National Bank Holdings Corp
Form 10-K
February 27, 2014

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

FORM 10-K

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

For the fiscal year ended December 31, 2013

OR

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

For the transition period from to

Commission File Number: 001-35654

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

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

7800 East Orchard Road, Suite 300, Greenwood Village, Colorado 80111
(Address of principal executive offices) (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A Common Stock, Par Value $0.01	New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý

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

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

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

Large accelerated filer ý	Accelerated filer ¨

Non-accelerated filer ¨ (do not check if a smaller reporting company) Smaller Reporting Company ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No ý
As of June 30, 2013, the aggregate market value of the registrant’s common stock held by non-affiliates of the registrant was approximately $1,005,000,000 based on the closing sale price as reported on the New York Stock Exchange.
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 February 26, 2014 NBHC had outstanding 41,529,357 shares of Class A voting common stock and 3,027,774 shares of Class B non-voting common stock, each with $0.01 par value per share, excluding 1,064,460 shares of restricted Class A common stock issued but not yet vested.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the Registrant’s definitive proxy statement for its 2014 Annual Meeting of Shareholders to be filed within 120 days of December 31, 2013 will be incorporated by reference into Part III of this form 10-K.

INDEX

			Page
Cautionary Notes Regarding Forward Looking Statements			1
PART I	Item 1.	Business	3
	Item 1A.	Risk Factors	19
	Item 1B.	Unresolved Staff Comments	29
	Item 2.	Properties	29
	Item 3.	Legal Proceedings	29
	Item 4.	Mine Safety Disclosures	29
PART II	Item 5.	Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities	30
	Item 6.	Selected Financial Data	32
	Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	39
	Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	78
	Item 8.	Financial Statements and Supplementary Data	79
	Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	133
	Item 9A.	Controls and Procedures	133
	Item 9B.	Other Information	135
PART III	Item 10.	Directors, Executive Officers and Corporate Governance	135
	Item 11.	Executive Compensation	135
	Item 12.	Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters	135
	Item 13.	Certain Relationships and Related Transactions, and Director Independence	135
	Item 14.	Principal Accountant Fees and Services	135
PART IV	Item 15.	Exhibits and Financial Statement Schedules	136
Signatures			137
Index to Exhibits			138

Cautionary Notes Regarding Forward-looking Statements

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

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

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

- regulatory limitations on dividends from our bank subsidiary;
- changes in estimates of future loan reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements;
- political instability, acts of war or terrorism and natural disasters;
- impact of reputational risk on such matters as business generation and retention; and
- our success at managing the risks involved in the foregoing items.

1

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

PART I

Item 1. BUSINESS.

Summary

National Bank Holdings Corporation ("NBHC" or the "Company") is a bank holding company that was incorporated in the State of Delaware in June 2009 and is headquartered immediately south of Denver, in Greenwood Village, Colorado. Our primary operations are conducted through our wholly owned subsidiary, NBH Bank, N.A., through which we provide a variety of banking products to both commercial and consumer clients. We service our clients through a network of 97 banking centers, with the majority of those banking centers located in the greater Kansas City area and Colorado, and through online and mobile banking products. As of December 31, 2013, we had $4.9 billion in assets, $1.9 billion in loans, $3.8 billion in deposits and $897.8 million in shareholders' equity.

The Company was formed through a private offering of our common stock in October 2009. As part of our goal of becoming a leading regional bank holding company, we are pursuing a dual strategy of strong organic growth and selective acquisitions of financial institutions and other complementary businesses. In October 2010, we acquired the failed Hillcrest Bank from the FDIC and began banking operations. To date, we have completed four acquisitions of troubled or failed banks, three of which were FDIC-assisted. We have transformed these four troubled banks into one collective banking operation with strong organic growth, prudent underwriting, and meaningful market share with continued opportunity for expansion. Our focus is on building organic growth through strong banking relationships with small- and mid-sized businesses and consumers in our markets. Our long-term business model utilizes our organic development infrastructure, low-risk balance sheet, continuous operational development and a disciplined acquisition strategy to create value and provide attractive returns.

We have a management team consisting of experienced banking executives led by President and Chief Executive Officer G. Timothy Laney. Mr. Laney brings over 30 years of banking experience, 24 of which were at Bank of America in a wide range of executive management roles, including serving on Bank of America's Management Operating Committee. In late 2007, Mr. Laney joined Regions Financial as Senior Executive Vice President and Head of Business Services. Mr. Laney leads our team of executives that have significant experience in operating banks and completing and integrating mergers and acquisitions. Additionally, our board of directors, led by Chairman Frank Cahouet, the former Chairman, President and Chief Executive Officer of Mellon Financial, is highly accomplished in the banking industry and includes individuals with broad experience operating and working with financial institutions, regulators and governance considerations.

Our Acquisitions

A key component of our growth strategy is to grow through the acquisition of financial institutions and we consider our ability to source, diligence and close transactions to be a core skill set. 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. We established our presence in the greater Kansas City region through two complementary acquisitions completed in the fourth quarter of 2010. On October 22, 2010, we acquired selected assets and assumed selected liabilities of Hillcrest Bank of Overland Park, Kansas from the FDIC. Through this transaction, we acquired nine banking centers and 32 retirement center locations, which were predominantly located in the greater Kansas City region but also included one banking center and six retirement centers in Colorado and two banking centers and six retirement centers in Texas. Retirement centers offered limited-service banking services to residents in retirement communities. On December 31, 2013, we closed all retirement center locations and integrated the servicing of these clients into our banking center network.

On December 10, 2010, we completed our acquisition, without FDIC assistance, of a portion of the franchise of Bank Midwest from Dickinson Financial Corporation, that consisted of select performing loans and client deposits, and included 39 banking centers, 25 of which are in the greater Kansas City region and 14 of which are located elsewhere in Missouri. As a result of these acquisitions, at June 30, 2013 (the last date as of which data are available), we were the seventh largest depository institution in the Kansas City MSA ranked by deposits with a 3.9% deposit market share according to SNL Financial.

We expanded into the Colorado market through two complementary acquisitions beginning with the purchase of selected assets and assumption of selected liabilities of Bank of Choice, a state-chartered commercial bank based in Greeley, Colorado, from the FDIC on July 22, 2011. In connection with this acquisition, we also acquired 16 banking

centers. On October 21, 2011, we acquired selected assets and assumed selected liabilities of Community Banks of Colorado, a state chartered bank based in Greenwood Village, Colorado, from the FDIC. In connection with this transaction, we acquired 36 banking centers in Colorado and four in California (and later exited the California banking centers on December 31, 2013). The Community Banks of Colorado acquisition enhanced our penetration into the Colorado market, giving us a combined network of 52 banking centers in that state and ranking us as the 16th largest depository institution by deposits with a 1.3% deposit market share as of June 30, 2013 (the last date as of which data are available) according to SNL Financial.

The following table summarizes certain highlights of our four acquisitions to date, including deposits and assets at fair value as of each acquisition date:

	Community Banks of Colorado	Bank of Choice	Bank Midwest	Hillcrest Bank
Date acquired	October 21, 2011	July 22, 2011	December 10, 2010	October 22, 2010
FDIC-assisted	Yes	Yes	No	Yes
Loss share	Yes (1)	No	No	Yes (2)
Banking centers (3)	40	16	39	9 (and 32 retirement centers)
Deposits (millions)	$1,195	$760	$2,386	$1,234
Assets (millions)	$1,228	$950	$2,426	$1,377
Primary Market	Colorado	Colorado	Greater Kansas City Region	Greater Kansas City Region

(1) Commercial Shared-Loss Agreement.

(2) Single Family Shared-Loss Agreement and Commercial Shared-Loss Agreement.

(3) During the fourth quarter of 2013, the four California banking centers acquired with the Community Banks of Colorado acquisition and the 32 retirement centers acquired with the Hillcrest Bank acquisition were closed.

We believe that we have established critical mass in our current markets and have structured acquisitions that limit our credit risk, which has positioned us for attractive returns. Further details of our acquisitions appear below.

Hillcrest Bank

The Hillcrest Bank acquisition gave the Company assets with a fair value of $1.4 billion, including $781 million of loans, $235 million of marketable investment securities, $134 million of cash and cash equivalents, and $226 million of other assets. Liabilities with a fair value of $1.3 billion were also assumed, including $1.2 billion of non-brokered deposits, $84 million of Federal Home Loan Bank ("FHLB") advances, and $21 million of other liabilities. The acquisition excluded deposits of $250 million that were retained by the FDIC, and the FDIC made a cash contribution of $183 million to us as part of the transaction.

The FDIC agreed to absorb a portion of all future credit losses and workout expenses through a loss sharing arrangement that covers single-family mortgage loans for a period of 10 years and commercial loans, including other real estate owned ("OREO"), for a period of five years (excluding $3.1 million in consumer loans as of the date of acquisition). The coverage amounts are subject to loss thresholds as follows (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	—%	2	$4,618-8,191	30%
3	>$405,293	80%	3	>$8,191	80%

Bank Midwest

Through the Bank Midwest acquisition, we acquired assets with a fair value of $2.4 billion, including $882 million of loans, $1.4 billion of cash and cash equivalents and $174 million of other assets. We did not acquire any non-accrual loans or OREO in this transaction. Liabilities with a fair value of $2.4 billion were also assumed, including $2.4 billion of non-brokered deposits and $40 million of other liabilities. In connection with the Bank Midwest acquisition, we established a newly chartered national bank, NBH Bank, N.A., originally with the name "Bank Midwest, N.A.," to hold the acquired assets.

Bank of Choice

Through the Bank of Choice acquisition we acquired assets with a fair value of $950 million, including $361 million of loans, $134 million of marketable investment securities, $402 million of cash and cash equivalents, and $53 million of other assets. Liabilities with a fair value of $889 million were also assumed, including $760 million of non-brokered deposits, $117 million of FHLB advances, and $12 million of other liabilities.

4

We did not enter into a loss sharing agreement with the FDIC on the Bank of Choice acquisition, but rather the FDIC contributed a payment of $274 million, consisting of a $172 million asset discount and approximately $102 million for the difference in liabilities assumed and assets acquired.

Community Banks of Colorado

The Community Banks of Colorado acquisition gave the Company assets with a fair value of $1.2 billion, including $755 million of loans, $11 million of marketable investment securities, $250 million of cash and cash equivalents, and $212 million of other assets. Liabilities with a fair value of $1.2 billion were also assumed, including $1.2 billion of non-brokered deposits, $16 million of FHLB advances, and $17 million of other liabilities.

The FDIC agreed to absorb a portion of all future credit losses and workout expenses through a loss sharing arrangement that covers the large majority of the Community Bank of Colorado's commercial loans and OREO ($480 million) for a term of five years. The loss sharing arrangement does not cover any losses on single-family residential loans or selected commercial real estate loans. The loss sharing thresholds on the Community Banks of Colorado covered assets are summarized as follows (in thousands):

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

The Restructuring

In connection with the Hillcrest Bank and Bank Midwest acquisitions, we established two newly chartered banks, Hillcrest Bank, N.A. and Bank Midwest, N.A. Subsequently, Bank Midwest, N.A. acquired Bank of Choice and Community Banks of Colorado. In November 2011, we merged Hillcrest Bank, N.A. into Bank Midwest, N.A., consolidating our banking operations under a single charter. We changed the legal name of Bank Midwest, N.A. to NBH Bank, N.A., which we refer to as "NBH Bank" or the "Bank," on May 20, 2012. Through our subsidiary NBH Bank, we operate under the following brand names: Bank Midwest in Kansas and Missouri, Community Banks of Colorado in Colorado and Hillcrest Bank in Texas. We believe that conducting our banking operations under a single charter streamlines our operations and enables us to more effectively and efficiently execute our growth strategy. On March 26, 2012, we changed our legal name from NBH Holdings Corp. to National Bank Holdings Corporation.

Market Area

Market Criteria

We focus on markets that we believe are characterized by some or all of the following:

- Attractive demographics with household income and population growth above the national average
- Concentration of business activity
- High-quality deposit bases
- Advantageous competitive landscape that provides opportunity to achieve meaningful market presence
- A substantial number of financial institutions as potential acquisition targets
- Lack of consolidation in the banking sector and corresponding opportunities for add-on transactions
- Markets sizeable enough to support our long-term growth objectives

Current Markets

Our current markets are broadly defined as the greater Kansas City region and Colorado. Our specific emphasis is on the I-35 corridor surrounding the Kansas City MSA and the Colorado Front Range corridor, defined as the Denver, Boulder, Colorado Springs, Fort Collins and Greeley MSAs. The table below describes certain key statistics regarding our presence in these markets as of June 30, 2013 (the last date as of which data are available).

States	Deposit Market Share Rank (1)	Banking Centers (1)	Deposits (millions) (1)	Deposit Market Share (1)	
Missouri	8	33	$1,915.1	1.5	%
Colorado	16	50	1,318.9	1.3	
Kansas	17	12	615.4	1.0	

MSAs	Deposit Market Share Rank (1)	Banking Centers (1)	Deposits (millions) (1)	Deposit Market Share (1)	
Kansas City, MO-KS	7	29	$1,761.0	3.9	%
Denver-Aurora-Lakewood, CO	18	13	444.0	0.7	
Saint Joseph, MO-KS	3	4	234.4	10.9	
Greeley, CO	6	5	181.9	5.9	
Maryville, MO	2	3	153.8	28.3	
Kirksville, MO	2	2	126.5	19.8	
Glenwood Springs, CO	6	3	104.9	4.9	
Fort Collins-Loveland, CO	16	2	75.3	1.3	

(1) Note: Excludes our Texas and California operations and MSAs in which we have less than $75 million in deposits.
Source: SNL Financial as of June 30, 2013, except Banking Centers, which reflects the most recently available data.
We believe that our established presence positions us well for growth opportunities in our current and complementary markets. We believe that these markets have highly attractive demographic, economic and competitive dynamics that are consistent with our objectives and favorable to executing our organic growth strategy and provide attractive acquisition opportunities. The table below describes certain key demographic statistics regarding these markets.

	Deposits (billions)	# of Businesses (thousands)	Population (millions)	Unemployment Rate (1)		Population Growth (2)		Median Household Income	Top 3 Competitor Combined Deposit Market Share	
Kansas City, MO-KS MSA	$46.0	76	2.0	5.5	%	11.3	%	$53,916	38	%
CO Front Range(3)	86.1	182.7	4.2	5.9	%	22.5		58,253	53	
U.S.				6.7	%	11.7		51,314	51	(4)

(1) Unemployment data is as of December 2013.
(2) Population growths are for the period 2000 through 2013.
(3) CO Front Range is a population weighted average of the following Colorado MSAs: Denver, Boulder, Colorado Springs, Fort Collins and Greeley.
(4) Based on U.S. Top 20 MSAs (determined by population).
Source: SNL Financial as of December 31, 2013, except Deposits and Top 3 Competitor Combined Deposit Market Shares, which reflects data as of June 30, 2013 .
We are the sixth largest banking center network among Colorado-based banks ranked by deposits as of June 30, 2013 (the last date as of which data are available), according to SNL Financial. We believe this market and our position in it offer attractive growth potential due to the number of banks and attractive demographic characteristics.
Prospective Markets
We believe there is significant opportunity to both enhance our presence in our current markets and enter new complementary markets that meet our objectives. We believe there are opportunities for us to continue to execute our acquisition strategy over the next several years. We also believe there are a number of banks and financial institutions in these markets and complementary markets that would complement our breadth of products and services and benefit from our leadership, operating infrastructure and scale while welcoming our approach to local branding and leadership.

The table below highlights potential in-footprint acquisition opportunities:

Asset Size Range	# of Banks	Assets ($billion)	Deposits ($billion)
$1 billion - $5 billion	26	$47.7	$38.0
$500 million - $1 billion	39	26.2	21.2
Total opportunities	65	$73.9	$59.2

Source: SNL Financial based on financial information as of September 30, 2013. Includes opportunities in CO, KS and MO.

Our Business Strategy

As part of our goal of becoming a leading regional bank holding company, we are pursuing a dual strategy of strong organic growth and selective acquisitions of financial institutions and other complementary businesses. Our focus is on building organic growth through strong banking relationships with small- and mid-sized businesses and consumers in our markets, while maintaining a low-risk profile designed to generate reliable income streams and attractive returns. Our acquisition strategy is to create long-term shareholder value through disciplined acquisitions. We seek transactions that offer opportunities for clear financial benefits with valuations that have acceptable levels of earnings accretion, tangible book value dilution/earn-back, and internal rates of return. We seek acquisitions that will add reliable income streams, long-term organic growth opportunities and expense reductions, while minimizing risk by seeking targets with quantifiable credit, operational, regulatory and market risk. The key components of our strategic plan are:

- Focus on client-centered, relationship-driven banking strategy. Our commercial bankers focus on small and mid-sized businesses with an advisory approach that emphasizes understanding the client's business and offering a complete array of loan, deposit and treasury management products and services. Our consumer bankers focus on knowing their clients in order to best meet their financial needs, offering a full complement of loan, deposit and online banking solutions.
- Expansion through organic growth and enhanced product offerings. We also believe that our focus on serving consumers and small- to mid-sized businesses, coupled with our enhanced product offerings, will provide an expanded revenue base and new sources of fee income.
- Disciplined acquisitions. We seek to carefully select acquisition opportunities that we believe have stable core franchises, have significant local market share or will add asset generation capabilities or fee income streams while structuring the transactions to limit risk. Further, we seek acquisitions in attractive markets that offer substantial benefits through reliable income sources, potential add-on transactions, long-term organic growth opportunities and expense reductions. We believe we utilize a comprehensive, conservative due diligence process that is strongly focused on loan credit quality.
- Attractive markets. We seek to acquire financial services franchises in markets that exhibit attractive demographic attributes and we believe that our focus on attractive markets will provide long-term opportunities for organic growth. Our focus is on our core markets of Colorado, Kansas and Missouri, including whole banks and banking center divestitures with target sizes in the $500 million to $5.0 billion range. Additionally, we are pursuing specialty businesses to complement our asset generation and fee income business while leveraging our risk management, operational and control infrastructure.
- Operating platform and efficiencies. We have consolidated our acquired banks under one charter and we intend to continue to utilize our comprehensive underwriting and risk management processes while maintaining local branding, leadership and decision making. We have integrated all of our acquired banks onto one state-of-the-art operating platform that we believe will provide scalable technology to support and integrate future growth and realize operating efficiencies throughout our enterprise.

We believe our dual strategy of strong organic growth through the retention, expansion and development of client-centered relationships and growth through selective acquisitions in attractive markets provides flexibility regardless of economic conditions. We also believe that our established platform for assessing, executing and integrating acquisitions creates opportunities in an economic downturn while the combination of attractive market factors, franchise scale in our targeted markets and our relationship-centered banking focus creates opportunities in an improving economic environment.

Products and Services

Through NBH Bank, N.A., our primary business is to offer a full range of traditional banking products and financial services to both our commercial and consumer clients, who are predominantly located in Kansas, Missouri, Colorado and Texas. We offer a full array of lending products to cater to our clients' needs, including, but not limited to, small business loans, equipment loans, term loans, asset-backed loans, letters of credit, commercial lines of credit, commercial real estate loans, residential mortgage loans, home equity and consumer loans. We also offer traditional depository products, including commercial and consumer checking accounts, non-interest-bearing demand accounts, money market deposit accounts, savings accounts and time deposit accounts and treasury management services.

We offer a high level of personalized service to our clients through our relationship managers and banking center associates. We believe that a banking relationship that includes multiple services, such as loan and deposit services, online and mobile banking solutions and treasury management products and services, is the key to profitable and long-lasting client relationships and that our local focus and decision making provide us with a competitive advantage over banks that do not have these attributes.

Lending Activities

Our primary strategic objective is to serve small- to medium-sized businesses in our market with a variety of unique and useful services, including a full array of commercial, mortgage and non-mortgage loans. Our commercial bankers focus on small- and medium-sized businesses with an advisory approach that emphasizes understanding the client's business and offering a complete suite of loan, deposit and treasury management products and services. To complement these efforts, in 2013 we launched NBH Capital Finance, a specialty lending business providing structured and asset-based loans to middle market companies, and a government and non-profit specialty banking unit. Our consumer bankers focus on knowing their individual clients in order to best meet their financial needs, offering a full complement of loan, deposit and online and mobile banking solutions. We strive to do business in the areas served by our banking centers, which is also where our marketing is focused, and the vast majority of our new loan clients are located in existing market areas.

