National Bank Holdings Corp
Form 10-Q
August 07, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2015
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-35654

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “accelerated filer.” and “large accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (do not check if a smaller reporting company)	Smaller Reporting Company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
APPLICABLE ONLY TO CORPORATE ISSUERS:
Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.
As of August 6, 2015, the registrant had outstanding 35,055,362 shares of Class A voting common stock, each with $0.01 par value per share, excluding 1,037,564 shares of restricted Class A common stock issued but not yet vested. Additionally, the registrant expects to repurchase approximately 4,651,162 shares pursuant to its previously announced self-tender offer that expired on July 31, 2015. Immediately following the repurchase, the registrant

expects to have approximately 30,404,200 shares of Class A common stock outstanding, excluding 1,037,564 shares of restricted Class A common stock issued but not yet vested.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, notwithstanding that such statements are not specifically identified. Any statements about our expectations, beliefs, plans, predictions, forecasts, objectives, assumptions or future events or performance are not historical facts and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as “anticipate,” “believe,” “can,” “would,” “should,” “could,” “may,” “predict,” “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 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 for, 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 successfully convert core operating systems, at the estimated cost, without significant business interruption and to realize the anticipated benefits;
- 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;
- the trading price of shares of the Company's stock;
- our ability to realize deferred tax assets or the need for a valuation allowance;
- 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;
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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;

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- widespread natural and other disasters, dislocations, political instability, acts of war or terrorist activities, cyberattacks or international hostilities through impacts on the economy and financial markets generally or on us or our counterparties specifically;
- impact of reputational risk on such matters as business generation and retention;
- other risks and uncertainties listed from time to time in the Company's reports and documents filed with the Securities and Exchange Commission; and
- our success at managing the risks involved in the foregoing items.

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

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

	June 30, 2015	December 31, 2014
ASSETS		
Cash and due from banks	$57,880	$61,461
Due from banks	174,481	185,463
Interest bearing bank deposits	10,080	10,055
Cash and cash equivalents	242,441	256,979
Securities purchased under agreements to resell	50,000	—
Investment securities available-for-sale (at fair value)	1,316,829	1,479,214
Investment securities held-to-maturity (fair value of $476,519 and $534,637 at June 30, 2015 and December 31, 2014, respectively)	472,605	530,590
Non-marketable securities	27,050	27,045
Loans (including covered loans of $167,149 and $193,697 at June 30, 2015 and December 31, 2014, respectively)	2,328,524	2,162,409
Allowance for loan losses	(20,241)	(17,613)
Loans, net	2,308,283	2,144,796
Loans held for sale	10,037	5,146
Federal Deposit Insurance Corporation ("FDIC") indemnification asset, net	23,215	39,082
Other real estate owned	20,367	29,120
Premises and equipment, net	102,228	106,341
Goodwill	59,630	59,630
Intangible assets, net	14,210	16,883
Other assets	130,955	124,820
Total assets	$4,777,850	$4,819,646
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing demand deposits	$777,727	$732,580
Interest bearing demand deposits	389,270	386,121
Savings and money market	1,327,953	1,290,436
Time deposits	1,267,539	1,357,051
Total deposits	3,762,489	3,766,188
Securities sold under agreements to repurchase	187,314	133,552
Federal Home Loan Bank advances	40,000	40,000
Due to FDIC	38,195	42,011
Other liabilities	31,586	43,320
Total liabilities	4,059,584	4,025,071
Shareholders' equity:		
Common stock, par value $0.01 per share: 400,000,000 shares authorized; 52,374,349 and 52,223,460 shares issued; 35,053,339 and 38,884,953 shares outstanding at June 30, 2015 and December 31, 2014, respectively	513	512
Additional paid in capital	994,454	993,212
Retained earnings	36,709	40,528
Treasury stock of 16,277,782 and 12,383,109 shares at June 30, 2015 and December 31, 2014, respectively, at cost	(317,854)	(245,516)

Accumulated other comprehensive income, net of tax	4,444	5,839
Total shareholders’ equity	718,266	794,575
Total liabilities and shareholders’ equity	$4,777,850	$4,819,646

See accompanying notes to the unaudited consolidated interim financial statements.

