loans associated with our strategic client relationships had strong credit quality with only 0.6% in non-performing loans as of March 31, 2013.

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

### *Client deposit funded balance sheet*

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

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

Average transaction account deposit balances grew 4.8% annualized.

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

### *Yields, returns and revenue stream*

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

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

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

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

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

### *Strong capital position*

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

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

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

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

### *Key Challenges*

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

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

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

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

### **Performance Overview**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- (1) Ratios are annualized.
- (2) Ratio represents non-GAAP financial measure.
- (3) Interest earning assets include assets that earn interest/accretion or dividends, except for the FDIC indemnification asset that may earn accretion but is not part of interest earning assets. Any market value adjustments on investment securities are excluded from interest-earning assets. Interest bearing liabilities include liabilities that must be paid interest.
- (4) Net interest margin represents net interest income, including accretion income on interest earning assets, as a percentage of average interest earning assets.
- (5) Interest rate spread represents the difference between the weighted average yield on interest earning assets and the weighted average cost of interest bearing liabilities.
- (6) The efficiency ratio represents non-interest expense, less intangible asset amortization, as a percentage of net interest income plus non-interest income.
- (7) Non-performing loans consist of non-accruing loans, loans 90 days or more past due and still accruing interest and restructured loans, but exclude any loans accounted for under ASC 310-30 in which the pool is still performing. These ratios may, therefore, not be comparable to similar ratios of our peers.
- (8) Non-performing assets include non-performing loans, other real estate owned and other repossessed assets.
- (9) Total loans are net of unearned discounts and fees.

**About Non-GAAP Financial Measures**

Certain of the financial measures and ratios we present, including tangible assets, return on average tangible assets, return on average tangible equity, tangible book value, tangible book value per share, and tangible common equity, are supplemental measures that are not required by, or are not presented in accordance with, accounting principles generally accepted in the United States, or non-GAAP financial measures. We

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consider the use of select non-GAAP financial measures and ratios to be useful for financial and operational decision making and useful in evaluating period-to-period comparisons. We believe that these non-GAAP financial measures provide meaningful supplemental information regarding our performance by excluding certain expenditures or assets that we believe are not indicative of our primary business operating results. We believe that management and investors benefit from referring to these non-GAAP financial measures in assessing our performance and when planning, forecasting, analyzing and comparing past, present and future periods.

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We believe that these measures provide useful information to management and investors that is supplementary to our financial condition, results of operations and cash flows computed in accordance with GAAP; however we acknowledge that our non-GAAP financial measures have a number of limitations relative to GAAP financial measures. The items that we exclude in our adjustments are not necessarily consistent with the items that our peers may exclude from their results of operations and key financial measures and therefore may limit the comparability of similarly named financial measures and ratios. We compensate for these limitations by providing the equivalent GAAP measures whenever we present the non-GAAP financial measures and by including a reconciliation of the impact of the components adjusted for in the non-GAAP financial measure so that both measures and the individual components may be considered when analyzing our performance.

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

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



**Application of Critical Accounting Policies**

We use accounting principles and methods that conform to GAAP and general banking practices. We are required to apply significant judgment and make material estimates in the preparation of our financial statements and with regard to various accounting, reporting and disclosure matters. Assumptions and estimates are required to apply these principles where actual measurement is not possible or practical. The most significant of these estimates relate to the fair value determination of assets acquired and liabilities assumed in

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business combinations and the application of acquisition accounting, the accounting for acquired loans and the related FDIC indemnification asset, the determination of the ALL, and the valuation of stock-based compensation. These critical accounting policies and estimates are summarized in the sections captioned *Application of Critical Accounting Policies* in Management's Discussion and Analysis in our 2012 Annual Report on Form 10-K, and are further analyzed with other significant accounting policies in note 2, *Summary of Significant Accounting Policies* in the notes to our consolidated financial statements for the year ended 2012. There have been no significant changes to the application of critical accounting policies since December 31, 2012.

**Financial Condition**

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

*Investment Securities*Available-for-sale

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

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

Total investment securities  
available-for-sale

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

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

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

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

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

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

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

**Table of Contents****Held-to-maturity**

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

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

|                                                                                                                        | <b>December 31, 2012</b>  |                       |                                 |                                   |
|------------------------------------------------------------------------------------------------------------------------|---------------------------|-----------------------|---------------------------------|-----------------------------------|
|                                                                                                                        | <b>Amortized<br/>Cost</b> | <b>Fair<br/>Value</b> | <b>Percent of<br/>Portfolio</b> | <b>Weighted<br/>Average Yield</b> |
| Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises | \$ 577,486                | \$ 584,551            | 100.00%                         | 3.60%                             |
| Total investment securities held-to-maturity                                                                           | \$ 577,486                | \$ 584,551            | 100.00%                         | 3.60%                             |

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

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

|                                        | <b>Amortized<br/>Cost</b> | <b>Weighted<br/>Average<br/>Yield</b> |
|----------------------------------------|---------------------------|---------------------------------------|
| Due in one year or less                | \$                        |                                       |
| Due after one year through five year   |                           |                                       |
| Due after five years through ten years |                           |                                       |
| Due after ten years                    | 517,017                   | 3.59%                                 |
| Other Securities                       |                           |                                       |
| Total                                  | \$ 517,017                | 3.59%                                 |

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

***Non-marketable securities***

Non-marketable securities include Federal Reserve Bank stock and FHLB stock. At March 31, 2013 and December 31, 2012, we held \$25.0 million of Federal Reserve Bank stock and at March 31, 2013 and December 31, 2012 we also held \$7.9 million \$8.0 million of FHLB stock,

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respectively. We hold these securities in accordance with debt and regulatory requirements. These are restricted securities which lack a market and are therefore carried at cost.

### *Loans Overview*

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

As discussed in note 2 to our audited consolidated financial statements, in accordance with applicable accounting guidance, all acquired loans are recorded at fair value at the date of acquisition, and an allowance for loan losses is not carried over with the loans but, rather, the fair value of the loans encompasses both credit quality and market considerations. Loans that exhibit signs of credit deterioration at the date of acquisition are accounted for in accordance with the provisions of ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* ( *ASC 310-30* ). Management accounted for all loans acquired in the Hillcrest Bank, Bank of Choice, and Community Banks of Colorado acquisitions under ASC Topic 310-30, with the exception of loans with revolving privileges which were outside the scope of ASC Topic 310-30. In our Bank Midwest transaction, we did not acquire all of the loans of the former Bank Midwest but, rather, selected certain loans based upon specific criteria of performance, adequacy of collateral, and loan type that were performing at the time of acquisition. As a result, none of the loans acquired in the Bank Midwest transaction are accounted for under ASC Topic 310-30.

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

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

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

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

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

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

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

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



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

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

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

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

|                         | First quarter<br>2013 | Fourth quarter<br>2012 | Third quarter<br>2012 | Second quarter<br>2012 | First quarter<br>2012 |
|-------------------------|-----------------------|------------------------|-----------------------|------------------------|-----------------------|
| Commercial              | \$ 15,150             | \$ 30,988              | \$ 25,640             | \$ 10,799              | \$ 20,102             |
| Commercial real estate  | 36,749                | 20,993                 | 11,135                | 6,816                  | 18,546                |
| Agriculture             | 9,446                 | 28,978                 | 24,328                | 22,444                 | 7,570                 |
| Residential real estate | 45,808                | 52,778                 | 60,320                | 40,123                 | 33,016                |
| Consumer                | 2,211                 | 6,025                  | 6,505                 | 4,057                  | 3,155                 |
| Total                   | \$ 109,364            | \$ 139,762             | \$ 127,928            | \$ 84,239              | \$ 82,389             |

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

|                         | March 31, 2013       |                                      |                      | Total               |
|-------------------------|----------------------|--------------------------------------|----------------------|---------------------|
|                         | Due within<br>1 Year | Due after 1 but<br>within 5<br>Years | Due after<br>5 Years |                     |
| Commercial              | \$ 86,557            | \$ 136,640                           | \$ 41,533            | \$ 264,730          |
| Commercial real estate  | 336,991              | 271,098                              | 138,651              | 746,740             |
| Agriculture             | 33,858               | 75,581                               | 55,298               | 164,737             |
| Residential real estate | 57,073               | 70,741                               | 419,757              | 547,571             |
| Consumer                | 17,094               | 16,074                               | 8,504                | 41,672              |
| <b>Total loans</b>      | <b>\$ 531,573</b>    | <b>\$ 570,134</b>                    | <b>\$ 663,743</b>    | <b>\$ 1,765,450</b> |
| Covered                 | 294,089              | 185,840                              | 57,167               | 537,096             |
| Non-covered             | 237,484              | 384,294                              | 606,576              | 1,228,354           |
| <b>Total loans</b>      | <b>\$ 531,573</b>    | <b>\$ 570,134</b>                    | <b>\$ 663,743</b>    | <b>\$ 1,765,450</b> |

|                            | December 31, 2012    |                                      |                      | Total               |
|----------------------------|----------------------|--------------------------------------|----------------------|---------------------|
|                            | Due within<br>1 Year | Due after 1 but<br>within 5<br>Years | Due after<br>5 Years |                     |
| Commercial                 | \$ 83,093            | \$ 147,356                           | \$ 40,139            | \$ 270,588          |
| Commercial real estate     | 403,179              | 277,625                              | 124,195              | 804,999             |
| Agriculture                | 41,205               | 77,683                               | 54,519               | 173,407             |
| Residential real estate    | 62,712               | 73,941                               | 396,724              | 533,377             |
| Consumer                   | 23,842               | 17,668                               | 8,821                | 50,331              |
| <b>Total covered loans</b> | <b>\$ 614,031</b>    | <b>\$ 594,273</b>                    | <b>\$ 624,398</b>    | <b>\$ 1,832,702</b> |
| Covered                    | 350,339              | 198,373                              | 59,510               | 608,222             |
| Non-covered                | 263,692              | 395,900                              | 564,888              | 1,224,480           |
| <b>Total loans</b>         | <b>\$ 614,031</b>    | <b>\$ 594,273</b>                    | <b>\$ 624,398</b>    | <b>\$ 1,832,702</b> |