Our loan portfolio includes commercial and industrial loans, commercial real estate loans, residential real estate loans, agricultural loans and consumer loans. The principal risk associated with each category of loans we make is the creditworthiness of the borrower. Borrower creditworthiness is affected by general economic conditions and the attributes of the borrower's market or industry segment. Attributes of the relevant business market or industry segment include the competitive environment, client and supplier power, threat of substitutes and barriers to entry and exit. In our credit underwriting process, we carefully evaluate the borrower's industry, operating performance, liquidity and financial condition. We underwrite credits based on multiple repayment sources, including operating cash flow, liquidation of collateral and guarantor support, if any. We closely monitor the operating performance, liquidity and financial condition of borrowers through analysis of periodic financial statements and meetings with the borrower's management. As part of our credit underwriting process, we also review the borrower's total debt obligations on a global basis. Our credit policy requires that key risks be identified and measured, documented and mitigated, to the extent possible, to seek to ensure the soundness of our loan portfolio.

Our credit policy also provides detailed procedures for making loans to individuals along with the regulatory requirements to ensure that all loan applications are evaluated subject to our fair lending policy. Our credit policy addresses the common credit standards for making loans to individuals, the credit analysis and financial statement requirements, the collateral requirements, including insurance coverage where appropriate, as well as the documentation required. Our ability to analyze a borrower's current financial health and credit history, as well as the value of collateral as a secondary source of repayment, when applicable, are significant factors in determining the creditworthiness of loans to individuals. We have also adopted formal credit policies regarding our underwriting procedures for other loans including commercial and commercial real estate loans. We require various levels of internal approvals based on the characteristics of such loans, including the size, nature of the exposure and type of collateral if any. We believe that the procedures required by our credit policies enhance internal responsibility and accountability for underwriting decisions and permit us to monitor the performance of credit decisioning. For more detail on our credit policies, see "Management's Discussion and Analysis of Financial Condition and Results of Operations-Financial Condition-Asset Quality."

Commercial and Industrial Loans. We originate commercial and industrial loans and leases, including working capital loans, equipment loans, structured and asset-based loans, government and non-profit loans, oil and gas loans and other commercial loans and leases. The terms of these loans vary by purpose and by type of underlying collateral, if any. Working capital loans generally have terms of up to one year are usually secured by accounts receivable and inventory and carry the personal guarantees of the principals of the business. Equipment loans are generally secured by the financed

equipment at advance rates that we believe are appropriate for the equipment type. As of December 31, 2013, substantially all of our commercial and industrial loans were secured.
Real Estate Loans. Our real estate loans consist of commercial real estate loans and residential real estate loans. Commercial real estate loans, or CRE loans, consist of loans to finance the purchase of commercial real estate, loans to finance inventory and working capital that are secured by commercial real estate and construction and development loans. Our CRE loans include loans on 1-4 family construction properties, commercial properties such as office buildings, strip malls, or free-standing commercial properties, multi-family and investor properties and raw land development loans.

CRE loans are typically secured by a first lien mortgage on multi-family, office, warehouse, hotel or retail property plus assignments of all leases related to the properties. These loans are generally divided into two categories: loans to commercial entities that will occupy most or all of the property (described as "owner-occupied") and non-owner occupied loans. In the case of owner-occupied loans, we are usually the primary provider of financial services for the company and/or the principals. Underwriting guidelines generally require borrowers to contribute cash equity that results in an 80% or less loan-to-value ratio on owner-occupied properties and a 75% or less loan-to-value ratio on non-owner occupied properties.

We seek to reduce the risks associated with commercial mortgage lending by focusing our lending in our primary markets. Outside of owner-occupied CRE loans that are repaid through the cash flows generated by the borrowers' business operations, commercial real estate is not a focus in our lending strategy.
Residential real estate loans consist of loans secured by the primary or secondary residence of the borrower. These loans consist of closed loans, which are typically amortizing over a 10 to 30 year term. We also offer open-ended home equity loans, which are loans secured by secondary financing on residential real estate. Our loan-to-value benchmark for these loans is below 80% at inception along with satisfactory debt-to-income ratios.
Agricultural Loans. Agricultural loans consist of loans to farmers and other agricultural businesses to finance agricultural production. The principal source of repayment on these loans is the crops sold at the end of the harvest season. Agricultural loans include term loans to finance agricultural land and equipment, as well as short-term lines to support crop production. Loans to finance agricultural land are amortized over 15 to 25 years, typically with three to five year maturities. Loans to finance agricultural equipment are amortized over five to ten years, typically with three to five year maturities. Pricing may be fixed rate or variable rate priced over LIBOR or the prime rate as published in the Wall Street Journal.
Consumer Loans. We offer a variety of consumer loans, including loans to banking center clients for consumer and business purposes, to meet client demand and to increase the yield on our loan portfolio. All of our newly originated loans are on a direct to consumer basis. Consumer loans are structured as small personal lines of credit and term loans, with the latter generally bearing interest at a higher rate and having a shorter term than residential mortgage loans. Consumer loans are both secured (for example by deposit accounts, brokerage accounts or automobiles) and unsecured and carry either a fixed rate or variable rate. Examples of our consumer loans include home improvement loans not secured by real estate, new and used automobile loans and personal lines of credit.
Deposit Products and Other Funding Sources
We offer a variety of deposit products to our clients, including checking accounts, savings accounts, money market accounts and other deposit accounts, including fixed-rate, fixed maturity time deposits ranging in terms from 30 days to ten years, and individual retirement accounts. We intend to continue our efforts to attract lower cost transaction deposits from our business banking relationships in order to lower our cost of funds and improve our net interest margin.
Deposit flows are significantly influenced by general and local economic conditions, changes in prevailing interest rates, internal pricing decisions and competition. Our deposits are primarily obtained from areas surrounding our banking centers. In order to attract and retain deposits, we rely on providing quality service and introducing new products and services that meet our clients' needs.
Financial Products & Services

In addition to traditional banking activities, we provide a wide array of treasury management solutions to our clients, including: online and mobile banking, wire transfers, automated clearing house services, electronic bill payment, lock box services, remote deposit capture services, merchant processing services, cash vault, controlled disbursements, positive pay and other auxiliary services (including account reconciliation, collections, repurchase accounts, zero balance accounts and sweep accounts).

Competition

The banking landscape in our primary markets of Colorado, Kansas, Missouri and Texas is highly competitive and quite fragmented, with many small banks having limited market share while the large out-of-state national and super-regional banks control the majority of deposits and profitable banking relationships. We compete actively with national, regional and local financial services providers, including banks, thrifts, credit unions, mortgage bankers and finance companies. Our largest banking competitors in the Kansas City MSA are UMB Bank, Commerce Bank, Bank of America, US Bank, Valley View, Capitol Federal, Central Bancompany, NASB Financial Inc., Enterprise Financial Services Corp. and Wells Fargo, and our largest competitors in Colorado are Wells Fargo, FirstBank, JPMorgan Chase, U.S. Bank, BNP Paribas (Bank of the West), KeyBank, Zions Bank (Vectra Bank of Colorado), Compass Bank (BBVA Compass), Alpine Bank, and Colorado Business Bank.

Competition among providers of financial products and services continues to increase, with consumers having the opportunity to select from a variety of traditional brick and mortar banks and nontraditional alternatives, such as online banks. Competition among providers is based on many factors. We believe the most important of these competitive factors that determine success are our consumer bankers' focus on knowing their individual clients in order to best meet their financial needs and our commercial bankers' focus on small- and medium-sized businesses with an advisory approach that emphasizes understanding the client's business and offering a complete array of loan, deposit and treasury management products and services. The primary factors driving commercial and consumer competition for loans and deposits are interest rates, the fees charged, client service levels and the range of products and services offered. In addition, other competitive factors include the location and hours of our banking centers and client service orientation of our associates.

We recognize that there are banks with which we compete that have greater financial resources, access to more capital and higher lending capacity than we do and offer a wider range of deposit and lending instruments than we do. However, given our existing capital base, we expect to be able to meet the majority of small- to medium-sized business and consumer credit needs. As of December 31, 2013, our NBH Bank, N.A. legal lending limit to any one client was $85.5 million and our house limit to any one client was $30.0 million.

Associates

At December 31, 2013, we had 1,026 full-time associates and 82 part-time associates.

SUPERVISION AND REGULATION

The U.S. banking industry is highly regulated under federal and state law. Banking laws, regulations, and policies affect the operations of the Company and its subsidiary. Investors should understand that the primary objective of the U.S. bank regulatory regime is the protection of depositors, the Depositors Insurance Fund ("DIF"), and the banking system as a whole, not the protection of the Company's shareholders.

As a bank holding company, we are subject to inspection, examination, supervision and regulation by the Federal Reserve. Our bank subsidiary is subject to supervision and regulation by the Office of the Comptroller of the Currency ("OCC"). In addition, we expect that the additional businesses that we may invest in or acquire will be regulated by various state and/or federal banking regulators, including the OCC, the Federal Reserve and the FDIC.

Banking statutes and regulations are subject to continual review and revision by Congress, state legislatures and federal and state regulatory agencies. A change in such statutes or regulations, including changes in how they are interpreted or implemented, could have a material effect on our business. In addition to laws and regulations, state and federal bank regulatory agencies may issue policy statements, interpretive letters and similar written guidance pursuant to such laws and regulations, which are binding on us and our subsidiaries. These regulatory issuances also may affect the conduct of our business or impose additional regulatory obligations. The description below summarizes certain elements of the applicable bank regulatory framework. This description is not intended to describe all laws and regulations applicable to us and our subsidiaries. The description is qualified in its entirety by reference to the full text of the statutes, regulations, policies, interpretive letters and other written guidance that are described.

National Bank Holdings Corporation as a Bank Holding Company

Any entity that acquires direct or indirect control of a bank must obtain prior approval of the Federal Reserve to become a bank holding company pursuant to the Bank Holding Company Act ("BHCA"). We became a bank holding company in 2010 in connection with the acquisition of the assets and assumption of selected liabilities of the former

Hillcrest Bank from the FDIC by our newly chartered bank subsidiary, Hillcrest Bank, N.A. (now part of NBH Bank, N.A.). As a bank holding company, we are subject to regulation under the BHCA and to supervision, examination, and enforcement by the Federal Reserve. Federal

Reserve jurisdiction also extends to any company that we directly or indirectly control, such as non-bank subsidiaries and other companies in which we have a controlling interest. While subjecting us to supervision and regulation, we believe that our status as a bank holding company (as opposed to a non-controlling investor) broadens the investment opportunities available to us among public and private financial institutions, failing and troubled financial institutions, seized assets and deposits and FDIC auctions.

Banking statutes, regulations and policies could restrict our ability to diversify into other areas of financial services, acquire depository institutions and make distributions or pay dividends on our equity securities. They may also require us to provide financial support to any bank that we control, maintain capital balances in excess of those desired by management and pay higher deposit insurance premiums as a result of a general deterioration in the financial condition of NBH Bank, N.A. or other depository institutions we control.

NBH Bank, N.A. as a National Bank

NBH Bank, N.A. (formerly Bank Midwest, N.A.) is a national bank, chartered under federal law, and, as such, is subject to supervision and examination by the OCC, NBH Bank’s primary banking regulator. NBH Bank’s deposits are insured by the FDIC through the DIF, in the manner and to the extent provided by law. As an insured bank, NBH Bank is subject to the provisions of the Federal Deposit Insurance Act, as amended (which we refer to as the “FDI Act”) and the FDIC’s implementing regulations thereunder, and may also be subject to supervision and examination by the FDIC under certain circumstances.

Under the FDIC Improvement Act of 1991 (which we refer to as “FDICIA”), NBH Bank must submit financial statements prepared in accordance with GAAP and management reports signed by the Company’s and NBH Bank’s chief executive officer and chief accounting or financial officer concerning management’s responsibility for the financial statements, an assessment of internal controls, and an assessment of NBH Bank’s compliance with various banking laws and FDIC and other banking regulations. In addition, we must submit annual audit reports to federal regulators prepared by independent auditors. As allowed by regulations, we may use our audit report prepared for the Company to satisfy this requirement. We must provide our auditors with examination reports, supervisory agreements and reports of enforcement actions. The auditors must also attest to and report on the statements of management relating to the internal controls. FDICIA also requires that NBH Bank form an independent audit committee consisting of outside directors only, or that the Company’s audit committee be entirely independent.

NBH Bank is subject to specific requirements pursuant to the OCC Operating Agreement it entered into with the OCC in connection with our acquisition of Bank Midwest (which we refer to as the “OCC Operating Agreement”). The OCC Operating Agreement, among other things, requires NBH Bank to maintain total capital at least equal to 12% of risk-weighted assets, tier 1 capital at least equal to 11% of risk-weighted assets and tier 1 capital at least equal to 10% of adjusted total assets. Since the fourth quarter of 2013, the OCC Operating Agreement has permitted us to seek the OCC’s non-objection to reduce capital levels and to pay dividends. The OCC Operating Agreement also requires that NBH Bank provide notice to, and obtain non-objection from, the OCC with respect to any additional failed bank acquisitions from the FDIC or other types of acquisitions. In addition, the OCC Operating Agreement required NBH Bank to submit a comprehensive business plan to the OCC and requires NBH Bank not to significantly deviate from its business plan without the OCC’s non-objection.

NBH Bank (and, with respect to certain provisions, the Company) is also subject to a FDIC Order, dated November 4, 2010 (which we refer to as the “FDIC Order”), issued in connection with the FDIC’s approval of our application for deposit insurance following the Bank Midwest acquisition. The FDIC Order currently requires, among other things, that NBH Bank have an audit committee of the Board of Directors comprised of at least three directors, none of whom are officers of the bank and all of whom are independent, and make disclosures to proposed directors and shareholders of NBH Bank concerning the interests of any insider in any transaction by the bank.

A failure by us or NBH Bank to comply with the requirements of the OCC Operating Agreement or the FDIC Order, or the objection by the OCC or the FDIC to any materials or information submitted pursuant to the OCC Operating Agreement or the FDIC Order, could prevent us from executing our business strategy and materially and adversely affect us. As of December 31, 2013, NBH Bank was in compliance with all of the material terms of the OCC Operating Agreement and FDIC Order.

We filed a comprehensive three-year business plan with the OCC in connection with the organization and operation of Bank Midwest, N.A. (now NBH Bank, N.A.). The OCC issued supervisory non-objection with respect to the plan on March 22, 2011 and our board of directors subsequently adopted the plan. We have provided to the OCC updates to the plan each subsequent year.

We have implemented a quarterly monitoring and reporting process to remain in compliance with the comprehensive business plan and the requirements of the OCC Operating Agreement and FDIC Order. We also file a written quarterly status report to the OCC regarding our compliance with the OCC Operating Agreement.

Regulatory Notice and Approval Requirements for Acquisitions of Control

We must generally receive federal bank regulatory approval before we can acquire an institution or business. Specifically, as a bank holding company, we must obtain prior approval of the Federal Reserve in connection with any acquisition that would result in the Company owning or controlling more than 5% of any class of voting securities of a bank or another bank holding company. In acting on such applications, the Federal Reserve considers, among other factors: the effect of the acquisition on competition; the financial condition and future prospects of the applicant and the banks involved; the managerial resources of the applicant and the banks involved; the convenience and needs of the community, including the record of performance under the CRA; the effectiveness of the applicant in combating money laundering activities; and the extent to which the proposal would result in greater or more concentrated risks to the stability of the United States banking or financial system. Our ability to make investments in depository institutions will depend on our ability to obtain approval for such investments from the Federal Reserve. The Federal Reserve could deny our application based on the above criteria or other considerations. For example, we could be required to sell banking centers as a condition to receiving regulatory approval, which condition may not be acceptable to us or, if acceptable to us, may reduce the benefit of any acquisition.

Federal and state laws, including the BHCA and the Change in Bank Control Act, impose additional prior notice or approval requirements and ongoing regulatory requirements on any investor that seeks to acquire direct or indirect "control" of an FDIC-insured depository institution or bank holding company. Whether an investor "controls" a depository institution is based on all of the facts and circumstances surrounding the investment. As a general matter, an investor is deemed to control a depository institution or other company if the investor owns or controls 25% or more of any class of voting securities. Subject to rebuttal, an investor is presumed to control a depository institution or other company if the investor owns or controls 10% or more of any class of voting securities and either the depository institution or company is a public company or no other person will hold a greater percentage of that class of voting securities after the acquisition. If an investor's ownership of our voting securities were to exceed certain thresholds, the investor could be deemed to "control" us for regulatory purposes. This could subject the investor to regulatory filings or other regulatory consequences.

Broad Supervision, Examination and Enforcement Powers

A principal objective of the U.S. bank regulatory regime is to protect depositors by ensuring the financial safety and soundness of banks and other insured depository institutions. To that end, the Federal Reserve, the OCC and the FDIC have broad regulatory, examination and enforcement authority over bank holding companies and national banks. This authority serves to ensure compliance with banking statutes, regulations, and regulatory guidance, orders, and agreements and safe and sound operation, including the power to issue cease and desist orders, impose fines and other civil and criminal penalties, terminate deposit insurance and appoint a conservator or receiver. Bank regulators regularly examine the operations of banks and bank holding companies. In addition, banks and bank holding companies are subject to periodic reporting and filing requirements.

Bank regulators have various remedies available if they determine that a banking organization has violated any law or regulation, that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of a banking organization's operations are unsatisfactory, or that the banking organization is operating in an unsafe or unsound manner. The bank regulators have the power to, among other things: enjoin "unsafe or unsound" practices, require affirmative actions to correct any violation or practice, issue administrative orders that can be judicially enforced, direct increases in capital, direct the sale of subsidiaries or other assets, limit dividends and distributions, restrict growth, assess civil monetary penalties, remove officers and directors, terminate deposit insurance, and appoint a conservator or receiver.

Engaging in unsafe or unsound practices or failing to comply with applicable laws, regulations and supervisory agreements could subject the Company, its subsidiaries and their respective officers, directors and institution-affiliated parties to the remedies described above and other sanctions. In addition, the FDIC could terminate NBH Bank's deposit insurance if it determined that the bank's financial condition was unsafe or unsound or that the bank engaged in unsafe or unsound practices or violated an applicable rule, regulation, order or condition enacted or imposed by the

bank's regulators.

Interstate Banking

Interstate Banking for State and National Banks

Under the Riegle-Neal Interstate Banking and Branching Efficiency Act (which we refer to as the "Riegle- Neal Act"), a bank holding company may acquire banks in states other than its home state, subject to any state requirement that the bank has been organized and operating for a minimum period of time, not to exceed five years, and the requirement that the bank holding

company not control, prior to or following the proposed acquisition, more than 10% of the total amount of deposits of insured depository institutions nationwide or, unless the acquisition is the bank holding company's initial entry into the state, more than 30% of such deposits in the state (or such lesser or greater amount set by the state). The Dodd-Frank Wall Street Reform and Consumer Protection Act (which we refer to as the "Dodd-Frank Act") amended the BHCA to require that a bank holding company be well capitalized and well managed, not merely adequately capitalized and adequately managed, in order to acquire a bank located outside of the bank holding company's home state.

The Riegle-Neal Act also authorizes banks to merge across state lines, thereby creating interstate banking centers. The Dodd-Frank Act permits a national or state bank, with the approval of its regulator, to open a de novo banking center in any state if the law of the state in which the banking center is proposed would permit the establishment of the banking center if the bank were a bank chartered in that state. National banks may provide trust services in any state to the same extent as a trust company chartered by that state.

FDIC Statement of Policy on Qualifications for Failed Bank Acquisitions

As the agency responsible for resolving failed depository institutions, the FDIC has discretion to determine whether a party is qualified to bid on a failed institution. The FDIC Policy Statement imposes additional restrictions and requirements on certain "private investors" and institutions to the extent that those investors or institutions seek to acquire a failed insured depository institution from the FDIC. The FDIC adopted the FDIC Policy Statement on August 26, 2009, and issued guidance regarding the policy statement on January 6, 2010 and April 23, 2010.

The FDIC Policy Statement applies to private investors in a company (such as the Company) that proposes to assume deposit liabilities (or liabilities and assets) from the resolution of a failed insured depository institution, but does not apply to investors with 5% or less of the total voting power of an acquired depository institution or its bank holding company, provided there is no evidence of concerted action by such investors.