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

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Interest and dividend income:				
Interest and fees on loans	$32,166	$33,054	$64,147	$66,301
Interest and dividends on investment securities	9,764	12,606	20,336	25,774
Dividends on non-marketable securities	317	270	644	659
Interest on interest-bearing bank deposits	270	75	477	156
Total interest and dividend income	42,517	46,005	85,604	92,890
Interest expense:				
Interest on deposits	3,451	3,556	6,850	7,062
Interest on borrowings	211	26	420	58
Total interest expense	3,662	3,582	7,270	7,120
Net interest income before provision for loan losses	38,855	42,423	78,334	85,770
Provision for loan losses	1,858	1,660	3,311	3,429
Net interest income after provision for loan losses	36,997	40,763	75,023	82,341
Non-interest income:				
FDIC indemnification asset amortization	(7,283)	(5,959)	(14,953)	(13,567)
FDIC loss sharing income (expense)	1,138	(649)	328	(1,606)
Service charges	3,697	3,870	7,024	7,410
Bank card fees	2,699	2,559	5,249	4,933
Gain on sales of mortgages, net	546	202	946	410
Bank-owned life insurance income	402	—	796	—
Other non-interest income	1,321	896	2,093	1,721
Gain on previously charged-off acquired loans	39	232	97	528
OREO related write-ups and other income	188	1,010	688	1,978
Total non-interest income	2,747	2,161	2,268	1,807
Non-interest expense:				
Salaries and benefits	21,156	20,428	41,233	41,202
Occupancy and equipment	6,069	6,209	12,158	12,683
Telecommunications and data processing	2,578	2,982	5,640	6,130
Marketing and business development	1,252	1,762	2,261	2,785
FDIC deposit insurance	1,032	1,035	2,073	2,080
ATM/debit card expenses	789	762	1,546	1,513
Professional fees	962	688	2,082	1,326
Other non-interest expense	2,493	2,749	4,735	5,158
Other real estate owned expense (income)	406	1,402	(12)	3,035
Problem loan expenses	723	1,082	1,522	1,767
Intangible asset amortization	1,336	1,336	2,672	2,672
Loss (gain) from the change in fair value of warrant liability	508	(580)	118	(1,478)
Banking center closure related expenses	1,089	—	1,089	—
Total non-interest expense	40,393	39,855	77,117	78,873
(Loss) income before income taxes	(649)	3,069	174	5,275
Income tax expense	692	940	269	1,715
Net (loss) income	$(1,341)	$2,129	$(95)	$3,560
(Loss) income per share—basic	$(0.04)	$0.05	$0.00	$0.08
(Loss) income per share—diluted	$(0.04)	$0.05	$0.00	$0.08

Weighted average number of common shares outstanding:				
Basic	36,164,617	43,868,164	37,091,412	44,341,276
Diluted	36,164,617	43,880,263	37,091,412	44,364,639

See accompanying notes to the unaudited consolidated interim financial statements.

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

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Net (loss) income	$(1,341)	$2,129	$(95)	$3,560
Other comprehensive (loss) income, net of tax:				
Securities available-for-sale:				
Net unrealized (losses) gains arising during the period, net of tax benefit (expense) of $4,299 and $(3,343) for the three months ended June 30, 2015 and 2014, respectively; and net of tax expense of $0 and $8,305 for the six months ended June 30, 2015 and 2014, respectively.	(6,989)	5,436	—	13,505
Amortization of net unrealized holding gains on securities transferred between available-for-sale to held-to-maturity, net of tax benefit of $401 and $509 for the three months ended June 30, 2015 and 2014, respectively; and net of tax benefit of $857 and $1,029 for the six months ended June 30, 2015 and 2014, respectively.	(652)	(829)	(1,395)	(1,673)
Other comprehensive (loss) income	(7,641)	4,607	(1,395)	11,832
Comprehensive (loss) income	$(8,982)	$6,736	$(1,490)	$15,392

See accompanying notes to the unaudited consolidated interim financial statements.