The interest rate sensitivity of loans with maturities over one year is as follows at the dates indicated (in thousands):

|                                              | March 31, 2013    |                   | Total               |
|----------------------------------------------|-------------------|-------------------|---------------------|
|                                              | Fixed             | Variable          |                     |
| Commercial                                   | \$ 56,820         | \$ 121,353        | \$ 178,173          |
| Commercial real estate                       | 174,770           | 234,979           | 409,749             |
| Agriculture                                  | 61,647            | 69,232            | 130,879             |
| Residential real estate                      | 263,237           | 227,261           | 490,498             |
| Consumer                                     | 13,537            | 11,041            | 24,578              |
| <b>Total loans with &gt; 1 year maturity</b> | <b>\$ 570,011</b> | <b>\$ 663,866</b> | <b>\$ 1,233,877</b> |
| Covered                                      | \$ 73,886         | \$ 169,121        | \$ 243,007          |
| Non-covered                                  | 496,125           | 494,745           | 990,870             |

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|                                    |            |            |              |
|------------------------------------|------------|------------|--------------|
| Total loans with > 1 year maturity | \$ 570,011 | \$ 663,866 | \$ 1,233,877 |
|------------------------------------|------------|------------|--------------|

|                                    | December 31, 2012 |            |              |
|------------------------------------|-------------------|------------|--------------|
|                                    | Fixed             | Variable   | Total        |
| Commercial                         | \$ 51,171         | \$ 136,324 | \$ 187,495   |
| Commercial real estate             | 161,200           | 240,620    | 401,820      |
| Agriculture                        | 60,194            | 72,008     | 132,202      |
| Residential real estate            | 247,321           | 223,344    | 470,665      |
| Consumer                           | 15,295            | 11,194     | 26,489       |
| <br>                               |                   |            |              |
| Total loans with > 1 year maturity | \$ 535,181        | \$ 683,490 | \$ 1,218,671 |
| <br>                               |                   |            |              |
| Covered                            | \$ 73,925         | \$ 183,958 | \$ 257,883   |
| Non-covered                        | 461,256           | 499,532    | 960,788      |
| <br>                               |                   |            |              |
| Total loans with > 1 year maturity | \$ 535,181        | \$ 683,490 | \$ 1,218,671 |

**Table of Contents***Accretable Yield*

The fair value adjustments assigned to loans that are accounted for under ASC Topic 310-30 include both accretable yield and a non-accretable difference that are based on expected cash flows from the loans. Accretable yield is the excess of a pool's cash flows expected to be collected over the recorded balance of the related pool of loans. The non-accretable difference represents the expected shortfall in future cash flows from the contractual amount due in respect of each pool of such loans. Similar to the entire fair value adjustment for loans outside the scope of ASC Topic 310-30, the accretable yield is accreted into income over the estimated remaining life of the loans in the applicable pool.

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

|                                                      | <b>March 31, 2013</b> | <b>December 31, 2012</b> |
|------------------------------------------------------|-----------------------|--------------------------|
| Contractual cash flows                               | \$ 1,331,205          | \$ 1,444,279             |
| Nonaccretable difference                             | (473,741)             | (488,673)                |
| Accretable yield                                     | (127,215)             | (133,585)                |
| <br>Total loans accounted for under ASC Topic 310-30 | <br>\$ 730,249        | <br>\$ 822,021           |

Loan pools accounted for under ASC Topic 310-30 are periodically remeasured to determine expected future cash flows. In determining the expected cash flows, we evaluate the credit profile, contractual interest rates, collateral values and expected prepayments of the loan pools. Prepayment assumptions 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 were fixed or variable rate loans. Decreases to the expected future cash flows in the applicable pool generally result in an immediate provision for loan losses charged to the consolidated statements of operations. Conversely, increases in the expected future cash flows in the applicable pool result in a transfer from the non-accretable difference to the accretable yield, and have a positive impact on accretion income prospectively. This re-measurement process resulted in the following changes to the accretable yield during the three months ended March 31, 2013 and 2012 (in thousands):

|                                                 | <b>March 31,<br/>2013</b> | <b>March 31,<br/>2012</b> |
|-------------------------------------------------|---------------------------|---------------------------|
| Balance at beginning of year                    | \$ 133,585                | \$ 186,494                |
| Reclassification from non-accretable difference | 16,134                    | 10,653                    |
| Reclassification to non-accretable difference   | (1,202)                   | (4,130)                   |
| Accretion income                                | (21,302)                  | (26,549)                  |
| <br>Balance at end of period                    | <br>\$ 127,215            | <br>\$ 166,468            |

We re-measure the expected cash flows of all 30 of the loan pools accounted for under ASC 310-30 utilizing the same cash flow methodology used at the time of acquisition. Increases in expected cash flows are reflected as an increase in the accretion rates as well as an increased amount of accretable yield that will be recognized over the expected remaining lives of the underlying loan pools. During the three months ended March 31, 2013 and 2012, we reclassified \$14.9 million and \$6.5 million, net, from non-accretable difference to accretable yield, respectively. The re-measurements also resulted in \$0.3 million and \$3.3 million of net impairment during the same respective periods. The impairments during the three months ended March 31, 2013 were primarily driven by our commercial and residential real estate pools. These impairments are reflected in provision for loan loss in the consolidated statement of operations.

In addition to the accretable yield on loans accounted for under ASC Topic 310-30, the fair value adjustments on loans outside the scope of 310-30 are also accreted to interest income over the life of the loans. At March 31, 2013 and 2012, our total remaining accretable yield and fair value mark was as follows (in thousands):

**March 31, 2013    March 31, 2012**

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|                                                                                        |            |            |
|----------------------------------------------------------------------------------------|------------|------------|
| Remaining accretable yield on loans accounted for under ASC Topic 310-30               | \$ 127,215 | \$ 166,468 |
| Remaining accretable fair value mark on loans not accounted for under ASC Topic 310-30 | 16,269     | 32,057     |
| Total remaining accretable yield and fair value mark                                   | \$ 143,484 | \$ 198,525 |

**Table of Contents***Loss-Share Coverage*

The Company has two loss sharing agreements with the FDIC for the assets related to the Hillcrest Bank acquisition and a separate loss sharing agreement that covers certain assets related to the Community Banks of Colorado acquisition, whereby the FDIC will reimburse us for a portion of the losses incurred as a result of the resolution and disposition of the covered assets of these banks. The details of these agreements are more fully described in Management's Discussion and Analysis in our 2012 Annual Report on Form 10-K.

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

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

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

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

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

As of March 31, 2013, we had incurred \$208.8 million of losses on our Hillcrest Bank covered assets since the beginning of the loss sharing agreement as measured by the FDIC's book value, substantially all of which was related to the commercial assets. Additionally, as of March 31, 2013, we had incurred approximately \$153.8 million of losses related to our Community Banks of Colorado loss sharing agreement.

Subsequent to March 31, 2013, we received \$9.8 million related to claims filed during the fourth quarter of 2012 for losses incurred during the three months ended December 31, 2012 related to Community Banks of Colorado and Hillcrest Bank. We also filed loss share claims with the FDIC for \$7.5 million and \$8.1 million related to first quarter losses for Hillcrest Bank and Community Banks of Colorado, respectively. 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.

*Asset Quality*

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

1. Any asset quality deterioration that existed at the date of acquisition was considered in the original fair value adjustments; and
2. 46.5% of our non-performing assets (by dollar amount) at March 31, 2013 are covered by loss sharing agreements with the FDIC.

Asset quality is fundamental to our success. Accordingly, for the origination of loans, we have established a credit policy that allows for responsive, yet controlled lending with credit approval requirements that are scaled to loan size. Within the scope of the credit policy, each prospective loan is reviewed in order to determine the appropriateness and the adequacy of the loan characteristics and the security or collateral prior to making a loan. We have established underwriting standards and loan origination procedures that require appropriate documentation,

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including financial data and credit reports. For loans secured by real property, we require property appraisals, title insurance or a title opinion, hazard insurance and flood insurance, in each case where appropriate.

Additionally, we have implemented procedures to timely identify loans that may become problematic in order to ensure the most beneficial resolution to the Company. Asset quality is monitored by our credit risk management department and evaluated based on quantitative and subjective factors such as the timeliness of contractual payments received. Additional factors that are considered, particularly with commercial loans over \$250,000, include the financial condition and liquidity of individual borrowers and guarantors, if any, and the value of our collateral. To facilitate the oversight of asset quality, loans are categorized based on the number of days past due and on an internal risk rating system, and both are discussed in more detail below.

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

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

### *Non-performing Assets*

Non-performing assets consist of covered and non-covered non-accrual loans, accruing loans 90 days or more past due, troubled debt restructurings, OREO (55.0% of which was covered by FDIC loss sharing agreements at March 31, 2013) and other repossessed assets. However, loans and troubled debt restructurings accounted for under ASC Topic 310-30, as described below, are excluded from our non-performing assets. Our non-performing assets include \$10.0 million and \$11.1 million of covered loans not accounted for under ASC Topic 310-30 and \$45.9 million and \$45.5 million of covered OREO at March 31, 2013 and December 31, 2012, respectively. In addition to being covered by loss sharing agreements, these assets were marked to fair value at the time of acquisition, mitigating much of our loss potential on these non-performing assets. As a result, the levels of our non-performing assets are not fully comparable to those of our peers or to industry benchmarks.

As of March 31, 2013 and December 31, 2012, 63.9% and 64.2%, respectively, of loans accounted for under ASC Topic 310-30 were covered by the FDIC loss sharing agreements. Loans accounted for under ASC Topic 310-30 were recorded at fair value based on cash flow projections that considered the deteriorated credit quality and expected losses. These loans are accounted for on a pool basis and any non-payment of contractual principal or interest is considered in our periodic re-estimation of the expected future cash flows. To the extent that we decrease our cash flow projections, we record an immediate impairment expense through the provision for loan losses. We recognize any increases to our cash flow projections on a prospective basis through an increase to the pool's yield over its remaining life once any previously recorded impairment expense has been recouped. As a result of this accounting treatment, these pools may be considered to be performing, even though some or all of the individual loans within the pools may be contractually past due. Loans accounted for under ASC Topic 310-30 were classified as performing assets at March 31, 2013 and December 31, 2012, as the carrying values of the respective loan or pool of loans cash flows were considered estimatable and probable of collection. Therefore, interest income, through accretion of the difference between the carrying value of the loans in the pool and the pool's expected future cash flows, is being recognized on all acquired loans accounted for under ASC Topic 310-30.