For those institutions and investors to which it applies, the FDIC Policy Statement imposes the following provisions, among others. First, institutions are required to maintain a ratio of tier 1 common equity to total assets of at least 10% for a period of three years, and thereafter maintain a capital level sufficient to be "well capitalized" under regulatory standards during the remaining period of ownership of the investors. This amount of capital exceeds the amount otherwise required under applicable regulatory requirements. Second, investors that collectively own 80% or more of two or more depository institutions are required to pledge to the FDIC their proportionate interests in each institution to indemnify the FDIC against any losses it incurs in connection with the failure of one of the institutions. Third, institutions are prohibited from extending credit to investors and to affiliates of investors. Fourth, investors may not employ ownership structures that use entities domiciled in bank secrecy jurisdictions. The FDIC has interpreted this prohibition to apply to a wide range of non-U.S. jurisdictions. In its guidance, the FDIC has required that non-U.S. investors subject to the FDIC Policy Statement invest through a U.S. subsidiary and adhere to certain requirements related to record keeping and information sharing. Fifth, investors are prohibited from selling or otherwise transferring the securities they hold for three years after acquisition without FDIC approval. These transfer restrictions do not apply to open-ended investment companies that are registered under the Investment Company Act, issue redeemable securities and allow investors to redeem on demand. Sixth, investors may not employ complex and functionally opaque ownership structures to invest in institutions. Seventh, investors that own 10% or more of the equity of a failed institution are not eligible to bid for that institution in an FDIC auction. Eighth, investors may be required to provide information to the FDIC regarding the investors and all entities in their ownership chains, such as information regarding the size of the capital fund or funds, their diversification, their return profiles, their marketing documents, their management teams and their business models. Ninth, the FDIC Policy Statement does not replace or substitute for otherwise applicable regulations or statutes.

Limits on Transactions with Affiliates

Federal law restricts the amount and the terms of both credit and non-credit transactions (generally referred to as "Covered Transactions") between a bank and its nonbank affiliates. Covered Transactions with any single affiliate may not exceed 10% of the capital stock and surplus of the bank, and Covered Transactions with all affiliates may not exceed, in the aggregate, 20% of the bank's capital and surplus. For a bank, capital stock and surplus refers to the bank's tier 1 and tier 2 capital, as calculated under the risk-based capital guidelines (which were revised in 2013), plus the balance of the allowance for credit losses excluded from tier 2 capital. The bank's transactions with all of its

affiliates in the aggregate are limited to 20% of the foregoing capital. In addition, in connection with Covered Transactions that are extensions of credit, the bank may be required to hold collateral to provide added security to the bank, and the types of permissible collateral may be limited. The Dodd-Frank Act generally enhances the restrictions on transactions with affiliates, including an expansion of what types of transactions are Covered Transactions to include credit exposures related to derivatives, repurchase agreements and securities lending

arrangements and an increase in the amount of time for which collateral requirements regarding Covered Transactions must be satisfied. As of December 31, 2013, the Company did not have any outstanding Covered Transactions.

Bank Holding Companies as a Source of Strength

The Federal Reserve requires that a bank holding company serve as a source of financial and managerial strength to each bank that it controls and, under appropriate circumstances, commit resources to support each such controlled bank. This support may be required at times when the bank holding company may not have the resources to provide the support. Because we are a bank holding company, the Federal Reserve views the Company (and its consolidated assets) as a source of financial and managerial strength for any controlled depository institutions.

Under the prompt corrective action provisions, if a controlled bank is undercapitalized, then the regulators could require its bank holding company to guarantee a capital restoration plan. In addition, if the Federal Reserve believes that a bank holding company's activities, assets or affiliates represent a significant risk to the financial safety, soundness or stability of a controlled bank, then the Federal Reserve could require the bank holding company to terminate the activities, liquidate the assets or divest the affiliates. The regulators may require these and other actions in support of controlled banks even if such action is not in the best interests of the bank holding company or its shareholders.

The Dodd-Frank Act codified the requirement that holding companies, like the Company, serve as a source of financial strength for their subsidiary depository institutions, by providing financial assistance to its insured depository institution subsidiaries in the event of financial distress. Under the source of strength requirement imposed by the Federal Reserve and codified in the Dodd-Frank Act, the Company could be required to provide financial assistance to NBH Bank should it experience financial distress. If the capital of NBH Bank were to become impaired, the OCC could assess the Company for the deficiency. If we failed to pay the assessment within three months, the OCC could order the sale of our stock in NBH Bank to cover the deficiency.

In addition, capital loans by us to NBH Bank will be subordinate in right of payment to deposits and certain other indebtedness of NBH Bank. In the event of our bankruptcy, any commitment by us to a federal bank regulatory agency to maintain the capital of NBH Bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

Depositor Preference

The FDI Act provides that, in the event of the "liquidation or other resolution" of an insured depository institution, the claims of depositors of the institution (including the claims of the FDIC as subrogee of insured depositors) and certain claims for administrative expenses of the FDIC as a receiver will have priority over other general unsecured claims against the institution. If our insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, nondeposit creditors, including us, with respect to any extensions of credit they have made to such insured depository institution.

Liability of Commonly Controlled Institutions

FDIC-insured depository institutions can be held liable for any loss incurred, or reasonably expected to be incurred, by the FDIC due to the default of an FDIC-insured depository institution controlled by the same bank holding company and for any assistance provided by the FDIC to an FDIC-insured depository institution that is in danger of default and that is controlled by the same bank holding company. "Default" means generally the appointment of a conservator or receiver for the institution. "In danger of default" means generally the existence of certain conditions indicating that a default is likely to occur in the absence of regulatory assistance. The cross-guarantee liability for a loss at a commonly controlled institution would be subordinated in right of payment to deposit liabilities, secured obligations, any other general or senior liability and any obligation subordinated to depositors or general creditors, other than obligations owed to any affiliate of the depository institution (with certain exceptions).

Dividend Restrictions

The Company is a legal entity separate and distinct from its subsidiary. Because the Company's consolidated net income consists largely of net income of its bank, the Company's ability to pay dividends depends upon its receipt of dividends from its subsidiary. The ability of a bank to pay dividends and make other distributions is limited by federal and state law. The specific limits depend on a number of factors, including the bank's type of charter, recent earnings, recent dividends, level of capital and regulatory status. The regulators are authorized, and under certain circumstances are required, to determine that the payment of dividends or other distributions by a bank would be an unsafe or

unsound practice and to prohibit that payment. For example, the FDI Act generally prohibits a depository institution from making any capital distribution (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be undercapitalized.

Dividends that may be paid by a national bank without the express approval of the OCC are limited in the aggregate for any calendar year to that bank's retained net profits for the preceding two calendar years plus retained net profits up to the date of any dividend declaration in the current calendar year. Retained net profits, as defined by the OCC, consist of net income less dividends declared during the period. State-chartered subsidiary banks are also subject to state regulations that limit dividends. Nonbank subsidiaries are also limited by certain federal and state statutory provisions and regulations covering the amount of dividends that may be paid in any given year.

Currently, the OCC Operating Agreement imposes certain restrictions on payment of dividends by NBH Bank to the Company, including by requiring prior non-objection from the OCC before any distribution is made.

The ability of a bank holding company to pay dividends and make other distributions can also be limited. The Federal Reserve has authority to prohibit a bank holding company from paying dividends or making other distributions. The Federal Reserve has issued a policy statement that provides that a bank holding company should not pay dividends unless: (a) its net income over the last four quarters (net of dividends paid) has been sufficient to fully fund the dividends; (b) the prospective rate of earnings retention appears to be consistent with the capital needs, asset quality and overall financial condition of the bank holding company and its subsidiaries; and (c) the bank holding company will continue to meet minimum required capital adequacy ratios. Accordingly, a bank holding company should not pay cash dividends that exceed its net income or that can only be funded in ways that weaken the bank holding company's financial health, such as by borrowing. The Dodd-Frank Act imposes, and Basel III (described below) once in effect will impose, additional restrictions on the ability of banking institutions to pay dividends.

Regulatory Capital Requirements

In General

Bank regulators view capital levels as important indicators of an institution's financial soundness. As a bank holding company, we are subject to regulatory capital adequacy requirements implemented by the Federal Reserve. In addition, the OCC imposes capital adequacy requirements on our subsidiary bank. The federal banking agencies have risk-based capital adequacy guidelines intended to provide a measure of capital adequacy that reflects the degree of risk associated with a banking organization's operations. Under these guidelines, assets are assigned to one of several risk categories, and nominal dollar amounts of assets and credit equivalent amounts of off-balance-sheet items are multiplied by a risk adjustment percentage for the category. NBH Bank is, and other depository institution subsidiaries that we may acquire or control in the future will be, subject to such capital adequacy guidelines.

The federal banking agencies recently revised capital guidelines to reflect the requirements of the Dodd-Frank Act and to effect the implementation of Basel III Accords. The quantitative measures, established by the regulators to ensure capital adequacy, require that banking organizations maintain minimum ratios of capital to risk-weighted assets. There are three categories of capital under the guidelines. With the implementation of the Dodd-Frank Act, certain changes have been made as to the type of capital that falls under each of these categories. Common equity Tier 1 capital, a new category, includes only common stock, related surplus, retained earnings and qualified minority investments. Additional Tier 1 capital includes non-cumulative perpetual preferred stock, certain qualifying minority interests, and for bank holding companies with less than $15 billion in consolidated assets, cumulative perpetual preferred stock and grandfathered trust preferred securities. Tier 2 capital includes subordinated debt, certain qualifying minority investments, and for bank holding companies with less than $15 billion in consolidated assets, non-qualifying capital instruments issued before May 19, 2010 that exceed 25% of Tier 1.

Under the guidelines, capital is compared with the relative risk related to the balance sheet. To derive the risk included in the balance sheet, a risk weighting is applied to each balance sheet asset and off-balance sheet item, primarily based on the relative credit risk of the asset or counterparty. The revised capital rules also modified the risk-weights applied to particular on and off balance sheet assets.

The revised capital rules require banks and bank holding companies to maintain a minimum common equity Tier 1 capital ratio of 4.5%, a total Tier 1 capital ratio of 6%, a total capital ratio of 8%, and a leverage ratio of 4%. Bank holding companies are also required to hold a capital conservation buffer of common equity Tier 1 capital of 2.5% to avoid limitations on capital distributions and executive compensation payments. Although these new capital ratios become effective as of January 1, 2015, the banking regulators will expect banking organizations to meet these requirements well ahead of that date.

Further, the federal bank regulatory agencies may, however, set higher capital requirements for an individual bank or when a bank's particular circumstances warrant. At this time, the bank regulatory agencies are more inclined to impose higher capital requirements in order to be considered well-capitalized, and future regulatory change could impose higher capital standards as a routine matter.

The Federal Reserve may also set higher capital requirements for holding companies whose circumstances warrant it. For example, holding companies experiencing internal growth or making acquisitions are expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets. As an additional means to identify problems in the financial management of depository institutions, the FDI Act requires federal bank regulatory agencies to establish certain non-capital safety and soundness standards for institutions for which they are the primary federal regulator. The standards relate generally to operations and management, asset quality, interest rate exposure and executive compensation. The agencies are authorized to take action against institutions that fail to meet such standards.

Prompt Corrective Action

The FDI Act requires federal bank regulatory agencies to take “prompt corrective action” with respect to FDIC-insured depository institutions that do not meet minimum capital requirements. A depository institution’s treatment for purposes of the prompt corrective action provisions will depend upon how its capital levels compare to various capital measures and certain other factors, as established by regulation. Under this system, the federal banking regulators have established five capital categories, well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, in which all institutions are placed. The federal banking regulators have specified by regulation the relevant capital levels for each of the five categories. The revised capital rules require banks to maintain a common equity Tier 1 capital ratio of 6.5%, a total Tier 1 capital ratio of 8%, a total capital ratio of 10%, and a leverage ratio of 5% to be deemed “well capitalized.” Federal banking regulators are required to take various mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories. The severity of the action depends upon the capital category in which the institution is placed. Generally, subject to a narrow exception, the banking regulator must appoint a receiver or conservator for an institution that is critically undercapitalized. Our regulatory capital ratios and those of NBH Bank are in excess of the levels established for “well-capitalized” institutions.

Reserve Requirements

Pursuant to regulations of the Federal Reserve, all banks are required to maintain average daily reserves at mandated ratios against their transaction accounts. In addition, reserves must be maintained on certain non-personal time deposits. These reserves must be maintained in the form of vault cash or in an account at a Federal Reserve Bank.

Deposit Insurance Assessments

FDIC-insured banks are required to pay deposit insurance premiums to the FDIC. The FDIC has adopted a risk-based assessment system whereby FDIC-insured depository institutions pay insurance premiums at rates based on their risk classification. An institution’s risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to the regulators.

The Dodd-Frank Act makes permanent the general $250,000 deposit insurance limit for insured deposits. Beginning January 1, 2013, all of a depositor’s accounts at an insured bank, including all non-interest bearing transaction accounts, were insured by the FDIC up to $250,000.

The Dodd-Frank Act changed the deposit insurance assessment framework, primarily by basing assessments on an institution’s average total consolidated assets less average tangible equity (subject to risk-based adjustments that would further reduce the assessment base for custodial banks) rather than domestic deposits, shifting a greater portion of the aggregate assessments to large banks, as described in detail below. The Dodd-Frank Act also eliminated the upper limit for the reserve ratio designated by the FDIC each year, increased the minimum designated reserve ratio of the DIF from 1.15% to 1.35% of the estimated amount of total insured deposits by September 30, 2020, and eliminated the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds.

The Dodd-Frank Act requires the DIF to reach the reserve ratio of 1.35% of insured deposits by September 30, 2020. On December 20, 2010, the FDIC raised the minimum designated reserve ratio of DIF to 2%. The ratio is higher than the minimum reserve ratio of 1.35% as set by the Dodd-Frank Act. Under the Dodd- Frank Act, the FDIC is required to offset the effect of the higher reserve ratio on small insured depository institutions, those with consolidated assets of less than $10 billion.

Continued action by the FDIC to replenish the DIF as well as changes contained in the Dodd-Frank Act may result in higher assessment rates. NBH Bank may be able to pass part or all of this cost on to its clients, including in the form

of lower interest rates on deposits, or fees to some depositors, depending on market conditions.

The FDIC may terminate a depository institution's deposit insurance upon a finding that the institution's financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices or has violated any applicable rule, regulation, order or condition enacted or imposed by the institution's regulatory agency. If deposit insurance for a banking business we invest in or acquire were to be terminated, that would have a material adverse effect on that banking business and potentially on the Company as a whole.

Permitted Activities and Investments by Bank Holding Companies

The BHCA generally prohibits a bank holding company from engaging, directly or indirectly, in activities other than banking or managing or controlling banks, except for activities determined by the Federal Reserve to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Provisions of the Gramm-Leach-Bliley Financial Modernization Act of 1999 (which we refer to as the "GLB Act") expanded the permissible activities of a bank holding company that qualifies as a financial holding company. Under the regulations implementing the GLB Act, a financial holding company may engage in additional activities that are financial in nature or incidental or complementary to financial activity. Those activities include, among other activities, certain insurance and securities activities. We have not yet determined whether it would be appropriate or advisable in the future to become a financial holding company.

Anti-Money Laundering Requirements

Under federal law, including the Bank Secrecy Act and the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act"), certain types of financial institutions, including insured depository institutions, must maintain anti-money laundering programs that include established internal policies, procedures and controls; a designated compliance officer; an ongoing associate training program; and testing of the program by an independent audit function. Among other things, these laws are intended to strengthen the ability of U.S. law enforcement agencies and intelligence communities to work together to combat terrorism on a variety of fronts. Financial institutions are prohibited from entering into specified financial transactions and account relationships and must meet enhanced standards for due diligence, client identification, and recordkeeping, including in their dealings with non-U.S. financial institutions and non-U.S. clients. Financial institutions must take reasonable steps to conduct enhanced scrutiny of account relationships to guard against money laundering and to report any suspicious information maintained by financial institutions. Bank regulators routinely examine institutions for compliance with these obligations and they must consider an institution's anti-money laundering compliance when considering regulatory applications filed by the institution, including applications for banking mergers and acquisitions. The regulatory authorities have imposed "cease and desist" orders and civil money penalty sanctions against institutions found to be violating these obligations.

Consumer Laws and Regulations

Banks and other financial institutions are subject to numerous laws and regulations intended to protect consumers in their transactions with banks. These laws include, among others, laws regarding unfair and deceptive acts and practices and usury laws, as well as the following consumer protection statutes: Truth in Lending Act, Truth in Savings Act, Electronic Funds Transfer Act, Expedited Funds Availability Act, Equal Credit Opportunity Act, Fair and Accurate Credit Transactions Act, Fair Housing Act, Fair Credit Reporting Act, Fair Debt Collection Act, GLB Act, Home Mortgage Disclosure Act, Right to Financial Privacy Act and Real Estate Settlement Procedures Act. Many states and local jurisdictions have consumer protection laws analogous, and in addition, to those listed above. These state and local laws regulate the manner in which financial institutions deal with clients when taking deposits, making loans or conducting other types of transactions. Failure to comply with these laws and regulations could give rise to regulatory sanctions, client rescission rights, action by state and local attorneys general and civil or criminal liability.

The Dodd-Frank Act created a new independent Consumer Finance Protection Bureau (which we refer to as the "Consumer Bureau") that has broad authority to regulate and supervise retail financial services activities of banks and various non-bank providers. The Consumer Bureau has authority to promulgate regulations, issue orders, guidance and policy statements, conduct examinations and bring enforcement actions with regard to consumer financial products and services. In general, however, banks with assets of $10 billion or less, such as NBH Bank, will continue to be examined for consumer compliance by their primary bank regulator.

The Community Reinvestment Act

The CRA is intended to encourage banks to help meet the credit needs of their entire communities, including low- and moderate-income neighborhoods, consistent with safe and sound operations. The regulators examine banks and assign each bank a public CRA rating. The CRA then requires bank regulators to take into account the bank's record in meeting the needs of its community when considering certain applications by a bank, including applications to establish a banking center or to

17

conduct certain mergers or acquisitions. The Federal Reserve is required to consider the CRA records of a bank holding company's controlled banks when considering an application by the bank holding company to acquire a bank or to merge with another bank holding company.

When we apply for regulatory approval to make certain investments, the regulators will consider the CRA record of the target institution and our depository institution subsidiary. An unsatisfactory CRA record could substantially delay approval or result in denial of an application.

Changes in Laws, Regulations or Policies and the Dodd-Frank Act

Congress and state legislatures may introduce from time to time measures or take actions that would modify the regulation of banks or bank holding companies. In addition, federal and state regulatory agencies also periodically propose and adopt changes to their regulations or change the manner in which existing regulations are applied. Such changes could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks and other financial institutions, all of which could affect our investment opportunities and our assessment of how attractive such opportunities may be. We cannot predict whether potential legislation will be enacted and, if enacted, the effect that it or any implementing regulations would have on our business, results of operations, liquidity or financial condition.

The Dodd-Frank Act, which was signed into law in 2010, has a broad impact on the financial services industry, imposing significant regulatory and compliance changes, increased capital, leverage and liquidity requirements and numerous other provisions designed to improve supervision and oversight of the financial services sector. In addition to certain implications of the Dodd-Frank Act discussed above, the following items are also key provisions of the Dodd-Frank Act:

- Limitation on Federal Preemption. The Dodd-Frank Act may reduce the ability of national banks to rely upon federal preemption of state consumer financial laws. The Dodd-Frank Act also eliminates the extension of preemption under the National Bank Act to operating subsidiaries of national banks. The Dodd-Frank Act authorizes state enforcement authorities to bring lawsuits under non-preempted state law against national banks and authorizes suits by state attorney generals against national banks to enforce rules issued by the Consumer Bureau.
- Mortgage Loan Origination and Risk Retention. The Dodd-Frank Act imposes new standards for mortgage loan originations on all lenders, including banks, in an effort to require steps to verify a borrower's ability to repay. The Dodd-Frank Act also generally requires lenders or securitizers to retain an economic interest in the credit risk relating to loans the lender sells or mortgages and other asset-backed securities that the securitizer issues. The risk retention requirement generally will be 5%, but could be increased or decreased by regulation.
- Corporate Governance. The Dodd-Frank Act addresses many investor protection, corporate governance and executive compensation matters that will affect most U.S. publicly traded companies, including the Company. The Dodd-Frank Act: (1) grants shareholders of U.S. publicly traded companies an advisory vote on executive compensation (unless exempted by the Jumpstart Our Business Startups Act (the "JOBS Act")); (2) enhances independence requirements for compensation committee members and advisors; (3) requires companies listed on national securities exchanges to adopt incentive-based compensation clawback policies for executive officers; and (4) provides the SEC with authority to adopt proxy access rules that would allow shareholders of publicly traded companies to nominate candidates for election as a director and have those nominees included in a company's proxy materials.