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Changes in Shareholders' Equity (Unaudited)
Six Months Ended June 30, 2015 and 2014
(In thousands, except share and per share data)

	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Accumulated other comprehensive income (loss), net	Total
Balance, December 31, 2013	$512	$990,216	$39,966	$(126,146)	$ (6,756)	$897,792
Net income	—	—	3,560	—	—	3,560
Stock-based compensation	—	1,603	—	—	—	1,603
Issuance under equity compensation plan, including tax benefit of $4	—	(379)	—	—	—	(379)
Repurchase of 2,310,595 shares	—	—	—	(45,968)	—	(45,968)
Dividends paid ($0.10 per share)	—	—	(4,507)	—	—	(4,507)
Other comprehensive income	—	—	—	—	11,832	11,832
Balance, June 30, 2014	$512	$991,440	$39,019	$(172,114)	$ 5,076	$863,933
Balance, December 31, 2014	$512	$993,212	$40,528	$(245,516)	$ 5,839	$794,575
Net loss	—	—	(95)	—	—	(95)
Stock-based compensation	—	1,510	—	—	—	1,510
Issuance under equity compensation plan, including tax benefit of $8	1	(268)	—	—	—	(267)
Repurchase of 3,894,673 shares	—	—	—	(72,338)	—	(72,338)
Dividends paid ($0.10 per share)	—	—	(3,724)	—	—	(3,724)
Other comprehensive loss	—	—	—	—	(1,395)	(1,395)
Balance, June 30, 2015	$513	$994,454	$36,709	$(317,854)	$ 4,444	$718,266

See accompanying notes to the unaudited consolidated interim financial statements.

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

	For the six months ended June 30, 2015	2014
Cash flows from operating activities:		
Net (loss) income	$(95)	$3,560
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Provision for loan losses	3,311	3,429
Depreciation and amortization	7,754	8,368
Current income tax receivable	112	13,510
Deferred income tax asset	(3,111)	(11,230)
Discount accretion, net of premium amortization on securities	2,163	2,534
Loan accretion	(26,360)	(34,020)
Net gains on sales of mortgage loans	(946)	(410)
Originations of loans held for sale, net of repayments	(48,137)	(17,179)
Proceeds from sales of loans held for sale	44,192	18,616
Bank-owned life insurance income	(796)	—
Amortization of indemnification asset	14,953	13,567
Gains on the sales of other real estate owned, net	(2,103)	(1,028)
Impairment on other real estate owned	757	880
Losses (gains) on sales of fixed assets	6	(123)
Impairment on fixed assets related to banking center closures	1,089	—
Stock-based compensation expense	1,510	1,603
Decrease in due to FDIC, net	(3,816)	(7,699)
Increase in other assets	(1,504)	(469)
(Decrease) increase in other liabilities	(11,801)	3,636
Net cash used in operating activities	(22,822)	(2,455)
Cash flows from investing activities:		
Proceeds from redemptions of FHLB stock	234	619
(Purchases) proceeds from redemptions of FRB stock	(239)	9,390
Maturities of investment securities held-to-maturity	55,411	50,561
Maturities of investment securities available-for-sale	160,542	157,870
Increase in securities purchased under agreements to resell	(50,000)	—
Net increase in loans	(153,060)	(202,059)
Purchases of premises and equipment, net	(2,063)	(347)
Proceeds from sales of loans	11,702	1,103
Proceeds from sales of other real estate owned	11,019	16,307
Increase (decrease) in FDIC indemnification asset	914	(529)
Net cash provided by investing activities	34,460	32,915
Cash flows from financing activities:		
Net (decrease) increase in deposits	(3,699)	18,024
Increase (decrease) in repurchase agreements	53,762	(14,115)
Issuance of stock under equity compensation plans	(420)	(383)
Proceeds from exercise of stock options	160	—
Excess tax benefit on stock-based compensation	8	4
Payment of dividends	(3,649)	(4,423)
Repurchases of shares	(72,338)	(45,968)
Net cash used in financing activities	(26,176)	(46,861)

Decrease in cash and cash equivalents	(14,538)	(16,401)
Cash and cash equivalents at beginning of the year	256,979	189,460
Cash and cash equivalents at end of period	$242,441	$173,059
Supplemental disclosure of cash flow information during the period:		
Cash paid for interest	$7,228	$6,754
Net tax payments (refunds)	$3,194	$(542)
Supplemental schedule of non-cash investing activities:		
Loans transferred to other real estate owned at fair value	$920	$1,477
FDIC indemnification asset claims transferred to other liabilities	$(2,495)	$(987)
Loans purchased but not settled	$—	$16,019

See accompanying notes to the unaudited consolidated interim financial statements.