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

|                                                                                                      | March 31, 2013   |                  |                   | December 31, 2012 |                  |                   |
|------------------------------------------------------------------------------------------------------|------------------|------------------|-------------------|-------------------|------------------|-------------------|
|                                                                                                      | Non-Covered      | Covered          | Total             | Non-Covered       | Covered          | Total             |
| <b>Non-accrual loans:</b>                                                                            |                  |                  |                   |                   |                  |                   |
| Commercial loans                                                                                     | \$ 784           | \$ 2,103         | \$ 2,887          | \$ 1,466          | \$ 3,034         | \$ 4,500          |
| Commercial real estate loans                                                                         | 8,427            | 463              | 8,890             | 10,216            | 1,453            | 11,669            |
| Agriculture                                                                                          | 189              | 38               | 227               | 207               | 44               | 251               |
| Residential real estate loans                                                                        | 4,214            | 1,478            | 5,692             | 4,894             | 1,514            | 6,408             |
| Consumer loans                                                                                       | 269              |                  | 269               | 291               |                  | 291               |
| <b>Total non-accrual loans</b>                                                                       | <b>13,883</b>    | <b>4,082</b>     | <b>17,965</b>     | <b>17,074</b>     | <b>6,045</b>     | <b>23,119</b>     |
| <b>Loans past due 90 days or more and still accruing interest:</b>                                   |                  |                  |                   |                   |                  |                   |
| <b>Commercial loans</b>                                                                              |                  |                  |                   |                   |                  |                   |
| Commercial real estate loans                                                                         | 131              |                  | 131               |                   |                  |                   |
| <b>Agriculture</b>                                                                                   |                  |                  |                   |                   |                  |                   |
| Residential real estate loans                                                                        | 42               |                  | 42                | 22                |                  | 22                |
| Consumer loans                                                                                       | 3                |                  | 3                 | 3                 |                  | 3                 |
| <b>Total accruing loans 90 days past due</b>                                                         | <b>176</b>       |                  | <b>176</b>        | <b>25</b>         |                  | <b>25</b>         |
| <b>Accruing restructured loans <sup>(1)</sup></b>                                                    | <b>12,687</b>    | <b>5,947</b>     | <b>18,634</b>     | <b>12,673</b>     | <b>5,047</b>     | <b>17,720</b>     |
| <b>Total non-performing loans</b>                                                                    | <b>26,746</b>    | <b>10,029</b>    | <b>36,775</b>     | <b>29,772</b>     | <b>11,092</b>    | <b>40,864</b>     |
| <b>OREO</b>                                                                                          | <b>37,478</b>    | <b>45,852</b>    | <b>83,330</b>     | <b>49,297</b>     | <b>45,511</b>    | <b>94,808</b>     |
| <b>Other repossessed assets</b>                                                                      | <b>800</b>       | <b>523</b>       | <b>1,323</b>      | <b>800</b>        | <b>531</b>       | <b>1,331</b>      |
| <b>Total non-performing assets</b>                                                                   | <b>\$ 65,024</b> | <b>\$ 56,404</b> | <b>\$ 121,428</b> | <b>\$ 79,869</b>  | <b>\$ 57,134</b> | <b>\$ 137,003</b> |
| <b>Allowance for loan losses</b>                                                                     |                  |                  | <b>\$ 12,889</b>  |                   |                  | <b>\$ 15,380</b>  |
| <b>Total non-performing loans to total non-covered, total covered, and total loans, respectively</b> | <b>2.18%</b>     | <b>1.87%</b>     | <b>2.08%</b>      | <b>2.43%</b>      | <b>1.82%</b>     | <b>2.23%</b>      |
| <b>Total non-performing assets to total assets</b>                                                   |                  |                  | <b>2.31%</b>      |                   |                  | <b>2.53%</b>      |
| <b>Allowance for loan losses to non-performing loans</b>                                             |                  |                  | <b>35.05%</b>     |                   |                  | <b>37.64%</b>     |

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

OREO of \$83.3 million at March 31, 2013 includes \$4.9 million of participant interests in OREO, in connection with our repossession of collateral on loans for which we were the lead bank and we have a controlling interest. We have recorded a corresponding payable to those participant banks in other liabilities. The \$83.3 million of OREO at March 31, 2013 excludes \$10.6 million of minority interest in participated OREO in connection with the repossession of collateral on loans for which we were not the lead bank and we do not have a controlling interest. These properties have been repossessed by the lead banks and we have recorded our receivable due from the lead banks in other assets as minority interest in participated OREO.

During the three months ended March 31, 2013, \$17.0 million of OREO was foreclosed on or otherwise repossessed and \$23.9 million of OREO was sold, including \$0.3 million of non-covered gains and \$1.5 million of covered gains that are subject to reimbursement to the FDIC at the applicable loss share coverage percentage. OREO write-downs of \$4.6 million were recorded during the three months ended March 31, 2013, of which \$3.1 million, or 67.5%, were covered by FDIC loss sharing agreements. OREO balances decreased \$11.5 million during the first quarter of 2013 to \$83.3 million, 55.0% of which was covered by FDIC loss sharing agreements, compared to OREO balances of \$94.8 million at December 31, 2012, \$45.5 million, or 48.0%, of which was covered by the FDIC loss sharing agreement.



**Table of Contents***Past Due Loans*

Past due status is monitored as an indicator of credit deterioration. Covered and non-covered loans are considered past due or delinquent when the contractual principal or interest due in accordance with the terms of the loan agreement remains unpaid after the due date of the scheduled payment. Loans that are 90 days or more past due and not accounted for under ASC Topic 310-30 are put on non-accrual status unless the loan is well secured and in the process of collection. Pooled loans accounted for under ASC Topic 310-30 that are 90 days or more past due and still accruing are included in loans 90 days or more past due and still accruing interest and are considered to be performing as is further described above under *Non-Performing Assets*. The table below shows the past due status of covered and non-covered loans, based on contractual terms of the loans as of March 31, 2013 and December 31, 2012 (in thousands):

|                                                                                                                  | March 31, 2013   |                      |             | December 31, 2012 |                      |             |
|------------------------------------------------------------------------------------------------------------------|------------------|----------------------|-------------|-------------------|----------------------|-------------|
|                                                                                                                  | ASC 310-30 loans | Non ASC 310-30 loans | Total loans | ASC 310-30 loans  | Non ASC 310-30 loans | Total loans |
| Loans 30-89 days past due and still accruing interest                                                            | \$ 28,199        | \$ 4,559             | \$ 32,758   | \$ 18,412         | \$ 4,581             | \$ 22,993   |
| Loans 90 days past due and still accruing interest                                                               | 112,475          | 176                  | 112,651     | 146,761           | 25                   | 146,786     |
| Non-accrual loans                                                                                                |                  | 17,965               | 17,965      |                   | 23,119               | 23,119      |
| Total past due and non-accrual loans                                                                             | \$ 140,674       | \$ 22,700            | \$ 163,374  | \$ 165,173        | \$ 27,725            | \$ 192,898  |
| Total covered loans                                                                                              | \$ 107,408       | \$ 4,583             | \$ 111,991  | \$ 130,350        | \$ 6,172             | \$ 136,522  |
| Total past due and non-accrual loans to total 310-30 loans, total non 310-30 loans and total loans, respectively | 19.26%           | 2.19%                | 9.25%       | 20.09%            | 2.74%                | 10.53%      |
| % of total past due and non-accrual loans that carry fair value adjustments                                      | 100.00%          | 54.80%               | 93.72%      | 100.00%           | 57.78%               | 93.93%      |
| % of total past due and non-accrual loans that are covered by FDIC loss sharing agreements                       | 76.35%           | 20.19%               | 68.55%      | 78.92%            | 22.26%               | 70.77%      |

Total loans 30 days or more past due and still accruing interest and non-accrual loans represented 9.3% of total loans as of March 31, 2013 compared to 10.5% at December 31, 2012. Loans 30-89 days past due and still accruing interest decreased \$9.8 million at March 31, 2013 compared to December 31, 2012. Loans 90 days or more past due and still accruing interest decreased \$34.1 million at March 31, 2013 compared to December 31, 2012. The decrease in past due loans is reflective of improved credit quality and the successful workout strategies employed by our special assets division during the period. Non-accrual loans decreased \$5.2 million during the period primarily due to resolution of certain assets and foreclosures during the period. The covered and non-covered non-accrual loans are primarily secured by real estate both in and outside of our market areas.

*Allowance for Loan Losses*

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

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

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Loans accounted for under the accounting guidance provided in ASC Topic 310-30 have been grouped into pools based on the predominant risk characteristics of purpose and/or type of loan. The timing and receipt of expected principal, interest and any other cash flows of these loans are periodically re-estimated and the expected future cash flows of the collective pools are compared to the carrying value of the pools. To the extent that the expected future cash flows of each pool is less than the book value of the pool, an allowance for loan losses will be established through a charge to the provision for loan losses and, for loans covered by loss sharing agreements with the FDIC, a related adjustment to the FDIC indemnification asset for the portion of the loss that is covered by the loss sharing agreements. If the re-estimated expected future cash flows are greater than the book value of the pools, then the improvement in the expected future cash flows will be accreted into interest income over the remaining expected life of the loan pool. During the three months ended March 31, 2013 and 2012, these re-estimations resulted in overall increases in expected cash flows in certain loan pools, which, absent previous valuation allowances within the same pool, is reflected in increased accretion as well as an increased amount of accretable yield and is recognized over the expected remaining lives of the underlying loans as an adjustment to yield.

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

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

the borrower's resources, ability, and willingness to repay in accordance with the terms of the loan agreement;

the likelihood of receiving financial support from any guarantors;

the adequacy and present value of future cash flows, less disposal costs, of any collateral;

the impact current economic conditions may have on the borrower's financial condition and liquidity or the value of the collateral. In evaluating the loan portfolio for an appropriate ALL level, unimpaired loans are grouped into segments based on broad characteristics such as primary use and underlying collateral. We have identified five primary loan segments that are further stratified into 10 loan classes to provide more granularity in analyzing loss history and to allow for more definitive qualitative adjustments based upon specific factors affecting each loan class. Following are the loan classes within each of the five primary loan segments:

| <b>Commercial</b> | <b>Commercial real estate</b> | <b>Agriculture</b> | <b>Residential real estate</b> | <b>Consumer</b> |
|-------------------|-------------------------------|--------------------|--------------------------------|-----------------|
| Total commercial  | Construction                  | Total agriculture  | Sr. lien                       | Total consumer  |
|                   | Acquisition and development   |                    | Jr. lien                       |                 |
|                   | Multi-family                  |                    |                                |                 |
|                   | Owner-occupied                |                    |                                |                 |
|                   | Non-owner occupied            |                    |                                |                 |

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

economic/external conditions;

loan administration, loan structure and procedures;

risk tolerance/experience;

loan growth;

trends;

concentrations;

other

Historical loss data is categorized by segment and class and a loss rate is applied to loan balances. The loss rates are based on loan segment and class and utilize a credit risk rating migration analysis. Due to our relatively short historical loss history, we incorporate not only our own four-quarter historical loss rates, but we also utilize peer historical loss data based on a 12-quarter historical average net charge-off ratio on each loan type, relying on the Uniform Bank Performance Reports compiled by the Federal Financial Institutions Examinations Council ( FFIEC ). While we use our own loss history and peer loss history for both purchased and originated loans, we assign a higher portion of our own loss history to our purchased loans, because those loans are more seasoned and more of the actual losses in the portfolio have historically been in the purchased portfolio. For originated loans, we assign a higher portion of the peer loss history, as we believe that this is likely more indicative of losses inherent in the portfolio.