Many of the requirements of the Dodd-Frank Act will continue to be implemented over time, and most will be subject to regulations implemented over the course of several years. Given the uncertainty surrounding the manner in which many of the Dodd-Frank Act's provisions will be implemented by the various regulatory agencies and through regulations, the full extent of the impact on our operations is unclear. The changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage requirements or otherwise materially and adversely affect us.

More Information

Our website is www.nationalbankholdings.com. We make available free of charge, through our website, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the U.S. Securities and Exchange Commission (the "SEC"). In addition, the public may read and copy any materials we file with the SEC at

the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov.

Item 1A. RISK FACTORS.

Risks Relating to Our Banking Operations

Since 2010, we have completed four acquisitions and have a limited operating history from which investors can evaluate our future prospects and financial and operating performance.

We were organized in June 2009 and acquired selected assets and assumed selected liabilities of Hillcrest Bank, Bank Midwest, Bank of Choice and Community Banks of Colorado in October 2010, December 2010, July 2011 and October 2011, respectively. Because our banking operations began in late 2010, we have a limited operating history upon which investors can evaluate our operational performance or compare our recent performance to historical performance. Although we acquired selected assets and assumed selected liabilities of four depository institutions which had operated for longer periods of time than we have, their business models and experiences are not reflective of our plans. Accordingly, our limited time operating our acquired franchises may make it difficult for investors to evaluate our future prospects and financial and operating performance. Moreover, because a significant portion of our loans and OREO are covered by loss sharing agreements with the FDIC and all of the loans and OREO we acquired were marked to fair value at the time of our acquisitions, we believe that the historical financial results of the acquisitions are less useful to an evaluation of our future prospects and financial and operating performance. Certain other factors may also make it difficult for investors to evaluate our future prospects and financial and operating performance, including, among others:

- our current asset mix, loan quality and allowance for loan losses are not representative of our anticipated future asset mix, loan quality and allowance for loan losses, which may change materially as we continue to undertake organic loan origination and banking activities and pursue future acquisitions;
- a significant portion of our loans and OREO have been, and continue to be, covered by loss sharing agreements with the FDIC, which reimburse a variable percentage of losses experienced on these assets; thus, we may face higher losses once the FDIC loss sharing arrangements expire and losses may exceed the discounts we received;
- the income we report from certain acquired assets due to loan discounts and accretable yield may be higher than the returns available in the current market and, if we are unable to make new performing loans and acquire other performing assets in sufficient volume, we may be unable to generate the earnings necessary to implement our growth strategy;
- our excess cash reserves and liquid investment securities portfolio, which result in large part from the proceeds of our 2009 private offering of common stock, cash received in connection with our acquisitions and loan originations pacing loan workouts, are unlikely to be representative of our future cash position;
- our acquisition history may not be indicative of our ability to execute our external growth strategy, and our inability to execute such strategy would materially and adversely affect us.
- our historical cost structure and capital expenditure requirements are not necessarily reflective of our anticipated cost structure and capital spending as we continue to identify efficiencies and operate our organic banking platform; and
- our regulatory capital ratios, minimums of which are required by agreements we have reached with our regulators and which result in part from the proceeds of our private offering of common stock, are not necessarily representative of our future regulatory capital ratios.

Continued or worsening general business and economic conditions could materially and adversely affect us.

Our business and operations are sensitive to general business and economic conditions in the United States and in our two core markets in Colorado and the greater Kansas City region. If the economies in our core markets, or the U.S. economy more generally, are unable to continue to steadily emerge from the recession that began in 2007 or we experience worsening economic conditions, we could be materially and adversely affected. Weak economic conditions may be characterized by deflation, fluctuations in debt and equity capital markets, including a lack of liquidity and/or depressed prices in the secondary market for mortgage loans, increased delinquencies on loans, residential and commercial real estate price declines and lower home sales and commercial activity. All of these factors would be detrimental to our business. Our business is significantly affected by monetary and related policies of the U.S. federal government, its agencies and government-sponsored entities. Changes in any of these policies are influenced by macroeconomic conditions and other factors that are beyond our control and could have a material adverse effect on us.

19

Changes in the assumptions underlying our loss share accounting and acquisition method of accounting could affect our financial information and have a material adverse effect on us.

A material portion of our financial results is based on loss share accounting, which is subject to assumptions and judgments made by us and our regulators. In addition, as a result of our acquisitions, our financial information is heavily influenced by the application of the acquisition method of accounting. Both methodologies require us to make complex assumptions, which assumptions materially affect our financial results. If these assumptions are incorrect or we change or modify our assumptions, it could have a material adverse effect on us or our previously reported results. As such, any financial information generated through the use of loss share accounting or the acquisition method of accounting is subject to modification or change. If our assumptions are incorrect and we change or modify our assumptions, it could have a material adverse effect on us or our previously reported results

Our business is highly susceptible to credit risk and fluctuations in the value of real estate collateralizing such credit.

As a lender, we are exposed to the risk that our clients will be unable to repay their loans according to their terms and that the collateral securing the payment of their loans (if any) may not be sufficient to assure repayment. The risks inherent in making any loan include risks with respect to the ability of borrowers to repay their loans and, if applicable, the period of time over which the loan is repaid, risks relating to proper loan underwriting and guidelines, risks resulting from changes in economic and industry conditions, risks inherent in dealing with individual borrowers and risks resulting from uncertainties as to the future value of collateral. Similarly, we have credit risk embedded in our securities portfolio. Our credit standards, procedures and policies may not prevent us from incurring substantial credit losses, particularly in light of market developments in recent years.

Soft residential and commercial real estate markets, higher delinquency and default rates, heightened vacancy rates and volatile and constrained secondary credit markets affect the real estate industry generally and in areas in which our business is currently most heavily concentrated. We may be materially and adversely affected by declines in real estate values. The effects of ongoing mortgage market challenges, combined with the ongoing correction in residential real estate market prices and reduced levels of home sales, could adversely affect the value of collateral securing mortgage loans, mortgage loan originations and gains on sale of mortgage loans. Continued declines in real estate values and home sales volumes, and financial stress on borrowers as a result of job losses or other factors, could have further adverse effects on borrowers that result in higher delinquencies and greater charge-offs in future periods, which could materially and adversely affect us

We depend on our executive officers and key personnel to implement our strategy and could be harmed by the loss of their services.

We believe that the implementation of our strategy will depend in large part on the skills of our executive management team and our ability to motivate and retain these and other key personnel. Accordingly, the loss of service of one or more of our executive officers or key personnel could reduce our ability to successfully implement our growth strategy and materially and adversely affect us. Our success also depends on the experience of our banking center managers and relationship managers and on their relationships with the clients and communities they serve. The loss of these key personnel could negatively impact our banking operations. The loss of key senior personnel, or the inability to recruit and retain qualified personnel in the future, could have a material adverse effect on us.

Our allowance for loan losses and fair value adjustments may prove to be insufficient to absorb losses inherent in our loan or OREO portfolio.

We maintain an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expense, which we believe is appropriate to provide for probable losses inherent in our loan portfolio. The amount of this allowance is determined by our management through periodic reviews.

The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding our loans, identification of additional problem loans by us and other factors, both within and outside of our control, may require an increase in the allowance for loan losses. If the real estate markets deteriorate, we expect that we will experience increased delinquencies and credit losses, particularly with respect to construction, land development and land loans. In addition, our regulators periodically review our allowance for loan losses and may require an increase in the allowance for loan losses or the recognition of further loan charge-offs, based on judgments different than those of

management. In addition, if charge-offs in future periods exceed the allowance for loan losses, we will need additional provisions to increase the allowance for loan losses. Any increases in the allowance for loan losses will result in a decrease in net income and capital and may have a material adverse effect on us.

Our loss sharing agreements impose restrictions on the operation of our business and extensive record-keeping requirements, and failure to comply with the terms of our loss sharing agreements with the FDIC may result in significant losses.

A significant portion of our revenue is derived from assets acquired in Hillcrest Bank and Community Banks of Colorado transactions. Certain of the loans, commitments and foreclosed assets acquired in those transactions are covered by the loss sharing agreements, which provide that a significant portion of the losses related to those covered assets will be borne by the FDIC. We may, however, experience difficulties in complying with the requirements of the loss sharing agreements, including the extensive record-keeping and documentation relating to the status and reimbursement of covered assets. The required terms of the agreements are extensive and failure to comply with any of the terms could result in a specific asset or group of assets losing their loss sharing coverage. Additionally, complying with the extensive requirements to avail ourselves of the loss sharing coverage could take management time and attention away from other aspects of running our business.

Our loss sharing agreements also impose limitations on the manner in which we manage loans covered by loss sharing. For example, under the loss sharing agreements, we may not, without FDIC consent, sell a covered loan even if in the ordinary course of our business we determine that taking such action would be advantageous for the Company. These restrictions could impair our ability to manage problem loans, extend the amount of time that such loans remain on our balance sheet and increase the amount of our losses.

We hold and acquire a significant amount of OREO from time to time, which may lead to increased operating expenses and vulnerability to additional declines in real property values.

When necessary, we foreclose on and take title to the real estate (some of which is covered by our FDIC loss sharing arrangement) serving as collateral for our loans as part of our business. Real estate that we own but do not use in the ordinary course of our operations is referred to as “other real estate owned,” or “OREO” property. Increased OREO balances have led to greater expenses as we incur costs to manage and dispose of the properties. Despite some of the OREO being covered by loss sharing agreements with the FDIC, we expect that our earnings will continue to be negatively affected by various expenses associated with OREO, including personnel costs, insurance and taxes, completion and repair costs, valuation adjustments and other expenses associated with property ownership, as well as by the funding costs associated with OREO assets. We evaluate OREO properties periodically and write down the carrying value of the properties if the results of our evaluation require it. The expenses associated with OREO and any further OREO write-downs could have a material adverse effect on us.

We are subject to environmental liability risk associated with lending activities.

A significant portion of our loan portfolio is secured by real property, and we could become subject to environmental liabilities with respect to one or more of these properties. During the ordinary course of business, we may foreclose on and take title to properties securing defaulted loans. There is a risk that hazardous or toxic substances could be found on these properties, and we may be liable for remediation costs, as well as for personal injury and property damage, civil fines and criminal penalties regardless of when the hazardous conditions or toxic substances first affected any particular property. Environmental laws may require us to incur substantial expenses to address unknown liabilities and may materially reduce the affected property’s value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Although we have policies and procedures to perform an environmental review before initiating any foreclosure action on nonresidential real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on us.

The expanding body of federal, state and local regulation and/or the licensing of loan servicing, collections or other aspects of our business may increase the cost of compliance and the risks of noncompliance.

We service our own loans, and loan servicing is subject to extensive regulation by federal, state and local governmental authorities as well as to various laws and judicial and administrative decisions imposing requirements and restrictions on those activities. The volume of new or modified laws and regulations has increased in recent years and, in addition, some individual municipalities have begun to enact laws that restrict loan servicing activities including delaying or temporarily preventing foreclosures or forcing the modification of certain mortgages. If regulators impose new or more restrictive requirements, we may incur additional significant costs to comply with such

requirements which may further adversely affect us. In addition, our failure to comply with these laws and regulations could possibly lead to: civil and criminal liability; loss of licensure; damage to our reputation in the industry; fines and penalties and litigation, including class action lawsuits; and administrative enforcement actions. Any of these outcomes could materially and adversely affect us.

The fair value of our investment securities can fluctuate due to market conditions outside of our control.

We have historically taken a conservative investment strategy with our securities portfolio, with concentrations of securities that are primarily backed by government sponsored enterprises. In the future, we may seek to increase yields through more aggressive strategies, which may include a greater percentage of corporate securities and structured credit products. Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. These factors include, but are not limited to, rating agency actions in respect of the securities, defaults by the issuer or with respect to the underlying securities, and changes in market interest rates and instability in the capital markets. These factors, among others, could cause other-than-temporary impairments and realized and/or unrealized losses in future periods and declines in other comprehensive income, which could have a material adverse effect on us. The process for determining whether impairment of a security is other-than-temporary usually requires complex, subjective judgments about the future financial performance and liquidity of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security.

We face significant competition from other financial institutions and financial services providers, which may materially and adversely affect us.

Consumer and commercial banking is highly competitive. Our markets contain a large number of community and regional banks as well as a significant presence of the country's largest commercial banks. We compete with other state and national financial institutions, including savings and loan associations, savings banks and credit unions, for deposits and loans. In addition, we compete with financial intermediaries, such as consumer finance companies, mortgage banking companies, insurance companies, securities firms, mutual funds and several government agencies, as well as major retailers, in providing various types of loans and other financial services. Some of these competitors have a long history of successful operations in our markets, greater ties to local businesses and more expansive banking relationships, as well as better established depositor bases. Some of our competitors also have greater resources and access to capital and possess an advantage by being capable of maintaining numerous banking locations in more convenient sites, operating more ATMs and conducting extensive promotional and advertising campaigns or operating a more developed internet platform. Competitors may also exhibit a greater tolerance for risk and behave more aggressively with respect to pricing in order to increase their market share.

Our ability to compete successfully depends on a number of factors, including, among others:

- the ability to develop, maintain and build upon long-term client relationships based on quality service, effective and efficient products and services, high ethical standards and safe and sound assets;
- the scope, relevance and pricing of products and services offered to meet client needs and demands;
- the rate at which we introduce new products and services relative to our competitors;
- the ability to attract and retain highly qualified associates to operate our business;
- the ability to expand our market position;
- client satisfaction with our level of service;
- the ability to operate our business effectively and efficiently; and
- industry and general economic trends.

Failure to perform in any of these areas could significantly weaken our competitive position, which could materially and adversely affect us.

We may not be able to meet the cash flow requirements of deposit withdrawals and other business needs unless we maintain sufficient liquidity.

We require liquidity to make loans and to repay deposit and other liabilities as they become due or are demanded by clients. We principally depend on checking, savings and money market deposit account balances and other forms of client deposits as our primary source of funding for our lending activities. As a result of a decline in overall depositor confidence, an increase in interest rates paid by competitors, general interest rate levels, FDIC insurance costs, higher returns being available to clients on alternative investments and general economic conditions, a substantial number of our clients could withdraw their bank deposits with us from time to time, resulting in our deposit levels decreasing substantially, and our cash on hand may not be able to cover such withdrawals and our other business needs, including amounts necessary to operate and grow our business. This would require us to seek third party funding or other

sources of liquidity, such as asset sales. Our access to third party funding sources, including our ability to raise funds through the issuance of additional shares of our common stock or other

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equity or equity-related securities, incurrence of debt, and federal funds purchased, may be impacted by our financial strength, performance and prospects and may also be impaired by factors that are not specific to us, such as a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry in light of recent turmoil faced by banking organizations and the unstable credit markets, all of which may make potential funding sources more difficult to access, less reliable and more expensive. We may not have access to third party funding in sufficient amounts on favorable terms, or the ability to undertake asset sales or access other sources of liquidity, when needed, or at all, which could materially and adversely affect us.

Like other financial services institutions, our asset and liability structures are monetary in nature. Such structures are affected by a variety of factors, including changes in interest rates, which can impact the value of financial instruments held by us.

Like other financial services institutions, we have asset and liability structures that are essentially monetary in nature and are directly affected by many factors, including domestic and international economic and political conditions, broad trends in business and finance, legislation and regulation affecting the national and international business and financial communities, monetary and fiscal policies, inflation, currency values, market conditions, the availability and terms (including cost) of short-term or long-term funding and capital, the credit capacity or perceived creditworthiness of clients and counterparties and the level and volatility of trading markets. Such factors can impact clients and counterparties of a financial services institution and may impact the value of financial instruments held by a financial services institution.

Our earnings and cash flows largely depend upon the level of our net interest income, which is the difference between the interest income we earn on loans, investments and other interest earning assets, and the interest we pay on interest bearing liabilities, such as deposits and borrowings. Because different types of assets and liabilities may react differently and at different times to market interest rate changes, changes in interest rates can increase or decrease our net interest income. When interest-bearing liabilities mature or reprice more quickly than interest earning assets in a period, an increase in interest rates would reduce net interest income. Similarly, when interest earning assets mature or reprice more quickly, and because the magnitude of repricing of interest earning assets is often greater than interest bearing liabilities, falling interest rates would reduce net interest income.

Accordingly, changes in the level of market interest rates affect our net yield on interest earning assets and liabilities, loan and investment securities portfolios and our overall results. Changes in interest rates may also have a significant impact on any future loan origination revenues. Historically, there has been an inverse correlation between the demand for loans and interest rates. Loan origination volume and revenues usually decline during periods of rising or high interest rates and increase during periods of declining or low interest rates. Changes in interest rates also have a significant impact on the carrying value of a significant percentage of the assets, both loans and investment securities, on our balance sheet. We may incur debt in the future and that debt may also be sensitive to interest rates and any increase in interest rates could materially and adversely affect us. Interest rates are highly sensitive to many factors beyond our control, including general economic conditions and policies of various governmental and regulatory agencies, particularly the Federal Reserve. Changes in the Federal Reserve’s interest rate policies or other changes in monetary policies and economic conditions could materially and adversely affect us.

We are dependent on our information technology and telecommunications systems and third-party providers, and systems failures, interruptions could have a material adverse effect on us.

Our business is highly dependent on the successful and uninterrupted functioning of our information technology and telecommunications systems and third-party providers. We outsource many of our major systems, such as data processing, loan servicing systems and deposit processing systems. The failure of these systems, or the termination of a third-party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such services exceeds capacity or such third-party systems fail or experience interruptions. If significant, sustained or repeated, a system failure or service denial could compromise our ability to operate effectively, damage our reputation, result in a loss of client business, and/or subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on us.

A failure in or breach of our security systems or infrastructure, or those of our third-party providers, could result in financial losses to us or in the disclosure or misuse of confidential or proprietary information, including client information.

As a financial institution, we may be the target of fraudulent activity that may result in financial losses to us or our clients, privacy breaches against our clients or damage to our reputation. Such fraudulent activity may take many forms, including check fraud, electronic fraud, wire fraud, phishing, unauthorized intrusion into or use of our systems, and other dishonest acts. We provide our clients with the ability to bank remotely, including online over the internet and over the telephone. The secure transmission of confidential information over the internet and other remote channels is a critical element of remote banking.

Our network could be vulnerable to unauthorized access, computer viruses, phishing schemes and other security breaches. We may be required to spend significant capital and other resources to protect against the threat of security breaches and computer viruses, or to alleviate problems caused by security breaches or viruses. Given the increasingly high volume of our transactions, certain errors may be repeated or compounded before they can be discovered and rectified. To the extent that our activities or the activities of our clients involve the storage and transmission of confidential information, security breaches and viruses could expose us to reputational damage, claims, regulatory scrutiny, litigation and other possible liabilities. Any inability to prevent security breaches or computer viruses could also cause existing clients to lose confidence in our systems and could materially and adversely affect us. Our risk and exposure to these matters remains heightened because of the evolving nature and complexity of the threats from organized cybercriminals and hackers, and our plans to continue to provide electronic banking services to our clients.

We are required to evaluate our internal control over financial reporting under Section 404 of the Sarbanes Oxley Act of 2002, and any adverse results from such evaluation could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock price.

As a publicly traded company, we are required to file periodic reports containing our consolidated financial statements with the SEC within a specified time following the completion of quarterly and annual periods. We also are required to comply with Section 404 of the Sarbanes-Oxley Act of 2002 concerning internal control over financial reporting. We may experience difficulty in meeting the SEC's reporting requirements. Any failure by us to file our periodic reports with the SEC in a timely manner could harm our reputation and cause investors and potential investors to lose confidence in us and reduce the market price of our common stock.