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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
June 30, 2015

Note 1 Basis of Presentation

National Bank Holdings Corporation ("NBHC" or the "Company") is a bank holding company that was incorporated in the State of Delaware in June 2009 with the intent to acquire and operate financial services franchises and other complementary businesses in targeted markets. The Company is headquartered immediately south of Denver, in Greenwood Village, Colorado, and its primary operations are conducted through its wholly owned subsidiary, NBH Bank, N.A. (the "Bank"). The Company provides a variety of banking products to both commercial and consumer clients through a network of 97 banking centers located in Colorado, the greater Kansas City area and Texas, and through on-line and mobile banking products.

The accompanying interim unaudited consolidated financial statements serve to update the National Bank Holdings Corporation Annual Report on Form 10-K for the year ended December 31, 2014 and include the accounts of the Company and the Bank. The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and where applicable, with general practices in the banking industry or guidelines prescribed by bank regulatory agencies. However, they may not include all information and notes necessary to constitute a complete set of financial statements under GAAP applicable to annual periods and accordingly should be read in conjunction with the financial information contained in the Company's most recent Form 10-K. The unaudited consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results presented. All such adjustments are of a normal recurring nature. All significant intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications of prior years' amounts are made whenever necessary to conform to current period presentation. The results of operations for the interim period is not necessarily indicative of the results that may be expected for the full year or any other interim period. All amounts are in thousands, except share data, or as otherwise noted.

GAAP requires management to make estimates that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. By their nature, estimates are based on judgment and available information. Management has made significant estimates in certain areas, such as the amount and timing of expected cash flows from assets, the valuation of the FDIC indemnification asset and clawback liability, the valuation of other real estate owned (“OREO”), the fair value adjustments on assets acquired and liabilities assumed, the valuation of core deposit intangible assets, the evaluation of investment securities for other-than-temporary impairment (“OTTI”), the valuation of stock-based compensation, the fair values of financial instruments, the allowance for loan losses (“ALL”), and contingent liabilities. Because of the inherent uncertainties associated with any estimation process and future changes in market and economic conditions, it is possible that actual results could differ significantly from those estimates.

The Company's significant accounting policies followed in the preparation of the unaudited consolidated financial statements are disclosed in note 2 of the audited financial statements and notes for the year ended December 31, 2014 and are contained in the Company's Annual Report on Form 10-K. There have not been any significant changes to the application of significant accounting policies since December 31, 2014, with the exception of the following:

Income taxes - For the three and six months ended June 30, 2015, the Company has utilized the discrete effective tax rate method, as allowed by Accounting Standards Codification (“ASC”) 740-270-30-18, “Income Taxes-Interim Reporting,” to calculate its interim income tax provision. The discrete method is applied when the application of the estimated annual effective tax rate is impractical because it is not possible to reliably estimate the annual effective tax rate. The discrete method treats the year to date period as if it was the annual period and determines the income tax expense or benefit on that basis. The Company believes that, at this time, the use of this discrete method is more appropriate than the annual effective tax rate method as the estimated annual effective tax rate method is not reliable due to (1) the levels of tax-exempt income in relation to pre-tax income, (2) the impact of the warrant liability which is non-taxable and (3) the impact and variability of FDIC Indemnification amortization on our pre-tax income.

The income tax rate for the three and six months ended June 30, 2015 was 106.6% and 154.6%, respectively, based on application of the discrete approach. The quarterly tax rate differs from the federal statutory rate primarily due to interest income from tax-exempt lending, tax-exempt bank-owned life insurance income, non-taxable warrant liability fair value adjustment and the relationship of each of these items to our pre-tax income (loss). Furthermore, we recorded $1.7 million tax expense related to the write-off of deferred tax assets on certain stock-based compensation awards granted to former executives which expired in the quarter.