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

During the three months ended March 31, 2013, two loan pools had previous valuation allowances of \$1.4 million that were reversed as a result of an increase in expected cash flows. Two loan pools had net impairments as a result of decreases in expected cash flows, resulting in a net provision of \$0.3 million for loans accounted for under ASC 310-30. Within the commercial real estate segment \$2.8 million of 310-30 loans were charged-off during the three months ended March 31, 2013. This resulted in an ending ALL for 310-30 loans of \$2.1 million at March 31, 2013, compared to \$4.7 million at December 31, 2012.

In addition to the \$0.3 million of provision for loan losses on our loans accounted for under ASC 310-30, we recorded \$1.1 million of provision for loan losses for loans not accounted for under ASC 310-30 as we provided for \$1.1 million of net loan charge-offs and credit risks inherent in the March 31, 2013 non ASC 310-30 balances. During the three months ended March 31, 2013, \$0.6 million of the \$1.1 million of net charge-offs were from the commercial segment. At March 31, 2013, there were 12 loans that carried specific reserves totaling \$2.2 million, compared to ten impaired loans that carried specific reserves totaling \$1.9 million at December 31, 2012.

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During the three months ended March 31, 2012, we recorded a provision for loan losses of \$3.3 million as a result of net decreases in expected cash flow on loans accounted for under ASC 310-30. Additionally, we charged off \$2.1 million of loans accounted for under ASC Topic 310-30 during the three months ended March 31, 2012, \$1.5 million of which was from the commercial real estate segment. This resulted in an ending ALL for 310-30 loans of \$3.3 million at March 31, 2012, compared to \$2.2 million at December 31, 2011.

During the three months ended March 31, 2012, we recorded \$4.6 million of provision for loan losses for loans not accounted for under ASC 310-30 as we provided for net loan charge-offs and risks inherent in the March 31, 2012 non ASC 310-30 balances. Of the \$4.8 million of charge-offs during the three months ended March 31, 2012, \$2.6 million was in the commercial segment and \$2.1 million was in the commercial real estate segment.

After considering the abovementioned factors, we believe that the ALL of \$12.9 million and \$12.4 million was adequate to cover probable losses inherent in the loan portfolio at March 31, 2013 and 2012, respectively. However, it is likely that future adjustments to the ALL will be necessary and any changes to the assumptions, circumstances or estimates used in determining the ALL could adversely affect the Company's results of operations, liquidity or financial condition.

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The following schedule presents, by class stratification, the changes in the ALL during the three months ended March 31, 2013 and 2012 (in thousands):

|                                                                                                                | March 31, 2013 |              |              | March 31, 2012 |            |              |
|----------------------------------------------------------------------------------------------------------------|----------------|--------------|--------------|----------------|------------|--------------|
|                                                                                                                | 310-30         | Non 310-30   | Total        | 310-30         | Non 310-30 | Total        |
| Beginning allowance for loan losses                                                                            | \$ 4,652       | \$ 10,728    | \$ 15,380    | \$ 2,188       | \$ 9,339   | \$ 11,527    |
| Charge-offs:                                                                                                   |                |              |              |                |            |              |
| Commercial                                                                                                     |                | (629)        | (629)        | (39)           | (2,632)    | (2,671)      |
| Commercial real estate                                                                                         | (2,812)        | (259)        | (3,071)      | (1,530)        | (2,172)    | (3,702)      |
| Agriculture                                                                                                    |                |              |              |                |            |              |
| Residential real estate                                                                                        |                | (75)         | (75)         | (416)          | (34)       | (450)        |
| Consumer                                                                                                       |                | (233)        | (233)        |                | (392)      | (392)        |
| Total charge-offs                                                                                              | (2,812)        | (1,196)      | (4,008)      | (1,985)        | (5,230)    | (7,215)      |
| Recoveries                                                                                                     |                | 100          | 100          | (155)          | 415        | 260          |
| Net charge-offs                                                                                                | (2,812)        | (1,096)      | (3,908)      | (2,140)        | (4,815)    | (6,955)      |
| Provision for loan loss                                                                                        | 309            | 1,108        | 1,417        | 3,279          | 4,557      | 7,836        |
| Ending allowance for loan losses                                                                               | \$ 2,149       | \$ 10,740    | \$ 12,889    | \$ 3,327       | \$ 9,081   | \$ 12,408    |
| Ratio of net charge-offs during the period (annualized) to average total loans during the period, respectively | 1.45%          | 0.44%        | 0.88%        | 0.69%          | 2.04%      | 1.28%        |
| Ratio of allowance for loan losses to total loans outstanding at period end, respectively                      | 0.29%          | 1.04%        | 0.73%        | 0.28%          | 1.01%      | 0.59%        |
| Ratio of allowance for loan losses to non-covered loans outstanding at period end                              |                |              | 1.05%        |                |            | 1.00%        |
| Ratio of allowance for non 310-30 loan losses to total non-performing loans at period end                      |                | 29.20%       |              |                | 24.46%     |              |
| Ratio of allowance for non 310-30 loan losses to non-performing, non-covered loans at period end               |                | 40.16%       |              |                | 30.52%     |              |
| Total loans                                                                                                    | \$ 730,249     | \$ 1,035,201 | \$ 1,765,450 | \$ 1,201,165   | \$ 900,317 | \$ 2,101,482 |
| Average total loans outstanding during the period                                                              | \$ 785,103     | \$ 1,011,137 | \$ 1,796,240 | \$ 1,242,596   | \$ 947,824 | \$ 2,190,420 |
| Non-covered loans                                                                                              | \$ 263,572     | \$ 964,782   | \$ 1,228,354 | \$ 437,092     | \$ 802,754 | \$ 1,239,846 |
| Total non-performing loans                                                                                     | \$             | \$ 36,775    | \$ 36,775    | \$             | \$ 37,126  | \$ 37,126    |
| Non-performing, covered loans                                                                                  | \$             | \$ 10,029    | \$ 10,029    | \$             | \$ 7,368   | \$ 7,368     |



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

|                         | Total loans  | March 31, 2013   |             | % of ALL |
|-------------------------|--------------|------------------|-------------|----------|
|                         |              | % of total loans | Related ALL |          |
| Commercial              | \$ 264,730   | 15%              | \$ 3,286    | 26%      |
| Commercial real estate  | 746,740      | 42%              | 2,975       | 23%      |
| Agriculture             | 164,737      | 9%               | 793         | 6%       |
| Residential real estate | 547,571      | 31%              | 5,342       | 41%      |
| Consumer and overdrafts | 41,672       | 3%               | 493         | 4%       |
| Total                   | \$ 1,765,450 | 100%             | \$ 12,889   | 100%     |

|                         | Total loans  | December 31, 2012 |             | % of ALL |
|-------------------------|--------------|-------------------|-------------|----------|
|                         |              | % of total loans  | Related ALL |          |
| Commercial              | \$ 270,588   | 15%               | \$ 2,798    | 18%      |
| Commercial real estate  | 804,999      | 44%               | 7,396       | 48%      |
| Agriculture             | 173,407      | 9%                | 592         | 4%       |
| Residential real estate | 533,377      | 29%               | 4,011       | 26%      |
| Consumer and overdrafts | 50,331       | 3%                | 583         | 4%       |
| Total                   | \$ 1,832,702 | 100%              | \$ 15,380   | 100%     |

During the three months ended March 31, 2013, the ALL allocated to commercial real estate declined from 48% to 23% largely due to \$2.8 million in charge-offs in our commercial real estate loans accounted for under ASC 310-30 loans, coupled with a \$1.0 million provision reversal related to our ASC 310-30 loans as previously recorded impairments were recaptured in connection with an improvement in estimated cash flows. The ALL allocated to the residential real estate segment increased to 41% from 26% during the three months ended March 31, 2013, which was largely the result of a \$1.0 million impairment in the residential real estate loans accounted for under ASC 310-30.

*FDIC Indemnification Asset and Clawback Liability*

The FDIC indemnification asset represents the net present value of the expected reimbursements from the FDIC for probable losses on covered loans and OREO that were acquired in the Hillcrest Bank and Community Banks of Colorado transactions. The initial fair values were established by discounting the expected future cash flows with a market discount rate for like maturity and risk instruments. The discount is accreted to income in connection with the expected timing of the related cash flows, and may increase or decrease from period to period due to changes in amounts and timing of expected cash flows from covered loans and OREO. 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, the portion of any loss incurred that is reimbursable by the FDIC is recognized as FDIC loss sharing income in non-interest income. Any gains or losses realized from the resolution of covered assets reduce or increase, respectively, the amount of the FDIC indemnification asset.

In the three months ended March 31, 2013, we recognized \$4.7 million of negative accretion on the FDIC indemnification asset as the performance of our covered assets has improved and reduced the carrying value of the FDIC indemnification asset by \$9.1 million as a result of claims filed with the FDIC as discussed below. The negative accretion resulted from an increase in actual and expected cash flows on the underlying covered assets, resulting in lower expected reimbursements from the FDIC. The increase in expected cash flows from these underlying assets is reflected in increased accretion rates on covered loans as well as an increased amount of accretable yield on our covered loans accounted for under ASC Topic 310-30 and is being recognized over the expected lives of the underlying covered loans as an adjustment to yield. During the three months ended March 31, 2013, we submitted \$9.1 million of loss share claims to the FDIC for the reimbursable portion of losses related to the Hillcrest Bank and Community Banks of Colorado covered assets incurred during the fourth quarter of 2012. During the three months ended March 31, 2013, we received \$57.9 million in payments from the FDIC. Of these payments, \$51.0 million were related to Community Banks of Colorado for losses incurred during the second and third quarters of 2012 and \$6.9 million were related to Hillcrest Bank for losses that were incurred during the third and fourth quarters of 2012.

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Subsequent to March 31, 2013, we received \$9.8 million related to claims filed during the fourth quarter of 2012 for losses incurred during the three months ended December 31, 2012 related to Community Banks of Colorado and Hillcrest Bank. The loss claims filed are subject to review and approval, including extensive audits, by the FDIC or its assigned agents for compliance with the terms in the loss sharing agreements.