During the course of our testing, we may identify deficiencies that would have to be remediated to satisfy the SEC rules for certification of our internal control over financial reporting. A material weakness is defined by the standards issued by the Public Company Accounting Oversight Board as a deficiency, or combination of deficiencies, in internal control over financial reporting that results in a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. As a consequence, we would have to disclose in periodic reports we file with the SEC any material weakness in our internal control over financial reporting. The existence of a material weakness would preclude management from concluding that our internal control over financial reporting is effective and would preclude our independent auditors from attesting to our assessment of the effectiveness of our internal control over financial reporting is effective. In addition, disclosures of this type in our SEC reports could cause investors to lose confidence in our financial reporting and may negatively affect the market price of our common stock. Moreover, effective internal controls are necessary to produce reliable financial reports and to prevent fraud. If we have deficiencies in our disclosure controls and procedures or internal control over financial reporting, it may materially and adversely affect us.

Risks Relating to our Growth Strategy

We may not be able to effectively manage our growth.

Our future operating results depend to a large extent on our ability to successfully manage our rapid growth. Our rapid growth has placed, and it may continue to place, significant demands on our operations and management. Whether through additional acquisitions or organic growth, our current plan to expand our business is dependent upon our ability to:

- continue to implement and improve our operational, credit, financial, legal, management and other internal risk controls and processes and our reporting systems and procedures in order to manage a growing number of client relationships;
- scale our technology platform;
- integrate our acquisitions and develop consistent policies throughout the various lines of businesses; and
- attract and retain management talent.

We may not successfully implement improvements to, or integrate, our management information and control systems, procedures and processes in an efficient or timely manner and may discover deficiencies in existing systems and controls. In particular, our controls and procedures must be able to accommodate an increase in loan volume in various markets and the infrastructure that comes with new banking centers and banks. Thus, our growth strategy may divert management from our existing franchises and may require us to incur additional expenditures to expand our administrative and operational infrastructure and, if we are unable to effectively manage and grow our financial

services franchise, we could be materially and adversely affected. In addition, if we are unable to manage future expansion in our operations, we may experience compliance

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and operational problems, have to slow the pace of growth, or have to incur additional expenditures beyond current projections to support such growth, any one of which could materially and adversely affect us.

Our acquisitions generally will require regulatory approvals, and failure to obtain them would restrict our growth.

We intend to complement and expand our business by pursuing strategic acquisitions of financial services franchises. Generally, any acquisition of target financial institutions, banking centers or other banking assets by us will require approval by, and cooperation from, a number of governmental regulatory agencies, possibly including the Federal Reserve, the OCC and the FDIC, as well as state banking regulators. In acting on applications, federal banking regulators consider, among other factors:

- the effect of the acquisition on competition;
- the financial condition, liquidity, results of operations, capital levels and future prospects of the applicant and the bank(s) involved;
- the quantity and complexity of previously consummated acquisitions;
- the managerial resources of the applicant and the bank(s) involved;
- the convenience and needs of the community, including the record of performance under the Community Reinvestment Act (which we refer to as the "CRA"); and
- the effectiveness of the applicant in combating money laundering activities.

Such regulators could deny our application based on the above criteria or other considerations, which would restrict our growth, or the regulatory approvals may not be granted on terms that are acceptable to us. For example, we could be required to sell banking centers as a condition to receiving regulatory approvals, and such a condition may not be acceptable to us or may reduce the benefit of any acquisition. In addition, prior to the submission of an application our regulators could discourage us from pursuing strategic acquisitions or indicate that regulatory approvals may not be granted on terms that would be acceptable to us, which could have the same effect of restricting our growth or reducing the benefit of any acquisitions.

The success of future transactions will depend on our ability to successfully identify and consummate acquisitions of financial services franchises that meet our investment objectives. Because of the intense competition for acquisition opportunities and the limited number of potential targets, we may not be able to successfully consummate acquisitions on attractive terms, or at all, that are necessary to grow our business.

There are significant risks associated with our ability to identify and successfully consummate acquisitions. There are a limited number of acquisition opportunities, and we expect to encounter intense competition from other banking organizations competing for acquisitions and also from other investment funds and entities looking to acquire financial institutions and financial services franchises. Many of these entities are well established and have extensive experience in identifying and consummating acquisitions directly or through affiliates. Many of these competitors possess ongoing banking operations with greater financial, technical, human and other resources and access to capital than we do, which could limit the acquisition opportunities we pursue. Our competitors may be able to achieve greater cost savings, through consolidating operations or otherwise, than we could. These competitive limitations give others an advantage in pursuing certain acquisitions. In addition, increased competition may drive up the prices for the acquisitions we pursue and make the other acquisition terms more onerous, which would make the identification and successful consummation of those acquisitions less attractive to us. Competitors may be willing to pay more for acquisitions than we believe are justified, which could result in us having to pay more for them than we prefer or to forego the opportunity. As a result of the foregoing, we may be unable to successfully identify and consummate acquisitions on attractive terms, or at all, that are necessary to grow our business.

To the extent that we are unable to identify and consummate attractive acquisitions, or continue to increase loans through organic loan growth, we may be unable to successfully implement our growth strategy, which could materially and adversely affect us.

We intend to grow our business through strategic acquisitions of financial services franchises coupled with organic loan growth. Previous availability of attractive acquisition targets may not be indicative of future acquisition opportunities, and we may be unable to identify any acquisition targets that meet our investment objectives. As our acquired loan portfolio, which generally produces higher yields than our originated loans due to loan discounts and accretable yield, is paid down, we expect downward pressure on our income to the extent that the runoff is not replaced with other high-yielding loans. As a result of the foregoing, if we are unable to replace loans in our existing

portfolio with comparable high-yielding loans, we could be materially and adversely affected. We could also be materially and adversely affected if we choose to pursue riskier higher-yielding loans that fail to perform.

Projected operating results for businesses acquired by us may be inaccurate and may vary significantly from actual results. To the extent that we make acquisitions that involve distressed assets, we may not be able to realize the value we predict from these assets or make sufficient provision for future losses in the value of, or accurately estimate the future writedowns to be taken in respect of, these assets.

We will generally establish the pricing of transactions and the capital structure of financial services franchises to be acquired by us on the basis of financial projections for such financial services franchises. In general, projected operating results will be based on the judgment of our management team. In all cases, projections are only estimates of future results that are based upon assumptions made at the time that the projections are developed and the projected results may vary significantly from actual results. General economic, political and market conditions can have a material adverse impact on the reliability of such projections. In the event that the projections made in connection with our acquisitions, or future projections with respect to new acquisitions, are not accurate, such inaccuracies could materially and adversely affect us. Any of the foregoing matters could materially and adversely affect us.

Delinquencies and losses in the loan portfolios and other assets we acquire may exceed our initial forecasts developed during our due diligence investigation prior to their acquisition and, thus, produce lower returns than we believed our purchase price supported. Furthermore, our due diligence investigation may not reveal all material issues. The diligence process in FDIC-assisted transactions is also expedited due to the short acquisition timeline that is typical for these transactions. If, during the diligence process, we fail to identify all relevant issues related to an acquisition, we may be forced to later write down or write off assets, restructure our operations, or incur impairment or other charges that could result in significant losses. Any of these events could materially and adversely affect us. Economic conditions may create an uncertain environment with respect to asset valuations and there is no certainty that we will be able to sell assets or institutions after we acquire them if we determine it would be in our best interests to do so. In addition, there may be limited liquidity for certain asset classes we hold, including commercial real estate and construction and development loans.

Risks Relating to the Regulation of Our Industry

The enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 may have a material adverse effect on our business

In 2010, the President signed into law the Dodd-Frank Act, which imposes significant regulatory and compliance changes. The key effects of the Dodd-Frank Act on our business are:

- changes to regulatory capital requirements;
- exclusion of hybrid securities issued on or after May 19, 2010 from tier 1 capital;
- creation of new government regulatory agencies (such as the Financial Stability Oversight Council, which oversees systemic risk, and the Consumer Financial Protection Bureau, which develops and enforces rules for bank and non-bank providers of consumer financial products);
- potential limitations on federal preemption;
- changes to deposit insurance assessments;
- regulation of debit interchange fees we earn;
- changes in retail banking regulations, including potential limitations on certain fees we may charge; and
- changes in regulation of consumer mortgage loan origination and risk retention.

In addition, the Dodd-Frank Act restricts the ability of banks to engage in certain proprietary trading or to sponsor or invest in private equity or hedge funds (i.e., the Volcker Rule). The Dodd-Frank Act also contains provisions designed to limit the ability of insured depository institutions, their holding companies and their affiliates to conduct certain swaps and derivatives activities and to take certain principal positions in financial instruments.

Some provisions of the Dodd-Frank Act became effective immediately upon its enactment, while others have come into effect over the last few years. Many provisions, however, still require regulations to be promulgated by various federal agencies in order to be implemented, some of which have been proposed by the applicable federal agencies. The provisions of the Dodd-Frank Act may have unintended effects, which will not be clear until implementation. The changes resulting from the Dodd-Frank Act could limit our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage requirements or otherwise materially and adversely affect us. These changes may also require us to invest significant management attention and resources to evaluate and make any changes necessary to comply

26

with new statutory and regulatory requirements. Failure to comply with the new requirements could also materially and adversely affect us. Any changes in the laws or regulations or their interpretations could be materially adverse to investors in our common stock

We operate in a highly regulated environment and the laws and regulations that govern our operations, corporate governance, executive compensation and accounting principles, or changes in them, or our failure to comply with them, could materially and adversely affect us.

We are subject to extensive regulation, supervision, and legislation that govern almost all aspects of our operations. Intended to protect clients, depositors and the DIF, these laws and regulations, among other matters, prescribe minimum capital requirements, impose limitations on the business activities in which we can engage, limit the dividends or distributions that we can pay, restrict the ability of institutions to guarantee our debt, and impose certain specific accounting requirements on us that may be more restrictive and may result in greater or earlier charges to earnings or reductions in our capital than GAAP. Compliance with laws and regulations can be difficult and costly, and changes to laws and regulations often impose additional compliance costs. Our failure to comply with these laws and regulations, even if the failure follows good faith effort or reflects a difference in interpretation, could subject us to restrictions on our business activities, fines and other penalties, any of which could materially and adversely affect us. Further, any new laws, rules and regulations could make compliance more difficult or expensive and also materially and adversely affect us.

We are subject to substantial regulatory limitations that limit the way in which we may operate our business.

Our bank subsidiary, NBH Bank, N.A. (“NBH Bank” or the “Bank”), is subject to specific requirements pursuant to the OCC Operating Agreement entered into in connection with our acquisition of certain assets of Bank Midwest, N.A. The OCC Operating Agreement requires, among other things, that the Bank provide notice to, and obtain non-objection from, the OCC with respect to any potential acquisition transactions (a) from the FDIC as a receiver of failed institution, (b) as part of a transaction in which the FDIC provides assistance, (c) as part of a transaction pursuant to the Bank Merger Act (which we refer to as the "BMA"), involving the probable failure of one or more depository institutions, (d) as part of a transaction pursuant to the 10-day/5-day emergency provisions of the BMA, or (e) in any other manner. Additionally, the OCC Operating Agreement imposes certain restrictions on payment of dividends by the Bank to the Company, including by requiring prior non-objection from the OCC before any distribution is made. Also, the OCC Operating Agreement requires that the Bank maintain total capital at least equal to 12% of risk-weighted assets, tier 1 capital at least equal to 11% of risk-weighted assets and tier 1 capital at least equal to 10% of adjusted total assets.

The Bank (and, with respect to certain provisions, the Company) is also subject to the FDIC Order issued in connection with the FDIC’s approval of our application for deposit insurance for the Bank.

A failure by us or the Bank to comply with the requirements of the OCC Operating Agreement or the FDIC Order, or the objection by the OCC or the FDIC to any materials or information submitted pursuant to the OCC Operating Agreement or the FDIC Order, could prevent us from executing our business strategy and materially and adversely affect us.

The FDIC’s restoration plan and the related increased assessment rate could materially and adversely affect us.

The FDIC insures deposits at FDIC-insured depository institutions, such as our subsidiary bank, up to applicable limits. The amount of a particular institution’s deposit insurance assessment is based on that institution’s risk classification under an FDIC risk-based assessment system. An institution’s risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to its regulators. As a result of recent economic conditions and the enactment of the Dodd-Frank Act, the FDIC has increased the deposit insurance assessment rates and thus raised deposit insurance premiums for insured depository institutions. If these increases are insufficient for the DIF to meet its funding requirements, there may need to be further special assessments or increases in deposit insurance premiums. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional bank or financial institution failures, we may be required to pay even higher FDIC premiums than the recently increased levels. Any future additional assessments, increases or required prepayments in FDIC insurance premiums may materially and adversely affect us, including by reducing our profitability or limiting our ability to pursue certain business opportunities.

Federal banking agencies periodically conduct examinations of our business, including compliance with laws and regulations, and our failure to comply with any supervisory actions to which we become subject as a result of such examinations could materially and adversely affect us.

Federal banking agencies periodically conduct examinations of our business, including compliance with laws and regulations. If, as a result of an examination, a federal banking agency were to determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or

that the Company or its management was in violation of any law or regulation, it may take a number of different remedial actions as it deems appropriate. These actions include the power to enjoin "unsafe or unsound" practices, to require affirmative actions to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth, to assess civil monetary penalties against our officers or directors, to remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate our deposit insurance. If we become subject to such regulatory actions, we could be materially and adversely affected.

We are subject to the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions.

The CRA, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The Department of Justice and other federal agencies are responsible for enforcing these laws and regulations. A successful challenge to an institution's performance under the CRA or fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, and restrictions on expansion activity. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation.

The Federal Reserve may require us to commit capital resources to support our subsidiary bank.

As a matter of policy, the Federal Reserve, which examines us and our subsidiaries, expects a bank holding company to act as a source of financial and managerial strength to a subsidiary bank and to commit resources to support such subsidiary bank. Under the "source of strength" doctrine, the Federal Reserve may require a bank holding company to make capital injections into a troubled subsidiary bank and may charge the bank holding company with engaging in unsafe and unsound practices for failure to commit resources to such a subsidiary bank. In addition, the Dodd-Frank Act directs the federal bank regulators to require that all companies that directly or indirectly control an insured depository institution serve as a source of strength for the institution. Under this requirement, we could be required to provide financial assistance to our subsidiary bank should our subsidiary bank experience financial distress.

A capital injection may be required at times when we do not have the resources to provide it and therefore we may be required to borrow the funds or raise additional equity capital from third parties. Any loans by a holding company to its subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of the subsidiary bank. In the event of a bank holding company's bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the holding company's general unsecured creditors, including the holders of its indebtedness. Any financing that must be done by the holding company in order to make the required capital injection may be difficult and expensive and may not be available on attractive terms, or at all, which likely would have a material adverse effect on us.

We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The federal Bank Secrecy Act, the USA PATRIOT Act and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network, established by the U.S. Treasury Department to administer the Bank Secrecy Act, is authorized to impose significant civil money penalties for violations of those requirements, and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration, and Internal Revenue Service. There is also increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control ("OFAC"). If our policies, procedures and systems are deemed deficient or the policies, procedures and systems of the financial institutions that we have already acquired or may acquire in the future are deficient, we would be subject to liability, including fines and regulatory actions (such as restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including our acquisition plans), which could materially and adversely affect us. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational

consequences for us.

Federal, state and local consumer lending laws may restrict our ability to originate certain mortgage loans or increase our risk of liability with respect to such loans and could increase our cost of doing business.

Federal, state and local laws have been adopted that are intended to eliminate certain lending practices considered "predatory." These laws prohibit practices such as steering borrowers away from more affordable products, selling unnecessary insurance to

borrowers, repeatedly refinancing loans and making loans without a reasonable expectation that the borrowers will be able to repay the loans irrespective of the value of the underlying property. It is our policy not to make predatory loans, but these laws create the potential for liability with respect to our lending and loan investment activities. They increase our cost of doing business and, ultimately, may prevent us from making certain loans and cause us to reduce the average percentage rate or the points and fees on loans that we do make.

Our ability to pay dividends is subject to regulatory limitations and our bank subsidiary's ability to pay dividends to us is also subject to regulatory limitations.

Our ability to declare and pay dividends depends both on the ability of our bank subsidiary to pay dividends to us and on certain federal regulatory considerations, including the guidelines of the Federal Reserve regarding capital adequacy and dividends. Because we are a separate legal entity from our bank subsidiary and we do not have significant operations of our own, any dividends paid by us to our common shareholders would have to be paid from funds at the holding company level that are legally available therefor. However, as a bank holding company, we are subject to general regulatory restrictions on the payment of cash dividends. Federal bank regulatory agencies have the authority to prohibit bank holding companies from engaging in unsafe or unsound practices in conducting their business, which depending on the financial condition and liquidity of the holding company at the time, could include the payment of dividends. Additionally, various federal and state statutory provisions limit the amount of dividends that our bank subsidiary can pay to us as its holding company without regulatory approval. Our bank subsidiary is currently prohibited by our OCC Operating Agreement from paying dividends to us without receiving a prior non-objection from the OCC before any distribution is made. Finally, holders of our common stock are only entitled to receive such dividends as our board of directors may, in its unilateral discretion, declare out of funds legally available for such purpose based on a variety of considerations, including, without limitation, our historical and projected financial condition, liquidity and results of operations, capital levels, tax considerations, statutory and regulatory prohibitions and other limitations, general economic conditions and other factors deemed relevant by our board of directors. Accordingly, we may not pay the amount of dividends referenced in our current intention above, or any dividends at all, to our common shareholders in the future.

Item 1B. UNRESOLVED STAFF COMMENTS.

None

Item 2. PROPERTIES.

Our principal executive offices are located in the Denver Tech Center area immediately south of Denver, Colorado. We also have approximately 70,000 square feet of office and operations space in Kansas City, Missouri. At December 31, 2013, we operated 45 banking centers in Kansas and Missouri, 50 in Colorado and two in Texas. Of these banking centers, 20 locations were leased and 77 were owned. Prior to their closure at the conclusion of business on December 31, 2013, we also operated four banking centers in California and 32 limited-service retirement center locations, 20 locations in Kansas and Missouri and six locations each in Texas and Colorado. See note 26 to our consolidated financial statements for further information regarding banking center closures.

Item 3. 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, results of operations or liquidity.

Item 4. MINE SAFETY DISCLOSURES.

None.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Common Stock Data

Shares of the Company's common stock began trading on the New York Stock Exchange ("NYSE") under the symbol "NBHC" on September 20, 2012. Prior to September 20, 2012, there was no established public trading market for the Company's stock. The following table presents the high and low prices of actual transactions in the Company's common stock and cash dividends paid for the periods indicated:

Year	Quarter	High	Low	Cash Dividends
2013	First	$19.75	$17.85	$0.05
	Second	$19.82	$17.69	$0.05
	Third	$21.39	$18.55	$0.05
	Fourth	$21.88	$19.86	$0.05
2012	First	$—	$—	$—
	Second	$—	$—	$—
	Third	$20.25	$19.23	$—
	Fourth	$19.92	$17.90	$0.05

The last sale price of our common stock on the NYSE was $19.59 per share on February 26, 2014. The Company had 95 shareholders of record as of February 26, 2014. Management estimates that the number of beneficial owners is significantly greater.

In October 2012, we commenced the payment of a $0.05 per share quarterly dividend to holders of our common stock. As a bank holding company, any dividends paid to us by our bank subsidiary are subject to various federal and state regulatory limitations and also subject to the ability of our bank subsidiary to pay dividends to us. The OCC Operating Agreement imposes certain restrictions on payment of dividends by the Bank to the Company, including requiring prior non-objection from the OCC before any distribution is made, and therefore, any dividends to our common shareholders may have to be paid from funds legally available at the holding company level. During the fourth quarter of 2013, the OCC permitted the Bank to pay a dividend of $313.0 million to the Company. Other than dividends from the Bank paid as noted above, the cash held by the Company and any future financing at the holding company level, we do not have, and do not expect to have in the near future, liquidity sources at the holding company level to pay dividends to our common shareholders. In addition, in the future, we and our bank subsidiary may enter into credit agreements or other financing arrangements that prohibit or otherwise restrict our ability to declare or pay cash dividends. Any determination to pay cash dividends in the future will be at the unilateral discretion of our board of directors and will depend on a variety of considerations, including, without limitation, our historical and projected financial condition, liquidity and results of operations, capital levels, tax considerations, statutory and regulatory prohibitions and other limitations, general economic conditions and other factors deemed relevant by our board of directors. See "Risk Factors—Our ability to pay dividends is subject to regulatory limitations and our bank subsidiary's ability to pay dividends to us is also subject to regulatory limitations."

Performance Graph

The following graph presents a comparison of the Company's performance to the indices named below. It assumes $100 invested on September 19, 2012, with dividends invested on a total return basis.