We are currently in an open IRS examination for the tax year 2012.

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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
June 30, 2015

Note 2 Recent Accounting Pronouncements

Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure - In January 2014, the FASB issued Accounting Standards Update ("ASU") 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. This update amends ASC Topic 310-40 and clarifies that an “in substance repossession or foreclosure” has occurred upon the creditor obtaining either legal title to the property upon completion of foreclosure, or the borrower conveying all interest in the property through completion of a deed in lieu of foreclosure. Upon occurrence, the creditor derecognizes the loan receivable and recognizes the collateralized real estate property. The amendments in the ASU became effective for the Company for interim and annual periods beginning after December 15, 2014. Early adoption was permitted. The adoption of this standard did not have a material impact on the Company’s consolidated financial statements, results of operations or liquidity.

Revenue from Contracts with Customers - In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." This update supersedes revenue recognition requirements in Topic 605, Revenue Recognition, including most industry-specific revenue recognition guidance in the FASB Accounting Standards Codification. The new guidance stipulates that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides specific steps that entities should apply in order to achieve this principle. In July 2015, the FASB voted to approve deferring the effective date by one year (i.e., interim and annual reporting periods beginning after December 15, 2017). Early adoption is permitted, but not before the original effective date (i.e., interim and annual reporting periods beginning after December 15, 2016). The Company is in the process of evaluating the impact of the ASU's adoption on the Company's consolidated financial statements.

Note 3 Investment Securities

The Company’s investment securities portfolio is comprised of available-for-sale and held-to-maturity investment securities. These investment securities totaled $1.8 billion at June 30, 2015 and were comprised of $1.3 billion of available-for-sale securities and $0.5 billion of held-to-maturity securities. At December 31, 2014, investment securities totaled $2.0 billion and were comprised of $1.5 billion of available-for-sale securities and $0.5 billion of held-to-maturity securities.

Available-for-sale

Available-for-sale investment securities are summarized as follows as of the dates indicated:

	June 30, 2015			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities (“MBS”):				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$349,760	$8,279	$(206)	$357,833
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	971,933	6,471	(19,827)	958,577
Other securities	419	—	—	419
Total	$1,322,112	$14,750	$(20,033)	$1,316,829

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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
June 30, 2015

	December 31, 2014			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities ("MBS"):				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$395,244	$9,014	$(43)	$404,215
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	1,088,834	7,464	(21,718)	1,074,580
Other securities	419	—	—	419
Total	$1,484,497	$16,478	$(21,761)	$1,479,214

At June 30, 2015 and December 31, 2014, mortgage-backed securities represented primarily all of the Company's available-for-sale investment portfolio and all mortgage-backed securities were backed by government sponsored enterprises ("GSE") collateral such as Federal Home Loan Mortgage Corporation ("FHLMC") and Federal National Mortgage Association ("FNMA"), and the government sponsored agency Government National Mortgage Association ("GNMA").

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

	June 30, 2015					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Mortgage-backed securities ("MBS"):						
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$90,176	$(206)	$—	$—	$90,176	$(206)
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	86,125	(1,912)	577,337	(17,915)	663,462	(19,827)
Total	$176,301	$(2,118)	$577,337	$(17,915)	$753,638	$(20,033)

	December 31, 2014					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Mortgage-backed securities ("MBS"):						
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$17	$—	$89,749	$(43)	$89,766	$(43)
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	88,854	(2,053)	667,368	(19,665)	756,222	(21,718)

Total	$88,871	$(2,053)	$757,117	$(19,708)	$845,988	$(21,761)

Management evaluated all of the available-for-sale securities in an unrealized loss position and concluded that no other-than-temporary impairment existed at June 30, 2015 or December 31, 2014. The unrealized losses in the Company's investments issued or guaranteed by U.S. government agencies or sponsored enterprises at June 30, 2015 were caused by changes in interest rates. The portfolio included 57 securities, having an aggregate fair value of $0.8 billion, which were in an unrealized loss position at June 30, 2015, compared to 62 securities, with a fair value of $0.8 billion, at December 31, 2014.