During the three months ended March 31, 2012, we recognized \$3.7 million of negative accretion related to the FDIC indemnification asset as a result of improved performance of our covered assets and we received \$6.6 million in payments from the FDIC which was related to losses that were incurred during the third quarter of 2011.

Within 45 days of the end of each of the loss sharing agreements with the FDIC, we may be required to reimburse the FDIC in the event that the Company's losses on covered assets do not reach the second tranche in each related loss sharing agreement, based on the initial discount received less cumulative servicing amounts for the covered assets acquired. At March 31, 2013 and December 31, 2012, this clawback liability was carried at \$31.0 million and \$31.3 million, respectively, and is included in Due to FDIC in our consolidated statements of financial condition.

**Table of Contents***Other real estate owned*

OREO is comprised of properties acquired through the foreclosure or repossession process, or any other resolution activity that results in partial or total satisfaction of problem loans. We have a dedicated, enterprise-level problem asset resolution team that is actively working to resolve problem loans and to obtain and subsequently sell the underlying collateral. The OREO balance of \$83.3 million at March 31, 2013 includes the interests of several outside participating banks totaling \$4.9 million, for which an offsetting liability is recorded in other liabilities and excludes \$10.6 million of the Company's minority interests in OREO which are held by outside banks where we were not the lead bank and do not have a controlling interest, for which a receivable is included in other assets. Of the \$83.3 million of OREO at March 31, 2013, \$45.9 million, or 55.0%, was covered by the loss sharing agreements with the FDIC. Any losses on these assets are substantially offset by a corresponding change in the FDIC indemnification asset. We sold \$25.7 million and \$12.7 million of OREO during the three months ended March 31, 2013 and 2012, respectively, and realized net gains on sales of \$1.8 million and \$0.8 million for the three months ended March 31, 2013 and 2012, respectively. Changes in OREO during the three months ended March 31, 2013 and 2012 were as follows (in thousands):

|                               | <b>For the three months ended<br/>March 31,</b> |             |
|-------------------------------|-------------------------------------------------|-------------|
|                               | <b>2013</b>                                     | <b>2012</b> |
| Beginning balance             | \$ 94,808                                       | \$ 120,636  |
| Transfers from loan portfolio | 17,043                                          | 40,899      |
| Impairments                   | (4,600)                                         | (5,089)     |
| Sales                         | (25,726)                                        | (12,676)    |
| Gain (loss) on sale of OREO   | 1,805                                           | 849         |
| Ending Balance                | \$ 83,330                                       | \$ 144,619  |

*Other Assets*

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

|                                                                              | <b>March 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|------------------------------------------------------------------------------|---------------------------|------------------------------|
| FDIC indemnification-claimed                                                 | \$ 10,560                 | \$ 59,291                    |
| Minority interest in participated other real estate owned                    | 10,627                    | 10,627                       |
| Accrued interest on interest bearing bank deposits and investment securities | 6,065                     | 5,585                        |
| Accrued interest on loans                                                    | 6,612                     | 7,088                        |
| Accrued income taxes receivable and deferred tax asset                       | 12,394                    | 7,274                        |
| Other                                                                        | 9,672                     | 10,158                       |
| Total other assets                                                           | \$ 55,930                 | \$ 100,023                   |

Other assets decreased \$44.1 million during the three months ended March 31, 2013, largely because the FDIC indemnification-claimed decreased \$48.7 million, as payments were received on outstanding loss share claims submitted to the FDIC.

*Other Liabilities*

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

| <b>March 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|---------------------------|------------------------------|
|---------------------------|------------------------------|

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|                                                 |                  |                  |
|-------------------------------------------------|------------------|------------------|
| Participant interest in other real estate owned | \$ 4,942         | \$ 5,321         |
| Accrued income taxes payable                    |                  | 4,972            |
| Accrued interest payable                        | 3,862            | 4,239            |
| Accrued expenses                                | 11,263           | 12,263           |
| Warrant liability                               | 4,834            | 5,461            |
| Other liabilities                               | 977              | 2,285            |
| <b>Total other liabilities</b>                  | <b>\$ 25,878</b> | <b>\$ 34,541</b> |

Other liabilities decreased \$8.7 million during the three months ended March 31, 2013, largely due to a \$5.0 million decrease in accrued and deferred income taxes payable that was a result of tax payments paid during the period. During the three months ended March 31, 2013, we continued to lower the interest rates on our deposits, coupled with the shift from higher-cost time deposits to lower cost transaction accounts. The lower cost mix of deposits resulted in a decrease in accrued interest payable of \$0.4 million during the period. Additionally, participant interests in other real estate owned, which represents participant banks' interests in properties that we have repossessed, decreased \$0.4 million. These participant interests are also reflected in our other real estate owned balances.

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We have outstanding warrants to purchase 830,750 shares of our common stock, which are classified as a liability and included in other liabilities in our consolidated statements of financial condition. The warrants were granted to certain lead stockholders and all warrants have an exercise price of \$20.00 per share. The term of the warrants is for ten years and the expiration dates of the warrants range from October 20, 2019 to September 30, 2020. We revalue the warrants at the end of each reporting period using a Black-Scholes model and any change in fair value is reported in the statements of operations as loss (gain) from change in fair value of warrant liability in non-interest expense in the period in which the change occurred. The warrant liability decreased \$0.6 million during the three months ended March 31, 2013 to \$4.8 million. The value of the warrant liability, and the expense that results from an increase to this liability, has a direct correlation to our stock price. Accordingly, any increase in our stock price would result in an increase in the warrant liability and the associated expense. More information on the accounting and measurement of the warrant liability can be found in notes 2 and 19 in our audited consolidated financial statements.

*Deposits*

Deposits from banking clients serve as a primary funding source for our banking operations and our ability to gather and manage deposit levels is critical to our success. Deposits not only provide a low cost funding source for our loans, but also provide a foundation for the customer relationships that are critical to future loan growth. The following table presents information regarding our deposit composition at March 31, 2013 and December 31, 2012 (in thousands):

|                                      | March 31, 2013      |             | December 31, 2012   |             |
|--------------------------------------|---------------------|-------------|---------------------|-------------|
| Non-interest bearing demand deposits | \$ 654,002          | 16%         | \$ 677,985          | 16%         |
| Interest bearing demand deposits     | 487,222             | 12%         | 529,996             | 13%         |
| Savings accounts                     | 198,872             | 5%          | 187,339             | 4%          |
| Money market accounts                | 1,064,211           | 26%         | 1,052,681           | 25%         |
| <b>Total transaction deposits</b>    | <b>2,404,307</b>    | <b>59%</b>  | <b>2,448,001</b>    | <b>58%</b>  |
| Time deposits < \$100,000            | 1,071,717           | 26%         | 1,121,757           | 27%         |
| Time deposits <sup>3</sup> \$100,000 | 584,777             | 15%         | 630,961             | 15%         |
| <b>Total time deposits</b>           | <b>1,656,494</b>    | <b>41%</b>  | <b>1,752,718</b>    | <b>42%</b>  |
| <b>Total deposits</b>                | <b>\$ 4,060,801</b> | <b>100%</b> | <b>\$ 4,200,719</b> | <b>100%</b> |

During the three months ended March 31, 2013, our total deposits decreased \$139.9 million. We have actively worked to restructure our deposit base by retaining only those acquired time deposit clients who were interested in time deposits at market rate and developing a banking relationship and as a result, our time deposits decreased \$96.2 million during the three months ended March 31, 2013. At March 31, 2013 the mix of transaction deposits to total deposits improved to 59.2% from 58.3% at the end of the prior period. At March 31, 2013 and December 31, 2012, we had \$1.2 billion of time deposits that were scheduled to mature within 12 months, \$0.4 billion of which were in denominations of \$100,000 or more, and \$0.8 billion of which were in denominations less than \$100,000. Note 8 to the unaudited consolidated interim financial statements provides a maturity schedule and weighted average rates of time deposits outstanding at March 31, 2013 and December 31, 2012.

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

**Results of Operations**

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

*Overview of Results of Operations*

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We recorded net income of \$2.1 million during the three months ended March 31, 2013 compared to \$1.6 million during the three months ended March 31, 2012. Net interest income declined \$7.7 million from the three months ended March 31, 2012 to the three months ended March 31, 2013, which resulted from the lower loan balances of 310-30 loans as non-strategic loans were successfully moved to resolution, coupled with lower yields earned on the investment portfolio and on the non 310-30 loan portfolio. We grew average balances of transaction accounts \$68.5 million during the three months ended March 31, 2013 compared to the three months ended March 31, 2012, while average balances of total interest bearing liabilities declined \$815.4 million during the same timeframe, driven by an \$881.3 million decline in average time deposits as we focused our deposit base on clients who were interested in market rate time deposits and developing a banking relationship.

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Provision for loan loss expense was \$1.4 million during the three months ended March 31, 2013, compared to \$7.8 million during the three months ended March 31, 2012, a decrease of \$6.4 million. The decrease in provision was due to lower impairment charges on the ASC 310-30 loan pools coupled with reduced net charge-offs in the non 310-30 portfolio when comparing the three months ended March 31, 2013 to the same period of 2012. Non-interest income was \$7.2 million in the three months ended March 31, 2013 compared to \$10.3 million during the same period in 2012, a decline of \$3.1 million, which was largely due to a \$1.4 million decline in FDIC-related income coupled with a \$1.1 million decline in gain on previously charged-off acquired loans.

Non-interest expense totaled \$47.9 million in the three months ended March 31, 2013 compared to \$53.0 million during the three months ended March 31, 2012, a decline of \$5.1 million. The decline in non-interest expense was primarily due to lower OREO expenses of \$3.9 million, coupled with a \$1.3 million decrease in professional fees, a \$1.4 million valuation decrease in the warrant liability and offset by a \$1.4 million increase in occupancy and equipment expense, which was largely due to the additional depreciation of the premises and equipment purchased in the Bank of Choice and Community Banks of Colorado acquisitions.