Index	Period Ending 9/19/2012	9/28/2012	12/31/2012	3/28/2013	6/28/2013	9/30/2013	12/31/2013
NBH	100.00	101.09	98.65	95.06	102.34	106.70	111.17
KBW Regional Banking Index	100.00	97.37	94.46	106.38	111.55	119.41	135.70
Russell 2000 Index	100.00	97.82	99.21	111.15	114.18	125.43	135.93

The following table sets forth information about our repurchases of our common stock during the fourth 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
October 1-October 31, 2013 (1)	11,425	$21.12	11,425	$ 4,428,611
November 1-November 30, 2013 (2)	535,425	$20.03	535,425	$ 25,000,000
November 1-November 30, 2013 (3)	5,771,126	$20.00	—	$ —
December 1-December 31, 2013	—	$—	—	$ 25,000,000
Total	6,317,976	$20.00	546,850	$ 25,000,000

(1) These represent shares surrendered to the Company as part of a net vesting of restricted stock awards.

(2) These share repurchases were part of publicly announced, Board approved, stock repurchase authorizations.

(3) These share repurchases were privately negotiated, and outside of publicly announced stock repurchase authorizations.

On January 23, 2014, the Board of Directors replaced the remaining available authorization with a new authorization to repurchase up to $50 million of our common stock through December 31, 2014.

Item 6. SELECTED FINANCIAL DATA.

The following table sets forth summary selected historical financial information as of and for the years ended December 31, 2013, 2012, 2011, 2010, and as of December 31, 2009 and for the period from June 16, 2009 (inception) to December 31, 2009. The summary selected historical consolidated financial information set forth below is derived from our audited consolidated financial statements.

Although we were incorporated on June 16, 2009, we did not have any substantive operations prior to the Hillcrest Bank acquisition on October 22, 2010. Our results of operations for the post-Hillcrest Bank acquisition periods are not comparable to our results of operations for the pre-Hillcrest Bank acquisition periods. Our results of operations for the post-Hillcrest Bank acquisition periods reflect, among other things, the acquisition method of accounting. In addition, we consummated the Bank Midwest acquisition on December 10, 2010, the Bank of Choice acquisition on July 22, 2011 and the Community Banks of Colorado acquisition on October 21, 2011, all of which were significant acquisitions and were also accounted for using the acquisition method of accounting. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

The summary selected historical consolidated financial data set forth below should be read together with our consolidated financial statements and the related notes thereto and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this annual report. Such information is not necessarily indicative of anticipated future results.

Summary Selected Historical Consolidated Financial Data

	December 31, 2013	December 31, 2012	December 31, 2011	December 31, 2010	December 31, 2009 (1)
Consolidated Balance Sheet Information (unaudited, $ in thousands):					
Cash and cash equivalents	$ 189,460	$ 769,180	$ 1,628,137	$ 1,907,730	$ 1,099,288
Investment securities available-for-sale (at fair value)	1,785,528	1,718,028	1,862,699	1,254,595	—
Investment securities held-to-maturity	641,907	577,486	6,801	—	—
Non-marketable securities	31,663	32,996	29,117	17,800	—
Loans (including covered loans) (2)	1,854,094	1,832,702	2,268,435	1,563,561	—
Allowance for loan losses	(12,521)	(15,380)	(11,527)	(48)	—
Loans, net	1,841,573	1,817,322	2,256,908	1,563,513	—
Loans held for sale	5,787	5,368	5,616	5,309	—
FDIC indemnification asset, net	64,447	86,923	223,402	161,395	—
Other real estate owned	70,125	94,808	120,636	54,078	—
Premises and equipment, net	115,219	121,436	87,315	37,320	—
Goodwill and other intangible assets, net	81,859	87,205	92,553	79,715	—
Other assets	86,547	100,023	38,842	24,066	565
Total assets	$ 4,914,115	$ 5,410,775	$ 6,352,026	$ 5,105,521	$ 1,099,853
Deposits	3,838,309	4,200,719	5,063,053	3,473,339	—
Other liabilities	178,014	119,497	200,244	638,423	2,357
Total liabilities	4,016,323	4,320,216	5,263,297	4,111,762	2,357
Total shareholders' equity	897,792	1,090,559	1,088,729	993,759	1,097,496
Total liabilities and shareholders' equity	$ 4,914,115	$ 5,410,775	$ 6,352,026	$ 5,105,521	$ 1,099,853

	For the year ended December 31, 2013	For the year ended December 31, 2012	For the year ended December 31, 2011	For the year ended December 31, 2010	For the Period June 16, 2009 through December 31, 2009 (1)
Consolidated Statement of Operations Data:					
Interest income	$ 195,475	$ 233,485	$ 197,159	$ 21,422	$ 481
Interest expense	16,514	29,234	41,696	5,512	—
Net interest income	178,961	204,251	155,463	15,910	481
Provision for loan losses	4,296	27,995	20,002	88	—
Net interest income after provision for loan losses	174,665	176,256	135,461	15,822	481
Bargain purchase gain	—	—	60,520	37,778	—
Non-interest income	20,177	37,379	28,966	4,385	—
Non-interest expense	183,965	209,598	155,538	48,981	1,847
Income (loss) before income taxes	10,877	4,037	69,409	9,004	(1,366)
Provision for income before taxes	3,950	4,580	27,446	2,953	168
Net income (loss)	$ 6,927	$ (543)	$ 41,963	$ 6,051	$ (1,534)
Share Information (3):					
Earnings (loss) per share, basic	$ 0.14	$ (0.01)	$ 0.81	$ 0.11	$ (0.07)
Earnings (loss) per share, diluted	$ 0.14	$ (0.01)	$ 0.81	$ 0.11	$ (0.07)
Book value per share	$ 19.99	$ 20.84	$ 20.87	$ 19.13	$ 18.82
Tangible book value per share (4)	$ 18.27	$ 19.23	$ 19.13	$ 17.60	$ 18.82
Tangible common equity to tangible assets (4)	16.97 %	18.89 %	15.94 %	18.19 %	99.79 %
Weighted average common shares outstanding, basic	50,790,410	52,214,175	51,978,744	53,000,454	21,251,006
Weighted average common shares outstanding, diluted	50,824,422	52,214,175	52,104,021	53,000,454	21,251,006
Common shares outstanding	44,918,336	52,327,672	52,157,697	51,936,280	58,318,304

(1) The Company was incorporated on June 16, 2009, but neither the Company nor NBH Bank had any substantive operations prior to the first acquisition on October 22, 2010. The period from June 16, 2009 to December 31, 2009 contained 200 days.

(2) Total loans are net of unearned discounts and deferred fees and costs.

(3) Per share information is calculated based on the aggregate number of our shares of Class A common stock and Class B non-voting common stock outstanding.

(4) Tangible book value per share and tangible common equity to tangible assets are non-GAAP financial measures. Tangible book value per share is computed as total shareholders' equity less goodwill (adjusted for deferred taxes) and other intangible assets, net, divided by common shares outstanding at the balance sheet date. For purposes of

computing tangible common equity to tangible assets, tangible common equity is calculated as common shareholders' equity less goodwill (adjusted for deferred taxes) and other intangible assets, net, and tangible assets is calculated as total assets less goodwill (adjusted for deferred taxes) and other intangible assets, net. We believe that the most directly comparable GAAP financial measures are book value per share and total shareholders' equity to total assets. See the reconciliation under "About Non-GAAP Financial Measures."

	As of and for the years ended December 31, 2013	December 31, 2012	December 31, 2011	December 31, 2010	December 31, 2009
Key Ratios					
Return on average assets	0.13 %	-0.01 %	0.81 %	0.44 %	-0.33 %
Return on average tangible assets (1)	0.20 %	0.05 %	0.88 %	0.44 %	-0.33 %
Return on average equity	0.67 %	-0.05 %	4.01 %	0.62 %	-0.33 %
Return on average tangible common equity (1)	1.06 %	0.27 %	4.62 %	0.62 %	-0.33 %
Return on risk weighted assets	0.33 %	-0.03 %	2.21 %	0.46 %	NM
Interest-earning assets to interest-bearing liabilities (end of period) (2)	137.05 %	134.44 %	127.91 %	129.91 %	N/A
Loans to deposits ratio (end of period)	48.46 %	43.76 %	44.91 %	45.17 %	N/A
Average equity to average assets	20.07 %	18.91 %	20.26 %	71.45 %	N/A
Non-interest bearing deposits to total deposits (end of period)	17.59 %	16.14 %	13.41 %	9.39 %	N/A
Net interest margin (3)	3.81 %	3.98 %	3.40 %	1.21 %	N/A
Interest rate spread (4)	3.68 %	3.81 %	3.17 %	-0.02 %	NM
Yield on earning assets (2)	4.16 %	4.55 %	4.31 %	1.63 %	0.23 %
Cost of interest bearing liabilities (2)	0.48 %	0.74 %	1.15 %	1.65 %	N/A
Cost of deposits	0.41 %	0.64 %	1.05 %	1.51 %	N/A
Non-interest expense to average assets	3.55 %	3.62 %	3.01 %	3.56 %	NM
Efficiency ratio (5)	89.70 %	84.53 %	61.72 %	84.34 %	NM
Dividend payout ratio	142.86 %	NM	0.00 %	0.00 %	N/A
Asset Quality Data (6) (7) (8)					
Non-performing loans to total loans	1.95 %	2.23 %	2.24 %	0.96 %	N/A
Covered non-performing loans to total non-performing loans	62.64 %	27.14 %	29.19 %	97.12 %	N/A
Non-performing assets to total assets	2.18 %	2.53 %	2.72 %	1.35 %	N/A
Covered non-performing assets to total non-performing assets	57.53 %	41.70 %	53.55 %	99.38 %	N/A
Allowance for loan losses to total loans	0.68 %	0.84 %	0.51 %	0.00 %	N/A
Allowance for loan losses to total non-covered loans	0.81 %	1.26 %	0.88 %	0.01 %	N/A
Allowance for loan losses to non-performing loans	34.71 %	37.64 %	22.71 %	0.32 %	N/A
Net charge-offs to average loans	0.41 %	1.20 %	0.51 %	0.00 %	N/A

(1) Ratio represents non-GAAP financial measure. See non-GAAP reconciliation on page 36.

(2) Interest earning assets include assets that earn interest/accretion or dividends, except for the FDIC indemnification asset, which 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.

(3) Net interest margin represents net interest income, including accretion income on interest earning assets, as a percentage of average interest earning assets.

(4) Interest rate spread represents the difference between the weighted average yield on interest earning assets and the weighted average cost of interest bearing liabilities.

(5) The efficiency ratio represents non-interest expense, less intangible asset amortization, as a percentage of net interest income plus non-interest income.

(6)

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.

(7) Non-performing assets include non-performing loans, other real estate owned and other repossessed assets.

(8) Total loans are net of unearned discounts and fees.

35

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

These non-GAAP financial measures are presented for supplemental informational purposes only and should not be considered a substitute for financial information presented in accordance with GAAP. The non-GAAP financial measures we present may differ from non-GAAP financial measures used by our peers or other companies. In particular, 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 years ended				
	December 31, 2013	December 31, 2012	December 31, 2011	December 31, 2010	December 31, 2009
Total shareholders’ equity	$897,792	$1,090,559	$1,088,729	$993,759	$1,097,496
Less: goodwill	(59,630)	(59,630)	(59,630)	(52,442)	—
Add: deferred tax liability related to goodwill	4,671	3,121	1,571	113	—
Less: intangible assets, net	(22,229)	(27,575)	(32,923)	(27,273)	—
Tangible common equity [(1)]	$820,604	$1,006,475	$997,747	$914,157	$1,097,496
Total assets	$4,914,115	$5,410,775	$6,352,026	$5,105,521	$1,099,853
Less: goodwill	(59,630)	(59,630)	(59,630)	(52,442)	—
Add: deferred tax liability related to goodwill	4,671	3,121	1,571	113	—
Less: intangible assets, net	(22,229)	(27,575)	(32,923)	(27,273)	—
Tangible assets [(1)]	$4,836,927	$5,326,691	$6,261,044	$5,025,919	$1,099,853
Total shareholders’ equity to total assets	18.27 %	20.16 %	17.14 %	19.46 %	99.79 %
Less: impact of goodwill and intangible assets, net	-1.30 %	-1.27 %	-1.20 %	-1.27 %	0.00 %
Tangible common equity to tangible assets [(1)]	16.97 %	18.89 %	15.94 %	18.19 %	99.79 %
Common book value per share calculations:					
Total shareholders' equity	$897,792	$1,090,559	$1,088,729	$993,759	$1,097,496
Divided by: ending shares outstanding	44,918,336	52,327,672	52,157,697	51,936,280	58,318,304
Common book value per share	$19.99	$20.84	$20.87	$19.13	$18.82
Tangible common book value per share calculations:					
Tangible common equity	$820,604	$1,006,475	$997,747	$914,157	$1,097,496
Divided by: ending shares outstanding	44,918,336	52,327,672	52,157,697	51,936,280	58,318,304
Tangible common book value per share	$18.27	$19.23	$19.13	$17.60	$18.82
Tangible common book value per share, excluding accumulated other comprehensive income (loss) calculations:					
Tangible common equity	$820,604	$1,006,475	$997,747	$914,157	$1,097,496
Less: accumulated other comprehensive income (loss)	6,756	(40,573)	(47,022)	(6,085)	—
Tangible common book value, excluding accumulated other comprehensive income (loss)	827,360	965,902	950,725	908,072	1,097,496

Divided by: ending shares outstanding	44,918,336	52,327,672	52,157,697	51,936,280	58,318,304
Tangible common book value per share, excluding accumulated other comprehensive income (loss)	$18.42	$18.46	$18.23	$17.48	$18.82

	As of and for the years ended									
	December 31, 2013		December 31, 2012		December 31, 2011		December 31, 2010		December 31, 2009	
Return on average assets	0.13	%	-0.01	%	0.81	%	0.44	%	-0.33	%
Add: impact of goodwill and intangible assets, net	0.00	%	0.00	%	0.02	%	0.00	%	0.00	%
Add: impact of core deposit intangible expense, after tax	0.07	%	0.06	%	0.05	%	0.00	%	0.00	%
Return on average tangible assets	0.20	%	0.05	%	0.88	%	0.44	%	-0.33	%
Return on average equity	0.67	%	-0.05	%	4.01	%	0.62	%	-0.33	%
Add: impact of goodwill and intangible assets, net	0.08	%	0.00	%	0.34	%	0.00	%	0.00	%
Add: impact of core deposit intangible expense, after tax	0.31	%	0.32	%	0.27	%	0.00	%	0.00	%
Return on average tangible common equity	1.06	%	0.27	%	4.62	%	0.62	%	-0.33	%

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following management's discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes as of and for the years ended December 31, 2013, 2012, and 2011, and with the other financial and statistical data presented in this annual report. 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 section entitled "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors" and should be read herewith.

Readers are cautioned that meaningful comparability of current period financial information to prior periods may be limited. Following our Hillcrest Bank acquisition on October 22, 2010, 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, 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. The comparability of data is also compromised 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 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 formed in 2009. Through our subsidiary, NBH Bank, N.A., we provide a variety of banking products to both commercial and consumer clients through a network of 97 banking centers, with the majority of those banking centers located in the greater Kansas City area and Colorado and through online and mobile banking products. We operate under the following brand names: Bank Midwest in Kansas and Missouri, Community Banks of Colorado in Colorado, and Hillcrest Bank in Texas.

In just over three years, we have completed the acquisition and integration of four troubled or failed banks, three of which were FDIC-assisted. We have transformed these four banks into one collective banking operation with steadily increasing organic growth, prudent underwriting, and meaningful market share with continued opportunity for expansion. Our long-term business model utilizes our organic development infrastructure, low-risk balance sheet, continuous operational development and a disciplined acquisition strategy to create value and provide attractive returns.

As of December 31, 2013, we had $4.9 billion in assets, $1.9 billion in loans, $3.8 billion in deposits and $0.9 billion in equity. We believe that our established presence positions us well for growth opportunities in our current and complementary markets. 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 financial services franchise with a sizable presence for deposit gathering and client relationship building necessary for growth.

Operating Highlights and Key Challenges

Our operations and strategy execution resulted in the following highlights as of and for the year ended December 31, 2013:

Strategy execution

- Expanded product offerings - launched the NBH Capital Finance lending group, and a Government and Non-Profit Specialty Banking unit.
- Accelerating organic growth - increased loan originations by 64.4% over the prior year.
- Opportunistic capital management - repurchased 7.4 million shares at attractive prices.
- Banking center rationalization - exited four out-of-market California banking centers and integrated 32 limited-service retirement center locations into our existing banking center network.
- Operational streamlining - back-office realignment, vendor consolidation, continuous efficiency realization.

- Product enhancements - added consumer and commercial interest rate swap product capabilities.

Loan portfolio

- During the third quarter of 2013, we reached an important loan balance inflection point where total loan balances increased as originations began outpacing acquired troubled loan resolution.

- Strategic loans increased 34.0% over the prior year, ending the year at $1.5 billion.
- Organic loan originations totaled $714.0 million for 2013, representing a 64.4% increase from 2012.
- During 2013, our non-strategic loan balances decreased $360.6 million, or 50.7%, as we successfully worked out non-strategic loans acquired in our FDIC-assisted transactions.

Credit quality

- Non 310-30 loans

Credit quality of the non 310-30 loan portfolio continued to improve with non-performing non 310-30 loans to total non 310-30 loans improving to 1.51% at December 31, 2013 from 4.04% at December 31, 2012.

Originated loans within the non 310-30 portfolio continued to show strong credit quality and finished the year with total net charge offs of 0.03% and non-performing loans of 0.42%.

Net charge-offs on all non 310-30 loans were 0.27% during 2013.

- ASC 310-30 loans

Increased client cash flow estimates resulted in a net addition of $73.7 million to accretable yield for the loans accounted for under ASC 310-30 during 2013, complemented by $1.3 million in provision reversals within that portfolio.

One commercial and industrial loan pool accounted for under ASC 310-30, totaling $14.8 million at December 31, 2013 and covered by a loss sharing agreement, was put on non-accrual status during 2013.

- Loss-share coverage

As of December 31, 2013, 16.7%, or $309.4 million, of our total loans (by dollar amount) were covered by loss sharing agreements with the FDIC.

As of December 31, 2013, 55.4%, or $38.8 million, of our total other real estate owned (by dollar amount) was covered by loss sharing agreements with the FDIC.

Client deposit funded balance sheet

- As of December 31, 2013, total deposits and client repurchase agreements made up 98.0% of our total liabilities.
- Transaction accounts improved to 61.0% of total deposits as of December 31, 2013 from 58.3% at December 31, 2012.
- Average transaction account deposit balances grew 2.0% from December 31, 2012 to December 31, 2013.
- As of December 31, 2013, we did not have any brokered deposits.

Revenues and expenses

- Our yield on our loan portfolio was 7.92% during 2013 compared to 8.37% during 2012.
- Cost of deposits improved 23 basis points to 0.41% during 2013, from 0.64% during 2012, due to the continued emphasis on our commercial and consumer relationship banking strategy and lower cost transaction accounts.
- Net interest margin was 3.81% during 2013 and 3.98% during 2012, and continues to be driven by the attractive yields on loans accounted for under ASC 310-30 loan pools and lower cost of deposits.
- Non-interest income totaled $20.2 million, decreasing $17.2 million, or 46.0% from 2012, driven by increased amortization of our FDIC indemnification asset as covered assets have continued to perform well.
- Problem loan/OREO workout expenses totaled $16.6 million during 2013, decreasing $12.2 million, or 42.4%, from 2012.
- Operating expenses before the banking center closure charges, problem loan/OREO workout expenses, and the fair value changes to the warrant liability, decreased $11.0 million, or 6.3%, during 2013 compared to 2012, when 2012 is adjusted for the aforementioned items and IPO expenses incurred during 2012.

Strong capital position

- As of December 31, 2013, our tier 1 leverage ratio was 16.6% and our tier 1 risk-based capital ratio was 38.9%.
- 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 $0.75 per share to our tangible book value per share as of December 31, 2013.

- Tangible common book value per share was $18.27 before consideration of the excess accretable yield value of $0.75 per share.
- During 2013, we repurchased 7,421,179 shares, representing a 14.2% reduction in total shares outstanding, at a weighted average price of $19.77 per share.
- On January 23, 2014, the Board of Directors approved a new authorization to repurchase up to $50.0 million of the Company's common stock through December 31, 2014.

We have worked to actively grow our financial services franchise through the implementation of a strong sales culture with consistent, prudent lending policies and a technology and operating infrastructure designed to support our organic growth and acquisition strategies, while continuously seeking operational efficiencies. This included the implementation of a scalable data processing and operating platform and hiring key personnel to execute our relationship banking strategy and expanding our product lines.

Key Challenges

There are a number of significant challenges confronting us and our industry. We face a variety of challenges in implementing our business strategy, including being a new entity, the challenges of acquiring distressed franchises and rebuilding them, deploying our remaining capital on quality acquisition targets, low interest rates and low demand from borrowers and intense competition for loans.

General economic conditions have been modestly improving in recent quarters. However, continued uncertainty about the strength of the recovery remains and has hindered the pace and advancement of an economic recovery, both nationally and in our core markets. Residential real estate values have largely recovered from their lows, and we continue to consider this with guarded optimism. Commercial real estate values have been recovering slightly slower than residential real estate, and it is difficult to determine how strong this recovery is and how long it will last. A significant portion of our loan portfolio is secured by real estate and any deterioration in real estate values or credit quality or elevated levels of non-performing assets would ultimately have a negative impact on the quality of our loan portfolio.

Our total loan balances increased $21.4 million during 2013, or 1.2%. Despite originations of $714.0 million during 2013, the marginal increase in total loans was the result of the downward pressure on loan balances from our active resolution of problem and non-strategic loans acquired in our FDIC-assisted transactions. While we believe we have hit our loan growth inflection point, whereby total originations have begun outpacing problem loan resolution, interest rates remain low and intense loan competition has been limiting the yields we have been able to obtain on interest earning assets. 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 and potential higher required capital ratios, is adding costs and uncertainty to all U.S. banks and could reduce our competitiveness as compared to other financial service providers 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 and proactive, 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.

Many of the loans that we acquired in the Hillcrest Bank, Bank of Choice and Community Banks of Colorado acquisitions had deteriorated credit quality at the respective dates of acquisition. These loans are accounted for under ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. This guidance 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 loss sharing agreements. All of these factors limit the comparability of our credit quality and ALL levels to peers or other financial institutions.

Deposit balances - We monitor our deposit levels by type, market and rate. Our loans are funded 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 access to borrowings. 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 share repurchases and potential acquisitions, to ensure continued compliance with regulatory requirements and with the OCC Operating Agreement that we entered into in connection with our Bank Midwest acquisition, which is described under "Supervision and Regulation." We review our tier 1 leverage capital ratios, our tier 1 risk-based capital ratios and our total risk-based capital ratios on a regular 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 loans, investment securities and interest bearing bank deposits. 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, OREO related write-ups and other income and other non-interest income. Also included in non-interest income is FDIC indemnification asset amortization 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" and note 2 in our consolidated financial statements. Due to fluctuations in the amortization rates on the FDIC indemnification asset and the amortization of the clawback liability and due to varying levels of expenses and income 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 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 tangible assets, return on average equity, return on average tangible equity and return on risk-weighted assets to measure and assess our returns in relation to our balance sheet profile.

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. Most significant of these estimates relate to the fair value determination of assets acquired and liabilities assumed in business combinations and the application of acquisition accounting, the accounting for acquired loans and the related FDIC indemnification asset, the determination of the ALL, and the valuation of stock-based compensation. These critical accounting policies and estimates are summarized below, and are further analyzed with other significant accounting policies in note 2, “Summary of Significant Accounting Policies” in the notes to the consolidated financial statements for the year ended 2013.

Valuation of Assets Acquired and Liabilities Assumed and Acquisition Accounting Application

We account for business combinations under the acquisition method of accounting in accordance with ASC 805 Business Combinations. Assets acquired and liabilities assumed are measured and recorded at fair value at the date of acquisition, including any identifiable intangible assets. The initial fair values are determined in accordance with the guidance provided in ASC 820, Fair Value Measurements and Disclosures. If the fair value of net assets acquired exceeds the fair value of consideration paid, a bargain purchase gain is recognized at the date of acquisition. Conversely, if the consideration paid exceeds the fair value of the net assets acquired, goodwill is recognized at the acquisition date. The determination of fair value requires the use of estimates and significant judgment is required. Fair values are subject to refinement for up to one year after the closing date of an acquisition as information relative to closing date fair values becomes available. Any change in the acquisition date fair value of assets acquired and liabilities assumed may materially affect our financial position, results of operations and liquidity.

The determination of the fair value of loans acquired takes into account credit quality deterioration and probability of loss; therefore, the related ALL is not carried forward. We segregate loans based on the accounting treatment into (a) loans accounted for under ASC 310-30 and (b) loans excluded from ASC 310-30, which also includes our originated loans. We further segregate total loans into two separate categories: (a) loans receivable—covered and (b) loans receivable—non-covered, both of which are more fully described below.

OREO is recorded at fair value, less estimated selling costs. The fair value of OREO property is generally estimated using both market and income approach valuation techniques incorporating observable market data to formulate an opinion of the estimated fair value. When current appraisals are not available, judgment is used based on managements’ experience for similar properties.

Identifiable intangible assets are recognized separately if they arise from contractual or other legal rights or if they are separable (i.e., capable of being sold, transferred, licensed, rented, or exchanged separately from the entity). Deposit liabilities and the related depositor relationship intangible assets, known as the core deposit intangible assets, may be exchanged in observable exchange transactions. As a result, the core deposit intangible asset is considered identifiable, because the separability criterion has been met. The fair value of core deposit intangible assets is determined based on a discounted cash flow methodology that considers primary asset attributes such as expected client runoff rates, cost of the deposit base, and reserve requirements.

An FDIC indemnification asset is recognized when the FDIC contractually indemnifies, in whole or in part, us for a particular uncertainty. The recognition and measurement of an indemnification asset is based on the related indemnified items. We recognize an indemnification asset at the same time that the indemnified item is recognized and we measure it on the same basis as the indemnified items, subject to collectability or contractual limitations on the indemnified amounts.

Under FDIC loss sharing agreements, we may be required to return a portion of cash received from the FDIC at acquisition in the event that losses do not reach a specified threshold, based on the initial discount less cumulative servicing amounts for the covered assets acquired. Such liabilities are referred to as clawback liabilities and are considered to be contingent consideration as they require the return of a portion of the initial consideration in the event

that certain contingencies are met. We recognize clawback liabilities that represent contingent consideration at fair value at the date of acquisition. The clawback liabilities are included in due to FDIC in the accompanying consolidated statements of financial condition, and are periodically re-measured. Any changes in value are reflected in both the carrying amount of the clawback liability and the related amortization that is recognized through FDIC loss sharing income in the consolidated statements of operations until the contingency is resolved.

Accounting for Acquired Loans and the Related FDIC Indemnification Asset

Included in our loan portfolio are covered loans, which consist of loans acquired in the Hillcrest Bank and Community Banks of Colorado transactions that are covered by FDIC loss sharing agreements, and non-covered loans, which consist of originated and acquired loans that are not covered by loss sharing agreements. The covered loan portfolio has significantly different risk characteristics due to the financial statement implications, which are summarized below.

The estimated fair values of acquired loans are based on a discounted cash flow methodology that considers various factors, including the type of loan or pool of loans with similar characteristics, and related collateral, classification status, fixed or variable interest rate, maturity and any prepayment terms of loan, whether or not the loan is amortizing, and a discount rate reflecting our assessment of risk inherent in the cash flow estimates. The determination of the fair value of acquired loans, including covered loans, takes into account credit quality deterioration and probability of loss, and as a result, the related allowance for loan losses is not carried forward at the time of acquisition.

A significant portion of the loans acquired in the Hillcrest Bank, Bank of Choice, and Community Banks of Colorado acquisitions had deteriorated credit quality at the date of acquisition and management accounted for all loans acquired through these acquisitions under ASC 310-30 (with the exception of loans with revolving privileges which were outside the scope of ASC 310-30). These loans are grouped based on purpose and/or type of loan, geography and risk rating, and take into account the sources of repayment and collateral, and each such grouping is treated as a pool. Each pool is accounted for as a single loan for which the integrity is maintained throughout the life of the asset. When a pool exhibits evidence of credit deterioration since origination and it is probable at the date of acquisition that we will not collect all principal and interest payments in accordance with the terms of the loan agreement, the expected shortfall in the expected future cash flows compared to the contractual amount due is recognized as a non-accretable difference. Any excess of the expected future cash flows over the acquisition date fair value is known as the accretable discount, or accretable yield, and through accretion, is recognized as interest income over the remaining life of each pool. Contractual fees not expected to be collected are not included in ASC 310-30 contractual cash flows. Should fees be subsequently collected, the cash flows are accounted for as non 310-30 fee income in the period they are received. Loans that meet the criteria for non-accrual of interest at the time of acquisition may be considered performing upon and subsequent to acquisition, regardless of whether the client is contractually delinquent, if the timing and expected cash flows on such loans can be reasonably estimated and if collection of the new carrying value of such loans is expected. If the timing and expected cash flows of a pool can not be reasonably estimated, that pool may be placed on non-accrual status, the accretion of income will cease, and interest income will be recognized on a cash basis.

Loan pools accounted for under ASC 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, subsequent increases in the expected future cash flows result in a transfer from the non-accretable difference to the accretable yield, which is then accreted as a yield adjustment over the remaining life of the pool once any previously recorded impairment expense has been recouped. These cash flow estimations are inherently subjective as they require material estimates, all of which may be susceptible to significant change.

Loans outside the scope of ASC 310-30 are accounted for under ASC 310, Receivables. Discounts created when the loans are recorded at their estimated fair values at acquisition are accreted over the remaining life of the loan as an adjustment to the related loan’s yield. Similar to originated loans, the accrual of interest income is discontinued on acquired loans that are not accounted for under ASC 310-30 when the collection of principal or interest, in whole or in part, is doubtful. Interest is not accrued on loans 90 days or more past due unless they are well secured and in the process of collection.

The fair value of covered loans and covered OREO does not include the estimated fair value of the expected reimbursement of cash flows from the FDIC for the losses on these covered assets, as those cash flows are measured

and recorded separately in the FDIC indemnification asset. The indemnification assets were recorded at fair value on the respective dates of acquisition, and considered the estimated fair value of anticipated reimbursements from the FDIC for expected losses on covered assets, subject to the loss thresholds and any contractual limitations in the loss sharing agreements. Fair value was estimated using the net present value of projected cash flows related to the loss sharing agreements based on the expected reimbursements for losses and the applicable loss sharing percentages. These cash flows are discounted to reflect the uncertainty of the timing of the loss sharing reimbursement from the FDIC and the discount is amortized using the effective interest method in connection with the expected speed of reimbursements and is limited to the lesser of the contractual term of the indemnification agreement or the remaining life of the indemnified assets. This amortization is included in FDIC indemnification asset amortization in the consolidated statements of operations. The expected indemnification asset cash flows are re-estimated in conjunction with the

periodic re-estimation of cash flows on covered loans and covered OREO. Improvements in cash flow expectations on covered loans and covered OREO generally result in a related decline in the expected indemnification cash flows from the FDIC and are recognized immediately in earnings to the extent that they relate to a reversal of a previously recorded valuation allowance related to the covered assets. Any remaining decreases in expected cash flows are reflected prospectively as a negative yield adjustment on the indemnification asset consistent with the approach taken to recognize increases in expected cash flows on the covered loans accounted for under ASC 310-30. Conversely, declines in cash flow expectations on covered loans and covered OREO generally result in an increase in the expected indemnification asset cash flows from the FDIC and are reflected as both a decrease in the FDIC indemnification asset amortization and an increase to the balance of the indemnification asset in the current period. As indemnified assets are resolved, the indemnification asset is reduced by the amount claimed by us from the FDIC and a corresponding claim receivable is recorded in other assets in the consolidated statements of financial condition until cash is received from the FDIC.

Allowance for Loan Losses

The determination of the ALL, which represents management’s estimate of probable losses inherent in our loan portfolio at the balance sheet date, including acquired and covered loans to the extent necessary, involves a high degree of judgment and complexity. The determination of the ALL takes into consideration, among other matters, the estimated fair value of the underlying collateral, economic conditions, particularly as such conditions relate to the market areas in which we operate historical net loan losses and other factors that warrant recognition. Any change in these factors, or the rise of any other factors that we, or our regulators, may deem necessary to consider when estimating the ALL, may materially affect the ALL and provisions for loan losses. For further discussion of the ALL, see “—Financial Condition—Asset Quality” and “—Financial Condition—Allowance for Loan Losses” and notes 2 and 8 to ou consolidated financial statements.

Stock-based Compensation

We utilize a Black-Scholes option pricing model to measure the expense associated with stock option awards and a Monte Carlo simulation model to measure the expense associated with market-vesting portions of restricted shares. These models require inputs of highly subjective assumptions with regard to expected stock price volatility, forfeiture and dividend rates and option life. These subjective input assumptions materially affect the fair value estimates and the associated stock-based compensation expense.

One of the key inputs to the Black-Scholes option pricing model is expected volatility. As a private entity, volatility was estimated using the calculated value method, whereby the expected volatility was calculated based on 17 comparable companies that were publicly traded. NBHC became a publicly traded company on September 20, 2012 and upon becoming a public entity, the Company was subject to a change in accounting policy under the provisions of ASC 718 Compensation-Stock Compensation, whereby expected volatility of grants, modifications, repurchases or cancellations that occur subsequent to the Company becoming a public entity are calculated using a time-based weighted migration of the Company’s own stock price volatility coupled with those of the peer group. The weighting will become increasingly dependent on our own stock-price volatility as time passes, until such time that our stock has historical volatility equal to that of the expected term of the awards being measured. Grants of stock-based awards that existed prior to the Company becoming a public entity will not be re-measured under the public-company provisions unless those grants are subsequently modified, repurchased, or cancelled. This change in accounting policy may have a material effect on the valuation of future grants of stock-based compensation. See note 17 to our consolidated financial statements for more information on stock-based compensation.

The valuation methodologies employed in determining the expense associated with stock-based compensation vary widely, as do the award types and the subjective assumptions used in those valuation methodologies. As a result, these differences in practice can have a material impact on the financial performance of us or our peers, and can limit meaningful comparisons between our performance over different periods and the performance results of our peers.

Acquisition Activity

An integral component of our foundation and growth strategy has been to capitalize on market opportunities and acquire financial services franchises. Our primary focus has been on markets that we believe are characterized by some or all of the following: (i) attractive demographics with household income and population growth above the national average; (ii) concentration of business activity; (iii) high quality deposit bases; (iv) an advantageous

competitive landscape that provides opportunity to achieve meaningful market presence; (v) a substantial number of financial institutions, including troubled financial institutions; (vi) lack of consolidation in the banking sector and corresponding opportunities for add-on transactions; and (vii) markets sizeable enough to support our long-term growth objectives. We structured our business strategy around these criteria because we believed they would provide the best long-term opportunities for growth.

With these criteria in mind, and consistent with our growth strategy, we completed two acquisitions during the fourth quarter of 2010 and two acquisitions in 2011. Through our acquisition of Hillcrest Bank from the FDIC in October 2010, we acquired 8 banking centers, along with 32 retirement center locations (which we closed on December 31, 2013), which were predominantly in the greater Kansas City region, but also included six retirement centers in Colorado and two banking centers and six retirement centers in Texas. We acquired approximately $1.4 billion in assets and approximately $1.2 billion in non-brokered deposits with a loss sharing agreement that covers losses incurred on commercial loans, single family residential loans and OREO, and the FDIC made a cash contribution of approximately $183 million to us as part of the transaction. Through our Bank Midwest transaction in December 2010, we acquired approximately $2.4 billion in assets and approximately $2.4 billion in non-brokered deposits, and 39 banking centers throughout Missouri and eastern Kansas.

In July 2011, we expanded our footprint with the acquisition of Greeley, Colorado-based Bank of Choice. The acquisition of Bank of Choice added 16 banking centers in Colorado, which included banking centers along the fast-growing Front Range of the Rocky Mountains. We acquired $949.5 million in assets and assumed $760.2 million of non-brokered deposits from Bank of Choice at a $171.6 million asset discount in a no loss sharing structure from the FDIC.

In October 2011, we broadened our Colorado presence with the acquisition of the Community Banks of Colorado from the FDIC. Through this acquisition, we added 36 banking centers in Colorado and four banking centers in California (which we closed as of December 31, 2013), along with selected assets and selected liabilities of the former Community Banks of Colorado. We acquired approximately $1.2 billion in assets and approximately $1.2 billion in deposits with the Community Banks of Colorado acquisition at a discount of approximately $113.5 million, which includes a $15.5 million discount on two specific loan pools, and with a commercial loss sharing agreement that covers losses incurred on certain loans and OREO, the majority of which are commercial in nature.

All of our acquisitions were accounted for under the acquisition method of accounting, and accordingly, all assets acquired and liabilities assumed were recorded at their respective acquisition date fair values and the fair value discounts on loans are being accreted over the lives of the loans as an adjustment to yield, with the exception of any non-accretable difference, as is described in our application of critical accounting policies. Additionally, as of the date of acquisition, 99.6% of the loans and all of the OREO acquired in the Hillcrest Bank transaction were covered by FDIC loss sharing agreements, and 61.8% of loans and 83.5% of OREO in the Community Banks of Colorado transaction were covered by loss sharing agreements with the FDIC. Both the application of the acquisition method of accounting and the loss sharing agreements with the FDIC are discussed in more detail below and in the notes to the consolidated financial statements.

We have invested in our infrastructure and technology through the implementation of an efficient, industry-leading, scalable platform that we believe supports our risk management activities and our potential for significant future growth and new product offerings. We have centralized many of our operational functions in Kansas City, which has desirable cost and labor market characteristics. We have built enterprise wide finance and risk management capabilities that we expect will afford efficiencies as we grow.

We intend to continue our growth organically and through acquisitions. In addition to broadening our greater Kansas City and Colorado footprints, we may also consider acquisitions in additional complementary markets and complementary business segments, including asset generating and fee income businesses, through conservatively structured transactions to capitalize on market opportunities. We may utilize our stock in addition to cash as consideration in future acquisitions.

Financial Condition

Total assets at December 31, 2013 were $4.9 billion compared to $5.4 billion at December 31, 2012, a decrease of $0.5 billion. The decrease in total assets was driven by a $0.6 billion decrease in cash and cash equivalents, as we utilized cash to repurchase $146.7 million of our common stock. Also contributing to the decrease in cash was the run-off of $0.3 billion of time deposits, as many of these clients were single-service, highly rate-sensitive clients of the problem banks we acquired. We also utilized available cash and purchased $945.8 million of investment securities during 2013. Total non-strategic loan balances decreased $360.6 million, which was a reflection of our workout progress on acquired troubled loans (many of which were covered). We also originated $714.0 million loans during 2013, which offset normal client payments and grew the loan balances in our strategic portfolio at an annualized rate

of 34.0%. As a result, total loan balances increased $21.4 million, after having reached an important loan balance inflection point during the third quarter of 2013, whereby total loan balances began growing for the first time in our Company's short history, as organic loan originations began outpacing the resolution of acquired troubled loans. Our FDIC indemnification asset decreased $22.5 million during 2013 as a result of $17.6 million of payments from and claims submitted to the FDIC for reimbursement on continued workout progress on our covered loans and OREO. The actual and expected cash flows increased on covered assets, and resulted in a net reclassification of $73.7 million of non-accretable difference to accretable yield during the period, which is being accreted to income over the remaining life of the loans. Total deposits decreased $362.4 million, driven by a $257.0 million decline in time deposits, as we sought to retain only those

depositors who were interested in market-rate deposits and developing a banking relationship and as we continued our focus on migrating toward a client-based deposit mix with higher concentrations of lower cost demand, savings and money market ("transaction") deposits. Also contributing to the decline in total deposits was our exit of four California banking centers and 32 limited-service retirement centers during the fourth quarter. Shareholders' equity declined $192.8 million during 2013 and was primarily impacted by the repurchase of 7.4 million of our shares outstanding, or 14.2%, at a weighted average price of $19.77. Also contributing to the decrease in total equity was a $47.3 million decline in accumulated other comprehensive income (loss), net of tax, as a result of market value fluctuations.