*Net Interest Income*

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

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

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The table below presents the components of net interest income for the three months ended March 31, 2013 and 2012 (in thousands):

|                                                                                  | For the three months ended March 31, 2013 |                  |                 | For the three months ended March 31, 2012 |                  |                 |
|----------------------------------------------------------------------------------|-------------------------------------------|------------------|-----------------|-------------------------------------------|------------------|-----------------|
|                                                                                  | Average<br>Balance                        | Interest         | Average<br>Rate | Average<br>Balance                        | Interest         | Average<br>Rate |
| <b>Interest earning assets:</b>                                                  |                                           |                  |                 |                                           |                  |                 |
| 310-30 loans                                                                     | \$ 785,103                                | \$ 21,302        | 10.85%          | \$ 1,242,596                              | \$ 26,549        | 8.59%           |
| Non 310-30 loans (1)(2)                                                          | 1,015,260                                 | 14,833           | 5.93%           | 953,345                                   | 20,042           | 8.46%           |
| Investment securities available-for-sale                                         | 1,845,383                                 | 8,471            | 1.86%           | 1,961,349                                 | 14,895           | 3.05%           |
| Investment securities held-to-maturity                                           | 552,832                                   | 4,777            | 3.50%           | 23,291                                    | 211              | 3.64%           |
| Other securities                                                                 | 32,996                                    | 394              | 4.84%           | 29,112                                    | 381              | 5.26%           |
| Interest bearing deposits                                                        | 531,945                                   | 321              | 0.24%           | 1,263,164                                 | 812              | 0.26%           |
| <b>Total interest earning assets</b>                                             | <b>\$ 4,763,519</b>                       | <b>\$ 50,098</b> | <b>4.27%</b>    | <b>\$ 5,472,857</b>                       | <b>\$ 62,890</b> | <b>4.62%</b>    |
| Cash and due from banks                                                          | 62,616                                    |                  |                 | 73,450                                    |                  |                 |
| Other assets                                                                     | 481,154                                   |                  |                 | 637,102                                   |                  |                 |
| Allowance for loan losses                                                        | (14,297)                                  |                  |                 | (6,334)                                   |                  |                 |
| <b>Total assets</b>                                                              | <b>\$ 5,292,992</b>                       |                  |                 | <b>\$ 6,177,075</b>                       |                  |                 |
| <b>Interest bearing liabilities:</b>                                             |                                           |                  |                 |                                           |                  |                 |
| Interest bearing demand, savings and money market deposits                       | \$ 1,738,410                              | \$ 1,094         | 0.26%           | \$ 1,669,889                              | \$ 1,604         | 0.39%           |
| Time deposits                                                                    | 1,698,801                                 | 3,417            | 0.82%           | 2,580,053                                 | 7,999            | 1.25%           |
| Securities sold under agreements to repurchase                                   | 46,784                                    | 18               | 0.16%           | 49,403                                    | 29               | 0.23%           |
| <b>Total interest bearing liabilities</b>                                        | <b>\$ 3,483,995</b>                       | <b>\$ 4,529</b>  | <b>0.53%</b>    | <b>\$ 4,299,345</b>                       | <b>\$ 9,632</b>  | <b>0.90%</b>    |
| Demand deposits                                                                  | 645,904                                   |                  |                 | 645,972                                   |                  |                 |
| Other liabilities                                                                | 75,556                                    |                  |                 | 139,131                                   |                  |                 |
| <b>Total liabilities</b>                                                         | <b>4,205,455</b>                          |                  |                 | <b>5,084,448</b>                          |                  |                 |
| Stockholders' equity                                                             | 1,087,537                                 |                  |                 | 1,092,627                                 |                  |                 |
| <b>Total liabilities and stockholders' equity</b>                                | <b>\$ 5,292,992</b>                       |                  |                 | <b>\$ 6,177,075</b>                       |                  |                 |
| <b>Net interest income</b>                                                       |                                           | <b>\$ 45,569</b> |                 |                                           | <b>\$ 53,258</b> |                 |
| Interest rate spread                                                             |                                           |                  | 3.74%           |                                           |                  | 3.72%           |
| Net interest earning assets                                                      | \$ 1,279,524                              |                  |                 | \$ 1,173,512                              |                  |                 |
| Net interest margin                                                              |                                           |                  | 3.88%           |                                           |                  | 3.91%           |
| Ratio of average interest earning assets to average interest bearing liabilities | 136.73%                                   |                  |                 | 127.30%                                   |                  |                 |

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

(2) Non 310-30 loans include loans held-for-sale.

Net interest income totaled \$45.6 million and \$53.3 million for the three months ended March 31, 2013 and 2012, respectively. The net interest margin narrowed 3 basis points from the same period a year ago to 3.88% and the interest rate spread widened 2 basis points to 3.74% during the three months ended March 31, 2013. The year-over-year narrowing of the net interest margin was primarily driven by a 13.0% decrease in



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average interest earning assets which was largely attributable to a \$457.5 million decrease in average balances on loans accounted for under ASC 310-30 as we continued to actively exit the non-strategic loan portfolio.

Average loans comprised \$1.8 billion, or 37.8% of total average interest earning assets during the three months ended March 31, 2013, compared to \$2.2 billion, or 40.1%, of total average interest earning assets during the three months ended March 31, 2012. Loan balances at the beginning of 2012 were reflective of our acquisitions in the latter-half of 2011 and the decline in average balances is

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reflective of our exit strategy of the non-strategic loans. The yield on the ASC 310-30 loan portfolio was 10.85% during the three months ended March 31, 2013, compared to 8.59% during the same period the prior year. This 2.26% increase was attributable to the effects of the favorable life-to-date transfers of non-accretable difference to accretable yield that are being accreted to interest income over the remaining life of these loans.

Average investment securities comprised 50.3% of total interest earning assets at March 31, 2013 compared to 36.3% at March 31, 2012, as we have steadily reinvested the excess cash into our investment securities portfolio. The continued low interest rate environment and lower re-investment yields have resulted in an 82 basis point decline in yields earned on the total investment portfolio during the three months ended March 31, 2013 compared to the same period of the prior year.

Average balances of interest earning liabilities declined \$815.4 million for the three months ended March 31, 2012, driven by an \$881.3 million decline in average time deposits as we focused our deposit base on clients who were interested in market rate time deposits and developing a banking relationship. The net interest margin benefited from a 0.37% decrease in the cost of interest bearing liabilities as we continued our strategy of transitioning high-priced time deposits to lower-cost transaction accounts. During the three months ended March 31, 2013, total interest expense related to interest bearing liabilities was \$4.5 million compared to \$9.6 million during the three months ended March 31, 2012, or an average cost of 0.53% and 0.90% during the respective periods. The largest component of interest expense in each period was related to time deposits, which carried an average rate of 0.82% and 1.25% during the three months ended March 31, 2013 and 2012, respectively.

The following table summarizes the changes in net interest income by major category of interest earning assets and interest bearing liabilities, identifying changes related to volume and changes related to rates for the three months ended March 31, 2013 compared to the three months ended March 31, 2012 (in thousands):

|                                                            | <b>Three months ended March 31, 2013<br/>Compared To<br/>Three months ended March 31, 2012<br/>Increase (decrease) due to</b> |                   |                    |
|------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|-------------------|--------------------|
|                                                            | <b>Volume</b>                                                                                                                 | <b>Rate (3)</b>   | <b>Net</b>         |
| <b>Interest income:</b>                                    |                                                                                                                               |                   |                    |
| 310-30 loans                                               | \$ (12,413)                                                                                                                   | \$ 7,166          | \$ (5,247)         |
| Non 310-30 loans (1)(2)(3)                                 | 905                                                                                                                           | (6,114)           | (5,209)            |
| Investment securities available-for-sale                   | (532)                                                                                                                         | (5,892)           | (6,424)            |
| Investment securities held-to-maturity                     | 4,576                                                                                                                         | (10)              | 4,566              |
| Other securities                                           | 46                                                                                                                            | (33)              | 13                 |
| Interest bearing deposits                                  | (441)                                                                                                                         | (50)              | (491)              |
| <b>Total interest income</b>                               | <b>\$ (7,859)</b>                                                                                                             | <b>\$ (4,933)</b> | <b>\$ (12,792)</b> |
| <b>Interest expense:</b>                                   |                                                                                                                               |                   |                    |
| Interest bearing demand, savings and money market deposits | \$ 43                                                                                                                         | \$ (553)          | \$ (510)           |
| Time deposits                                              | (1,773)                                                                                                                       | (2,809)           | (4,582)            |
| Securities sold under agreements to repurchase             | (1)                                                                                                                           | (10)              | (11)               |
| <b>Total interest expense</b>                              | <b>(1,731)</b>                                                                                                                | <b>(3,372)</b>    | <b>(5,103)</b>     |
| <b>Net change in net interest income</b>                   | <b>\$ (6,128)</b>                                                                                                             | <b>\$ (1,561)</b> | <b>\$ (7,689)</b>  |

- (1) Originated loans are net of deferred loan fees, less costs, which are included in interest income over the life of the loan.
- (2) Non 310-30 loans include loans held-for-sale.
- (3) Includes changes for difference in number of days due to the leap year in 2012.

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Our acquired banks had deposit rates, particularly time deposit rates, higher than market at the time we acquired them. We have been steadily lowering deposit rates as we shift towards a more consumer-based banking strategy and focusing on lower cost transaction accounts. We have done this through a particular emphasis on lowering the cost of time deposits. Below is a breakdown of deposits and the average rates paid during the periods indicated (in thousands):

|                             | March 31, 2013     |                         | December 31, 2012  |                         | For the three months ended<br>September 30, 2012 |                         | June 30, 2012      |                         | March 31, 2012     |                         |
|-----------------------------|--------------------|-------------------------|--------------------|-------------------------|--------------------------------------------------|-------------------------|--------------------|-------------------------|--------------------|-------------------------|
|                             | Average<br>Balance | Average<br>Rate<br>Paid | Average<br>Balance | Average<br>Rate<br>Paid | Average<br>Balance                               | Average<br>Rate<br>Paid | Average<br>Balance | Average<br>Rate<br>Paid | Average<br>Balance | Average<br>Rate<br>Paid |
| Non-interest bearing demand | \$ 645,904         | 0.00%                   | \$ 662,763         | 0.00%                   | \$ 636,277                                       | 0.00%                   | \$ 622,936         | 0.00%                   | \$ 645,972         | 0.00%                   |
| Interest bearing demand     | 486,015            | 0.17%                   | 484,178            | 0.18%                   | 500,240                                          | 0.22%                   | 523,202            | 0.24%                   | 532,574            | 0.32%                   |
| Money market accounts       | 1,057,847          | 0.32%                   | 1,033,350          | 0.34%                   | 1,014,793                                        | 0.39%                   | 995,668            | 0.40%                   | 955,983            | 0.46%                   |
| Savings accounts            | 194,548            | 0.13%                   | 176,209            | 0.13%                   | 181,939                                          | 0.14%                   | 187,046            | 0.16%                   | 181,332            | 0.19%                   |
| Time deposits               | 1,698,801          | 0.82%                   | 1,832,790          | 0.85%                   | 2,063,622                                        | 1.00%                   | 2,298,782          | 1.14%                   | 2,580,053          | 1.25%                   |
| Total average deposits      | \$ 4,083,115       | 0.45%                   | \$ 4,189,290       | 0.48%                   | \$ 4,396,871                                     | 0.59%                   | \$ 4,627,634       | 0.69%                   | \$ 4,895,914       | 0.79%                   |

*Provision for Loan Losses*

The provision for loan losses represents the amount of expense that is necessary to bring the ALL to a level that we deem appropriate to absorb probable losses inherent in the loan portfolio as of the balance sheet date. The determination of the ALL, and the resultant provision for loan losses, are subjective and involve estimates and assumptions.

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

|                                                                        | For the three months<br>ended,<br>March 31, 2013 |          | March 31, 2012 |  |
|------------------------------------------------------------------------|--------------------------------------------------|----------|----------------|--|
|                                                                        |                                                  |          |                |  |
| Provision for impairment on loans accounted for under ASC Topic 310-30 | \$ 309                                           | \$ 3,279 |                |  |
| Provision for loan losses                                              | 1,108                                            | 4,557    |                |  |
| Total provision for loan losses                                        | \$ 1,417                                         | \$ 7,836 |                |  |

Through the re-measurement process, we recorded \$0.3 million and \$3.3 million of provision for loans accounted for under ASC 310-30 during the three months ended March 31, 2013 and 2012, respectively. The net provisions on the loans accounted for under ASC 310-30 reflect \$1.1 million of provision recoupments as a result of increased cash flows across seven pools. These provision reversals, when coupled with decreased expected future cash flows primarily driven by our commercial, commercial real estate and residential real estate pools, resulted in the net provision of \$0.3 million for the three months ended March 31, 2013. The decreases in expected future cash flows are reflected immediately in our financial statements. Increases in expected future cash flows are reflected through an increase in accretable yield that is accreted to income in future periods.

At March 31, 2013, \$101 thousand of the \$309 thousand of impairments related to loans accounted for under ASC Topic 310-30 was covered by loss sharing agreements with the FDIC and \$249 thousand of the \$1.1 million of provision for loan losses for loans not accounted for under ASC Topic 310-30 was covered by loss sharing agreements with the FDIC. At March 31, 2012, \$3.0 million of the \$3.3 million of impairments related to loans accounted for under ASC Topic 310-30 was covered by loss sharing agreements with the FDIC and \$0.4 million of the \$4.6

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million of provision for loan losses for loans not accounted for under ASC Topic 310-30 was covered by loss sharing agreements with the FDIC. The provision for impairment expense on covered assets has an offsetting increase in non-interest income as a result of the loss sharing agreements with the FDIC. The provisions for loan losses charged to non-covered loans were related to a combination of providing an ALL for new loans, changes in the market conditions and qualitative factors used in analyzing the ALL and specific impairments on non-covered loans.

**Table of Contents***Non-Interest Income*

The table below details the components of non-interest income during the three months ended March 31, 2013 and 2012, respectively (in thousands):

|                                                             | <b>For the three months ended March 31,</b> |                  |
|-------------------------------------------------------------|---------------------------------------------|------------------|
|                                                             | <b>2013</b>                                 | <b>2012</b>      |
| FDIC indemnification asset accretion                        | \$ (4,669)                                  | \$ (3,687)       |
| FDIC loss sharing income                                    | 3,276                                       | 3,699            |
| Service charges                                             | 3,687                                       | 4,376            |
| Bank card fees                                              | 2,469                                       | 2,301            |
| Gain on sale of mortgages, net                              | 306                                         | 309              |
| Gain on sale of securities, net                             |                                             | 674              |
| Gain on recoveries of previously charged-off acquired loans | 443                                         | 1,533            |
| Other non-interest income                                   | 1,639                                       | 1,065            |
| <b>Total non-interest income</b>                            | <b>\$ 7,151</b>                             | <b>\$ 10,270</b> |

Non-interest income for the three months ended March 31, 2013 totaled \$7.2 million compared to \$10.3 million during the three months ended March 31, 2012. We recognized negative accretion of \$4.7 million and \$3.7 million during the first quarter of 2013 and 2012, respectively, related to the FDIC indemnification asset. The negative accretion resulted from an increase in actual and expected cash flows on the underlying covered assets, resulting in lower expected reimbursements from the FDIC. The increase in expected cash flows from these underlying assets is reflected in increased accretion rates on covered loans and is being recognized over the remaining expected lives of the underlying covered loans as an adjustment to yield.

Service charges of \$3.7 million represented the largest component of non-interest income during the three months ended March 31, 2013 at 51.6% compared to \$4.4 million during the three months ended March 31, 2012. Service charges represent various fees charged to clients for banking services, including fees such as non-sufficient funds ( NSF ) charges and service charges on deposit accounts. Service charges decreased \$0.7 million during the three months ended March 31, 2013 compared to the three months ended March 31, 2012, primarily due to declines in NSF charges.

Bank card fees are comprised primarily of interchange fees on the debit cards that we have issued to our clients. These transactional charges totaled \$2.5 million and \$2.3 million during the three months ended March 31, 2013 and 2012, respectively.

Gain on recoveries of previously charged-off acquired loans represents recoveries on loans that were previously charged-off by the predecessor bank prior to takeover by the FDIC. During the three months ended March 31, 2013, these gains were \$0.4 million compared to \$1.5 million during the same period in the prior year.

*FDIC loss sharing income*

FDIC loss sharing income represents the income recognized in connection with the actual reimbursement of costs/recoveries of resolution of covered assets from the FDIC. The primary drivers of the FDIC loss sharing income are the FDIC reimbursements of the costs of resolving covered assets.

Activity in the FDIC loss sharing income during the three months ended March 31, 2013 and 2012 was as follows (in thousands):

|                                  | <b>For the three months ended March 31,</b> |             |
|----------------------------------|---------------------------------------------|-------------|
|                                  | <b>2013</b>                                 | <b>2012</b> |
| Clawback liability amortization  | (313)                                       | (354)       |
| Clawback liability remeasurement | 573                                         | (10)        |
|                                  | (860)                                       | 597         |

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|                                                                                      |          |          |
|--------------------------------------------------------------------------------------|----------|----------|
| Reimbursement (to) from FDIC for (gain) loss on sale of and income from covered OREO |          |          |
| Reimbursement to FDIC for recoveries                                                 | (15)     | (1)      |
| FDIC reimbursement of costs of resolution of covered assets                          | 3,891    | 3,467    |
| Total                                                                                | \$ 3,276 | \$ 3,699 |

Other FDIC loss sharing income (expense) during the three months ended March 31, 2013 was primarily comprised of FDIC reimbursements of costs of resolution of covered assets of \$3.9 million and reimbursements to the FDIC for gains on sales of and income from covered OREO of \$0.9 million.

**Table of Contents***Non-Interest Expense*

Our operating strategy is to capture the efficiencies available by consolidating the operations of our acquisitions and several of our key operating objectives affect our non-interest expense. We completed the conversion Our Community Banks of Colorado and Bank of Choice acquisitions to our new data processing platform in May 2012 and July 2012, respectively. The table below details non-interest expense for the periods presented (in thousands):

|                                                            | <b>For the three months ended March 31,</b> |                  |
|------------------------------------------------------------|---------------------------------------------|------------------|
|                                                            | <b>2013</b>                                 | <b>2012</b>      |
| Salaries and employee benefits                             | \$ 22,956                                   | \$ 22,413        |
| Occupancy and equipment                                    | 5,965                                       | 4,537            |
| Professional fees                                          | 1,396                                       | 2,671            |
| Telecommunications and data processing                     | 3,469                                       | 3,731            |
| Marketing and business development                         | 1,379                                       | 918              |
| Supplies and printing                                      | 356                                         | 379              |
| Other real estate owned expenses                           | 4,719                                       | 8,621            |
| Problem loan expenses                                      | 2,331                                       | 1,711            |
| Intangible asset amortization                              | 1,336                                       | 1,336            |
| FDIC deposit insurance                                     | 1,047                                       | 1,351            |
| ATM/debit card expenses                                    | 1,005                                       | 775              |
| Initial public offering related expenses                   |                                             | 321              |
| Acquisition related costs                                  |                                             | 855              |
| Loss (gain) from change in fair value of warrant liability | (627)                                       | 726              |
| Other non-interest expense                                 | 2,552                                       | 2,628            |
| <b>Total non-interest expense</b>                          | <b>\$ 47,884</b>                            | <b>\$ 52,973</b> |

The largest component of non-interest operating expense is salaries and employee benefits. Salaries and employee benefits totaled \$23.0 million and \$22.4 million for the three months ended March 31, 2013 and 2012, respectively, an increase of \$0.6 million. The increase reflects staffing changes as part of the further build out of sales teams and corporate and operating functions, offset by a \$0.7 million decrease in stock-based compensation during the three months ended March 31, 2013 compared to the same period in 2012.

Occupancy and equipment expense totaled \$6.0 million for the three months ended March 31, 2013, an increase of \$1.4 million over the three months ended March 31, 2012. The increase was driven by an increase in depreciation expense as a result of the purchase and subsequent depreciation on the premises and equipment purchased from the FDIC in the first half of 2012 related to our Bank of Choice and Community Banks of Colorado acquisitions.

Professional fees totaled \$1.4 million during the three months ended March 31, 2013 and decreased \$1.3 million from the three months ended March 31, 2012. Professional fees were elevated during the three months ended March 31, 2012 primarily due to professional fees incurred in conjunction with our acquisitions of Bank of Choice in the third quarter of 2011 and Community Banks of Colorado during the fourth quarter of 2012. Additionally, we have outsourced fewer professional functions as we have built out our internal management functions.

Marketing and business development expense totaled \$1.4 million for the three months ended March 31, 2013, compared to \$0.9 million during the three months ended March 31, 2012, an increase of \$0.5 million. These increases were primarily due to an increase in print, outdoor, radio and television advertising following the conversions of our Bank of Choice and Community Banks of Colorado acquisitions.

Significant components of our non-interest expense are our problem loan expenses and OREO related expenses. We incur these expenses in connection with the resolution process of our acquired troubled loan portfolios. During the three months ended March 31, 2013, we incurred \$4.7 million of OREO related expenses and \$2.3 million of problem loan expenses. Of the \$7.0 million in collective OREO and problem loan expenses incurred during the three months ended March 31, 2013, \$4.6 million was covered by loss sharing agreements with the FDIC. The losses on covered assets that are reimbursable from the FDIC are based on the book value of the related covered assets as determined by the FDIC at the date of acquisition, and the FDIC's book value does not necessarily correlate with our book value of the same assets. This difference is primarily because we recorded the OREO at fair value at the date of acquisition in accordance with applicable accounting guidance. Any losses recorded after the acquisition date are recorded at the full-loss value in other non-interest expense, and any related reimbursement from

the FDIC is recorded in non-interest income as FDIC loss sharing income.