Total assets at December 31, 2012 were $5.4 billion compared to $6.4 billion at December 31, 2011, a decrease of $1.0 billion. The decrease in total assets was largely driven by a decrease in non-strategic loan balances of $478.0 million, which was a reflection of our workout progress on acquired troubled loans (many of which were covered) that we acquired with our various acquisitions. We also originated $434.3 million of loans during 2012, which offset normal client payments and sustained the loan balances in our strategic portfolio. We coupled the overall loan balance decrease of $435.7 million with an $862.3 million decrease in total deposits, as we sought to retain only those depositors who were interested in 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 $1.1 billion of investment securities during 2012. Our FDIC indemnification asset decreased $136.5 million during 2012 as a result of $135.2 million of payments from and claims submitted to the FDIC for reimbursement on continued workout progress on our acquired problem 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 $47.5 million of non-accretable difference to accretable yield during the period, which is being accreted to income over the remaining life of those loans.

Investment Securities

Available-for-sale

Total investment securities available-for-sale were $1.8 billion at December 31, 2013, compared to $1.7 billion at December 31, 2012, an increase of $0.1 billion, or 3.9%. During 2013, we purchased $694.0 million of available-for-sale mortgage backed securities, which was largely funded by $550.0 million of maturities and paydowns.

Total investment securities available-for-sale were $1.7 billion at December 31, 2012, compared to $1.9 billion at December 31, 2011, a decrease of $0.2 billion, or 7.8%. During the year ended 2012, we also purchased $1.1 billion of available-for-sale securities, which was partially offset by $493.2 million of maturities and paydowns. The purchases included U.S. Treasury securities, mortgage backed securities and asset backed securities.

Our available-for-sale investment securities portfolio is summarized as follows for the periods indicated (in thousands):

	December 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 %
Asset backed securities	4,534	4,537	0.26 %	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	490,321	494,990	27.72 %	2.22 %	658,169	678,017	39.46 %	2.03 %
Other residential MBS issued or guaranteed by U.S. Government	1,320,998	1,285,582	72.00 %	1.83 %	931,979	949,289	55.26 %	2.13 %

agencies or sponsored enterprises												
Other securities	419	419	0.02	%	0.00	%	419	419	0.02	%	0.00	%
Total investment securities available-for-sale	$1,816,272	$1,785,528	100.00	%	1.94	%	$1,680,748	$1,718,028	100.00	%	2.01	%

As of December 31, 2013, approximately 99.7% of the available-for-sale investment portfolio was backed by mortgages as compared to 94.7% at December 31, 2012. 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 December 31, 2013 and December 31, 2012, adjustable rate securities comprised 7.8% and 11.6%, respectively, of the available-for-sale MBS portfolio. The remainder of the portfolio was comprised of fixed rate securities with 10 to 30 year maturities, with a weighted average coupon of 2.2% per annum and 2.8% per annum, at December 31, 2013 and December 31, 2012, respectively.

The available-for-sale investment portfolio included $30.7 million of net unrealized losses and $37.3 million of net unrealized gains, at December 31, 2013 and December 31, 2012, respectively, inclusive of $18.4 million of unrealized gains and $321 thousand of unrealized losses, for the aforementioned periods. The change from a net unrealized gain at December 31, 2012 to a net unrealized loss at December 31, 2013 was primarily driven by rising interest rates during the period. 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 December 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
Asset backed securities	$953	0.56%	$3,584	0.62%	$—	0.00%	$—	0.00%	$—	0.00%	$4,537	0.61%
Mortgage-backed securities (“MBS”):												
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	—	0.00%	8	1.48%	183,172	1.49%	311,810	2.67%	—	0.00%	494,990	2.22%
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	—	0.00%	—	0.00%	11,723	2.94%	1,273,859	1.82%	—	0.00%	1,285,582	1.83%
Other securities	—	0.00%	—	0.00%	—	0.00%	—	0.00%	419	0.00%	419	0.00%
Total investment securities available-for-sale	$953	0.56%	$3,592	0.62%	$194,895	1.58%	$1,585,669	1.99%	$419	0.00%	$1,785,528	1.94%

The estimated weighted average life of the available-for-sale MBS portfolio as of December 31, 2013 and December 31, 2012 was 3.9 years and 3.4 years, respectively, the extension of which was largely due to slower expected prepayment speeds in response to the higher interest rate environment at December 31, 2013 compared to December 31, 2012. This estimate is based on various assumptions, including repayment characteristics, and actual results may differ. As of December 31, 2013, the duration of the total available-for-sale investment portfolio was 3.6 years and the asset-backed securities portfolio within the available-for-sale investment portfolio had a duration of 0.3 year. As of December 31, 2012, the duration of the total available-for-sale investment portfolio was 3.1 years and the asset-backed securities portfolio within the available-for-sale investment portfolio had a duration of 0.5 year.

Held-to-maturity

At December 31, 2013, we held $641.9 million of held-to-maturity investment securities, compared to $577.5 million at December 31, 2012, an increase of $64.4 million or 11.2%. During 2013, we purchased $251.8 million of held-to-maturity securities.

As previously discussed, during the first quarter of 2012, we re-evaluated the securities in our available-for-sale investment portfolio and identified securities that we now intend to hold until maturity. We transferred residential

mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored agencies with a collective amortized cost of approximately $715.2 million and unrealized gains of approximately $38.9 million on the date of transfer. These securities were classified as available-for-sale at December 31, 2011. During the year ended December 31, 2012, we also purchased $2.2 million of held-to-maturity mortgage-backed securities.
Held-to-maturity investment securities are summarized as follows as of the date indicated (in thousands):

	December 31, 2013					
	Amortized Cost	Fair Value	Percent of Portfolio		Weighted Average Yield	
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$513,090	$511,489	79.93	%	3.31	%
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	128,817	124,916	20.07	%	1.70	%
Total investment securities held-to-maturity	$641,907	$636,405	100.00	%	2.99	%

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

The residential mortgage pass-through and other residential MBS held-to-maturity investment portfolios are comprised of fixed rate FHLMC, FNMA and GNMA securities.

At December 31, 2013 and December 31, 2012, the fair value of the held-to-maturity investment portfolio was $636.4 million and $584.6 million, respectively, inclusive of $5.5 million of unrealized losses, net and $7.1 million of unrealized gains, for the aforementioned periods. The table below summarizes the contractual maturities, as of the last scheduled repayment date, of our held-to-maturity investment portfolio as of December 31, 2013 (in thousands):

	Amortized Cost	Weighted Average Yield
Due in one year or less	$—	0.00 %
Due after one year through five years	—	0.00 %
Due after five years through ten years	18,319	2.03 %
Due after ten years	623,588	3.02 %
Other securities	—	0.00 %
Total	$641,907	2.99 %

The estimated weighted average life of the held-to-maturity investment portfolio was 3.8 years as of both December 31, 2013 and December 31, 2012, respectively. As of December 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 3.6 years. At December 31, 2012, the duration of the total held-to-maturity investment portfolio was 3.6 years and the duration of the entire investment securities portfolio was 3.2 years.

Non-marketable securities

Non-marketable securities include Federal Reserve Bank stock and FHLB stock. At December 31, 2013 and December 31, 2012, we held $25.0 million of Federal Reserve Bank stock and at December 31, 2013 and December 31, 2012 we also held $6.6 million and $8.0 million of FHLB stock, respectively. We hold these securities in accordance with debt and regulatory requirements. These are restricted securities which lack a market and are therefore carried at cost.

Loans Overview

Our loan portfolio at December 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 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 310-30, with the exception of loans with revolving privileges which were outside the scope of ASC 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 310-30.

Consistent with differences in the accounting, the loan portfolio is presented in two categories: (i) ASC 310-30 loans and (ii) non 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 clients. 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.” Strategic loans include all originated loans in addition to those acquired loans inside our operating markets that meet our credit risk profile. Identification as strategic for acquired loans was made at the time of acquisition. 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 December 31, 2013, strategic loans totaled $1.5 billion and had strong credit quality as represented by a non-performing loans ratio of 0.60%. 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 four 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

For information regarding the loan portfolio composition and the breakdown of the portfolio between ASC 310-30 loans, non 310-30 loans, along with the amounts that are covered and non-covered, see note 7.

Strategic loans comprised 81.1% of the total loan portfolio at December 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 (in thousands):

	December 31, 2013			December 31, 2012		
	Strategic	Non-Strategic	Total	Strategic	Non-Strategic	Total
Commercial	$411,589	$ 71,906	$483,495	$163,193	$ 107,395	$270,588
Commercial real estate	333,651	240,569	574,220	278,907	526,092	804,999
Agriculture	154,811	5,141	159,952	160,963	12,444	173,407
Residential real estate	570,455	29,469	599,924	474,769	58,608	533,377
Consumer	33,599	2,904	36,503	44,266	6,065	50,331
Total	$1,504,105	$ 349,989	$1,854,094	$1,122,098	$ 710,604	$1,832,702

Total loans increased $21.4 million from December 31, 2012, ending at $1.9 billion at December 31, 2013. The 1.2% increase in total loans was primarily driven by a $382.0 million increase in strategic loans, partially offset by a $360.6 million decrease in our non-strategic loan portfolio. 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 non-strategic loans that do not conform to our business model of in-market, relationship-oriented loans with credit metrics commensurate with our current underwriting standards. The increase in strategic loans of $382.0 million, or 34.0%, at December 31, 2013 compared to December 31, 2012, was driven by strong loan originations. We successfully increased our balances in our strategic commercial and residential real estate portfolios as we continued to generate new relationships with individuals and small to mid-sized businesses.

Our loan origination strategy involves lending primarily to clients within our markets; however, our acquired loans include clients in various geographies. The table below shows the geographic breakout of our loan portfolio at December 31, 2013 and December 31, 2012, based on the domicile of the borrower or, in the case of collateral-dependent loans, the geographic location of the collateral (in thousands):

	December 31, 2013			December 31, 2012		
	Loan balance	Percent of loan portfolio		Loan balance	Percent of loan portfolio	
Colorado	$710,967	38.3	%	$694,468	37.9	%
Missouri	537,267	29.0	%	540,699	29.5	%
Kansas	194,044	10.5	%	119,541	6.6	%
Texas	186,870	10.1	%	170,890	9.3	%
California	45,370	2.4	%	61,363	3.3	%
Florida	13,529	0.7	%	52,982	2.9	%
Other	166,047	9.0	%	192,759	10.5	%
Total	$1,854,094	100.0	%	$1,832,702	100.0	%

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 $714.0 million were up $279.7 million, or 64.4% from the same period of the prior year as a result of the deployment of bankers, the introduction of new products and the continued development of our market presence. The following table represents new loan originations during 2013 and 2012 (in thousands):

	Fourth quarter 2013	Third quarter 2013	Second quarter 2013	First quarter 2013	Total 2013
Commercial	$159,931	$80,833	$24,982	$15,150	$280,896
Commercial real estate	20,959	50,081	31,553	36,749	139,342
Agriculture	23,610	5,689	22,901	9,446	61,646
Residential real estate	36,113	51,749	86,161	45,808	219,831
Consumer	3,594	3,326	3,157	2,211	12,288
Total	$244,207	$191,678	$168,754	$109,364	$714,003

	Fourth quarter 2012	Third quarter 2012	Second quarter 2012	First quarter 2012	Total 2012
Commercial	$30,988	$25,640	$10,799	$20,102	$87,529
Commercial real estate	20,993	11,135	6,816	18,546	57,490
Agriculture	28,978	24,328	22,444	7,570	83,320
Residential real estate	52,778	60,320	40,123	33,016	186,237
Consumer	6,025	6,505	4,057	3,155	19,742
Total	$139,762	$127,928	$84,239	$82,389	$434,318

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

	December 31, 2013			
	Due within 1 Year	Due after 1 but within 5 Years	Due after 5 Years	Total
Commercial	$128,368	$297,120	$58,007	$483,495
Commercial real estate	156,055	277,885	140,280	574,220
Agriculture	32,258	80,681	47,013	159,952
Residential real estate	36,085	52,079	511,760	599,924
Consumer	14,284	15,281	6,938	36,503
Total loans	$367,050	$723,046	$763,998	$1,854,094
Covered	$175,452	$96,216	$37,729	$309,397
Non-covered	191,598	626,830	726,269	1,544,697
Total loans	$367,050	$723,046	$763,998	$1,854,094

	December 31, 2012			
	Due within 1 Year	Due after 1 but within 5 Years	Due after 5 Years	Total
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
Total loans	$614,031	$594,273	$624,398	$1,832,702
Covered	$350,339	$198,373	$59,510	$608,222
Non-covered	263,692	395,900	564,888	1,224,480
Total loans	$614,031	$594,273	$624,398	$1,832,702

The interest rate sensitivity of non 310-30 loans with maturities over one year is as follows at the dates indicated (in thousands):

	December 31, 2013					
	Fixed		Variable		Total	
	Balance	Weighted average rate	Balance	Weighted average rate	Balance	Weighted average rate
Commercial	$76,521	4.36 %	$248,795	3.79 %	$325,316	3.93 %
Commercial real estate	152,357	4.67 %	115,170	3.91 %	267,527	4.35 %
Agriculture	68,701	5.02 %	35,898	4.47 %	104,599	4.83 %
Residential real estate	316,083	3.49 %	208,361	3.64 %	524,444	3.55 %
Consumer	10,683	6.24 %	4,617	4.20 %	15,300	5.63 %
Total loans with > 1 year maturity	$624,345	4.11 %	$612,841	3.80 %	$1,237,186	3.96 %
Covered	$11,044	3.74 %	$7,057	5.97 %	$18,101	4.54 %
Non-covered	613,301	4.11 %	605,784	3.78 %	1,219,085	3.95 %
Total loans with > 1 year maturity	$624,345	4.11 %	$612,841	3.80 %	$1,237,186	3.96 %

	December 31, 2012					
	Fixed		Variable		Total	
	Balance	Weighted average rate	Balance	Weighted average rate	Balance	Weighted average rate
Commercial	$30,601	4.97 %	$103,677	3.79 %	$134,278	4.07 %
Commercial real estate	93,881	5.61 %	65,778	4.61 %	159,659	5.20 %
Agriculture	53,316	5.15 %	38,558	5.43 %	91,874	5.27 %
Residential real estate	226,079	3.88 %	192,412	3.85 %	418,491	3.86 %
Consumer	11,689	6.50 %	5,560	4.82 %	17,249	5.96 %
Total loans with > 1 year maturity	$415,566	4.60 %	$405,985	4.12 %	$821,551	4.36 %
Covered	$7,161	4.95 %	$30,724	5.25 %	$37,885	5.19 %
Non-covered	408,405	4.60 %	375,261	4.02 %	783,666	4.32 %
Total loans with > 1 year maturity	$415,566	4.60 %	$405,985	4.12 %	$821,551	4.36 %

Accretable Yield

At December 31, 2013, the accretable yield balance was $130.6 million compared to $133.6 million at December 31, 2012. We re-measure the expected cash flows of all 27 remaining accruing loan pools accounted for under ASC 310-30 utilizing the same cash flow methodology used at the time of acquisition. During 2013 and 2012, we reclassified $73.7 million, and $47.5 million, net, from non-accretable difference to accretable yield, respectively, as a result of these re-measurements. The accretable yield balance at December 31, 2013 includes $1.6 million of accretable yield related to a loan pool that was put on non-accrual status during 2013. This accretable yield is not being accreted to income and the recognition has been deferred until full recovery of the carrying value of this pool is realized. During 2013, several of the loan pools accounted for under ASC 310-30 paid-off early. The early pay-off of one of these pools resulted in an immediate recognition of $2.5 million of accretion on loans accounted for under ASC 310-30.

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

	December 31, 2013	December 31, 2012
Remaining accretable yield on loans accounted for under ASC 310-30	$130,624	$133,585
Remaining accretable fair value mark on loans not accounted for under ASC 310-30	10,755	19,434
Total remaining accretable yield and fair value mark	$141,379	$153,019

Loss-Share Coverage

We have 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 categories, and the respective loss thresholds and coverage amounts related to the Hillcrest Bank loss sharing agreement are as follows (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 (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 December 31, 2013, we had incurred $201.3 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 were related to the commercial assets. Additionally, as of December 31, 2013, we had incurred approximately $138.4 million of losses related to our Community Banks of Colorado loss sharing agreement. From the beginning of the loss sharing agreements, we have received approximately $123.0 million and $110.8 million of net loss share payments from the FDIC for losses on covered assets related to Hillcrest Bank and Community Banks of Colorado, respectively. As of December 31, 2013, we project future FDIC loss share billings of $44.7 million. The loss sharing agreement related to Hillcrest Bank covers single-family mortgage loans for a period of 10 years and commercial loans, including OREO, for a period of five years from the date of receivership. The loss sharing agreement related to Community Banks of Colorado covers a large majority of commercial loans and OREO for a term of five years from the date of receivership. 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. 57.5% of our non-performing assets (by dollar amount) at December 31, 2013 were 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, 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.

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 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 310-40 Troubled Debt Restructurings by Creditors. Under this guidance, modifications to loans that fall within the scope of ASC 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 and other repossessed assets. However, loans and troubled debt restructurings accounted for under ASC 310-30, as described below, may be excluded from our non-performing assets

to the extent that the cash flows of the loan pools are still estimable. Our non-performing assets included $22.6 million and $11.1 million of covered loans at December 31, 2013 and December 31, 2012, respectively, and $38.8 million and $45.5 million of covered OREO at December 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.

Loans accounted for under ASC 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.

During 2013, we identified one covered commercial and industrial loan pool accounted for under ASC 310-30 with a balance of $14.8 million at December 31, 2013, for which the cash flows were no longer reasonably estimable. In accordance with the guidance in ASC 310-30, this pool was put on non-accrual status. As a result, we have ceased recognition of accretable yield to interest income on this loan pool. Income is now recognized on this pool only after full recovery of the carrying value of the pool. Since placing this loan pool on non-accrual status, we have reduced the carrying balance of this pool by $4.7 million primarily as a result of principal payments, interest collections and payoffs. This pool is now considered a non-performing asset and represents 41.1% of total non-performing loans at December 31, 2013.

All other loans accounted for under ASC 310-30 were classified as performing assets at December 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 other acquired loans accounted for under ASC 310-30.

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

	December 31, 2013			December 31, 2012		
	Non-Covered	Covered	Total	Non-Covered	Covered	Total
Non-accrual loans:						
Commercial	$1,009	$15,098	$16,107	$1,466	$3,034	$4,500
Commercial real estate	1,696	296	1,992	10,216	1,453	11,669
Agriculture	153	—	153	207	44	251
Residential real estate	4,468	1,377	5,845	4,894	1,514	6,408
Consumer	247	—	247	291	—	291
Total non-accrual loans	7,573	16,771	24,344	17,074	6,045	23,119
Loans past due 90 days or more and still accruing interest:						
Commercial	—	115	115	—	—	—
Commercial real estate	—	—	—	—	—	—
Agriculture	—	—	—	—	—	—
Residential real estate	—	—	—	22	—	22
Consumer	14	—	14	3	—	3
Total accruing loans 90 days past due	14	115	129	25	—	25
Accruing restructured loans [1]	5,891	5,714	11,605	12,673	5,047	17,720
Total non-performing loans	13,478	22,600	36,078	29,772	11,092	40,864
OREO	31,300	38,825	70,125	49,297	45,511	94,808
Other repossessed assets	784	302	1,086	800	531	1,331
Total non-performing assets	$45,562	$61,727	$107,289	$79,869	$57,134	$137,003
Allowance for loan losses			$12,521			$15,380
Total non-performing loans to non-covered, covered, and total loans, respectively	0.87 %	7.30 %	1.95 %	2.43 %	1.82 %	2.23 %
Total non-performing assets to total assets			2.18 %			2.53 %
Allowance for loan losses to non-performing loans			34.71 %			37.64 %

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

OREO of $70.1 million at December 31, 2013 includes $4.2 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 $70.1 million of OREO at December 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 2013, $40.0 million of OREO was foreclosed on or otherwise repossessed and $61.3 million of OREO was sold. The OREO sales resulted in $1.2 million of non-covered gains and $5.7 million of covered gains that are subject to reimbursement to the FDIC at the applicable loss-share coverage percentage. OREO write-downs of $10.3 million were recorded during 2013, of which $6.8 million, or 66.2%, were covered by FDIC loss sharing agreements. OREO balances decreased $24.7 million during 2013 to $70.1 million, 55.4% of which was covered by FDIC loss sharing agreements, compared to OREO balances of $94.8 million at December 31, 2