**Table of Contents***Income taxes*

Income tax expense totaled \$1.3 million for the three months ended March 31, 2013, as compared with \$1.1 million for the three months ended March 31, 2012. These amounts equate to effective tax rates of 39.1% and 39.6% for the respective periods.

The decrease in the effective tax rate for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, was primarily attributable to changes in our state tax liabilities as our state tax presence continues to evolve. Additional information regarding income taxes can be found in note 22 of our audited consolidated financial statements.

**Liquidity and Capital Resources**

Liquidity is monitored and managed to ensure that sufficient funds are available to operate our business and pay our obligations to depositors and other creditors, while providing ample available funds for opportunistic and strategic investments. Liquidity is represented by our cash and cash equivalents and pledgeable investment securities, and is detailed in the table below as of March 31, 2013 and December 31, 2012 (in thousands):

|                                                       | <b>March 31, 2013</b> | <b>December 31, 2012</b> |
|-------------------------------------------------------|-----------------------|--------------------------|
| Cash and due from banks                               | \$ 57,446             | \$ 90,505                |
| Due from Federal Reserve Bank of Kansas City          | 266,290               | 579,267                  |
| Federal funds sold and interest bearing bank deposits | 95,457                | 99,408                   |
| Pledgeable investment securities, at fair value       | 2,406,404             | 2,084,046                |
| <b>Total</b>                                          | <b>\$ 2,825,597</b>   | <b>\$ 2,853,226</b>      |

Total on-balance sheet liquidity decreased \$27.6 million from December 31, 2012 to March 31, 2013. The decrease was largely due to a decrease in balances at the Federal Reserve Bank, offset by purchases of mortgage-backed securities.

Aside from the deployment of our capital and cash received from acquisitions, our primary sources of funds are deposits from clients, prepayments and maturities of loans and investment securities, the sale of investment securities, reimbursement of covered asset losses from the FDIC and the funds provided from operations. Additionally, we anticipate having access to third party funding sources, including the ability to raise funds through the issuance of shares of our common stock or other equity or equity-related securities, incurrence of debt, and federal funds purchased, that may also be a source of liquidity. We anticipate that these sources of liquidity will provide adequate funding and liquidity for at least a 12 month period.

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

Exclusive from the investing activities related to acquisitions, our primary investing activities are originations and pay-offs and pay downs of loans and sales and purchases of investment securities. At March 31, 2013, pledgeable investment securities represented our largest source of liquidity. Our available-for-sale investment securities are carried at fair value and our held-to-maturity securities are carried at amortized cost. Our collective investment securities portfolio totaled \$2.6 billion at March 31, 2013, inclusive of pre-tax net unrealized gains of \$32.9 million on the available-for-sale securities portfolio. The gross unrealized gains are detailed in note 5 of our consolidated financial statements for the three months ended March 31, 2013. As of March 31, 2013, our investment securities portfolio consisted primarily of mortgage-backed securities, all of which were issued or guaranteed by U.S. Government agencies or sponsored enterprises, and prime auto asset-backed securities. The anticipated repayments and marketability of these securities offer substantial resources and flexibility to meet new loan demand, reinvest in the investment securities portfolio, or provide optionality for reductions in our deposit funding base.

At present, financing activities are limited to changes in repurchase agreements, time deposits, and the clawback liability. Maturing time deposits, and holders of \$132.9 million of time deposits assumed in the Hillcrest Bank, Bank of Choice, and Community Banks of Colorado acquisitions that have not yet accepted new terms, represent a potential use of funds, as these depositors have the option to move the funds without penalty. As of March 31, 2013, \$1.2 billion of time deposits were scheduled to mature within 12 months. Based on the current interest rate environment, market conditions, and our consumer banking strategy focusing on both lower cost transaction accounts and term deposits, we

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expect to replace a significant portion of those maturing time deposits with transaction deposits and market-rate time deposits with transaction deposits and market-rate time deposits.

As the Company matures, we expect that our liquidity at the holding company will subsequently decrease as we continue to deploy available capital and until such time that our subsidiary bank is permitted to pay, and does pay dividends up to the holding company.

NBH Bank is prohibited from paying dividends to the holding company until at least the fourth quarter of 2013. As a result, the holding company's current sources of funds are limited to cash and cash equivalents on hand, which totaled \$96.1 million at March 31, 2013. The holding company may seek to borrow funds and raise capital in the future, the success and terms of which will be subject to market conditions and other factors.

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Our stockholders' equity is impacted by the retention of earnings (losses), changes in unrealized gains on securities, net of tax and the payment of dividends. We have agreed 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 at NBH Bank until at least the fourth quarter of 2013. At March 31, 2013 and December 31, 2012, NBH Bank and the consolidated holding company exceeded all capital requirements to which they were subject.

During the three months ended March 31, 2013, we repurchased 12,763 shares of our common stock under the \$25 million share repurchase previously authorized by our board of directors. To date, we have repurchased 13,003 shares under this authorization, and all shares have been retired. Subsequent to March 31, 2013 and through May 10, 2013, we have repurchased an additional 48,411 shares through this repurchase authorization. On February 19, 2013, we declared a quarterly dividend of \$0.05 per share, which was paid on March 15, 2013, to holders of record on February 28, 2013. Additionally, on May 1, 2013, our board of directors declared a quarterly dividend of \$0.05 per share, payable on June 14, 2013 to shareholders of record on May 31, 2013.

### **Asset/Liability Management and Interest Rate Risk**

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

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

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

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

Our interest rate risk model indicated that the Company was asset sensitive in terms of interest rate sensitivity at March 31, 2013. During the three months ended March 31, 2013, we decreased our asset sensitivity as a result of the declines in cash balances relative to the size of the balance sheet. The table below illustrates the impact of an immediate and sustained 200 and 100 basis point increase and a 50 basis point decrease in interest rates on net interest income based on the interest rate risk model at March 31, 2013 and December 31, 2012:

| Hypothetical<br>Shift in Interest<br>Rates (in bps) | % Change in Projected Net Interest Income |                   |
|-----------------------------------------------------|-------------------------------------------|-------------------|
|                                                     | March 31, 2013                            | December 31, 2012 |
| 200                                                 | 8.53%                                     | 12.84%            |
| 100                                                 | 5.22%                                     | 7.43%             |
| -50                                                 | -2.10%                                    | -2.88%            |

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

The federal funds rate is the basis for overnight funding and the market expectations for changes in the federal funds rate influence the yield curve. The federal funds rate is currently at 0.25% and has been since December 2008. Should interest rates decline further, net interest margin

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and net interest income would be compressed given the current mix of rate sensitive assets and liabilities.

As part of the asset/liability management strategy, management has emphasized the origination of shorter duration loans as well as variable rate loans to limit the negative exposure to a rate increase. The strategy with respect to liabilities has been to emphasize transaction accounts, particularly non-interest or low interest bearing non-maturing deposit accounts which are less sensitive to

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changes in interest rates. In response to this strategy, non-maturing deposit accounts have been steadily increasing and totaled 59.2% of total deposits at March 31, 2013 compared to 58.3% at December 31, 2012. We currently have no brokered time deposits and intend to continue to focus on our strategy of increasing non-interest or low interest bearing non-maturing deposit accounts and accordingly, we have no current plans to use brokered deposits in the near future.

### **Off-Balance Sheet Activities**

In the normal course of business, we are a party to various contractual obligations, commitments and other commitments that we enter into to meet the financing needs of clients, including commitments to extend credit, commercial and consumer lines of credit and standby letters of credit. As of March 31, 2013 and December 31, 2012, the Company had loan commitments totaling \$239.6 million and \$305.9 million, respectively, and standby letters of credit that totaled \$8.3 million and \$10.7 million, respectively. Unused commitments do not necessarily represent future credit exposure or cash requirements, as commitments often expire without being drawn upon. We do not anticipate any material losses arising from commitments or contingent liabilities and we do not believe that there are any material commitments to extend credit that represent risks of an unusual nature.

### **Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

### **Item 4. CONTROLS AND PROCEDURES**

Under the supervision and with the participation of the Company's management, including its principal executive officer and principal financial officer, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based upon this evaluation, the principal executive officer and principal financial officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective.

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

## **PART II: OTHER INFORMATION**

### **Item 1. LEGAL PROCEEDINGS**

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

### **Item 1A. RISK FACTORS**

There have been no material changes to the risk factors disclosed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012.

**Table of Contents****Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The following table sets forth information about our purchases of our \$0.01 par value common stock, our only class of stock registered pursuant to Section 12 of the Exchange Act, during the first quarter of 2013:

| Period                         | (a) Total Number of Shares (or Units) Purchased | (b) Average Price Paid Per Share (or Unit) | (c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs |
|--------------------------------|-------------------------------------------------|--------------------------------------------|-------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|
| January 1 - January 31, 2013   |                                                 | \$                                         |                                                                                                 | \$ 24,995,685                                                                                                               |
| February 1 - February 28, 2013 | 12,763                                          | 17.97                                      | 12,763                                                                                          | 24,766,281                                                                                                                  |
| March 1 - March 31, 2013       |                                                 |                                            |                                                                                                 | 24,766,281                                                                                                                  |
| Total                          | 12,763                                          | \$ 17.97                                   | 12,763                                                                                          | \$ 24,766,281                                                                                                               |

On October 31, 2012, the Board of Directors authorized share repurchases of our common stock of up to \$25 million, from time to time. The stock purchases detailed above were made under this authorization.

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**Item 6. EXHIBITS**

- 10.1 Form of NBH Holdings Corp. 2009 Equity Incentive Plan Restricted Stock Award Agreement (For Non-Employee Directors)
- 10.2 Form of NBH Holdings Corp. 2009 Equity Incentive Plan Restricted Stock Award Agreement (For Management)
- 10.3 Form of NBH Holdings Corp. 2009 Equity Incentive Plan Nonqualified Stock Option Agreement (For Management)
- 31.1 Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certifications of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101 Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operation, (iii) the Consolidated Statements of Comprehensive Income (Loss), (iv) the Consolidated Statements of Changes in Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Consolidated Financial Statements, tagged as blocks of text and in detail\*

Schedules and similar attachments have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The registrant will furnish supplementally a copy of any omitted schedules or similar attachment to the SEC upon request.

\* This information is deemed furnished, not filed.

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**SIGNATURES**

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

NATIONAL BANK HOLDINGS CORPORATION

/s/ Brian F. Lilly  
Brian F. Lilly  
Chief Financial Officer  
(Authorized Officer and Principal Financial Officer)

Date: May 14, 2013