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The Company had no intention to sell these securities before recovery of their amortized cost and believes it will not be required to sell the securities before the recovery of their amortized cost.

Certain securities are pledged as collateral for public deposits, securities sold under agreements to repurchase and to secure borrowing capacity at the Federal Reserve Bank, if needed. The fair value of available-for-sale investment securities pledged as collateral totaled $344.8 million at June 30, 2015 and $274.4 million December 31, 2014. The increase in pledged available-for-sale investment securities was primarily attributable to an increase in average deposit account balances and client repurchase account balances during the six months ended June 30, 2015. Certain investment securities may also be pledged as collateral for the line of credit at the Federal Home Loan Bank ("FHLB") of Des Moines; however, no investment securities were pledged for this purpose at June 30, 2015 or December 31, 2014.

Mortgage-backed securities do not have a single maturity date and actual maturities may differ from contractual maturities depending on the repayment characteristics and experience of the underlying financial instruments. The estimated weighted average life of the available-for-sale mortgage-backed securities portfolio was 3.7 years as of June 30, 2015 and 3.5 years as of December 31, 2014. This estimate is based on assumptions and actual results may differ. Other securities of $0.4 million have no stated contractual maturity date as of June 30, 2015.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
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Held-to-maturity
At June 30, 2015 and December 31, 2014, the Company held $472.6 million and $530.6 million of held-to-maturity investment securities, respectively. Held-to-maturity investment securities are summarized as follows as of the dates indicated:

	June 30, 2015			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities (“MBS”):				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$374,915	$5,287	$(148)	$380,054
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	97,690	346	(1,571)	96,465
Total investment securities held-to-maturity	$472,605	$5,633	$(1,719)	$476,519

	December 31, 2014			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities (“MBS”):				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$422,622	$5,773	$(72)	$428,323
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	107,968	217	(1,871)	106,314
Total investment securities held-to-maturity	$530,590	$5,990	$(1,943)	$534,637

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

	June 30, 2015					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities (“MBS”):						
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$30,744	$(112)	$1,902	$(36)	$32,646	$(148)
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	18,762	(55)	50,233	(1,516)	68,995	(1,571)
Total	$49,506	$(167)	$52,135	$(1,552)	$101,641	$(1,719)

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NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES
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	December 31, 2014					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities ("MBS"):						
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$—	$—	$35,139	$(72)	$35,139	$(72)
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	—	—	75,139	(1,871)	75,139	(1,871)
Total	$—	$—	$110,278	$(1,943)	$110,278	$(1,943)

The portfolio included 13 securities, having an aggregate fair value of $0.1 billion, which were in an unrealized loss position at June 30, 2015, compared to 12 securities, with a fair value of $0.1 billion, at December 31, 2014. Management evaluated all of the held-to-maturity securities in an unrealized loss position and concluded that no other-than-temporary impairment existed at June 30, 2015 or December 31, 2014. The unrealized losses in the Company's investments issued or guaranteed by U.S. government agencies or sponsored enterprises at June 30, 2015 were caused by changes in interest rates. The Company had no intention to sell these securities before recovery of their amortized cost and believes it will not be required to sell the securities before the recovery of their amortized cost.

The carrying value of held-to-maturity investment securities pledged as collateral totaled $92.2 million and $88.3 million at June 30, 2015 and December 31, 2014, respectively.

Actual maturities of mortgage-backed securities may differ from scheduled maturities depending on the repayment characteristics and experience of the underlying financial instruments. The estimated weighted average expected life of the held-to-maturity mortgage-backed securities portfolio as of June 30, 2015 and December 31, 2014 was 3.7 years and 3.4 years, respectively. This estimate is based on assumptions and actual results may differ.

Note 4 Loans

The loan portfolio is comprised of loans originated by the Company and loans that were acquired in connection with the Company's acquisitions of Bank of Choice and Community Banks of Colorado in 2011, and Hillcrest Bank and Bank Midwest in 2010. The majority of the loans acquired in the Hillcrest Bank and Community Banks of Colorado transactions are covered by loss sharing agreements with the FDIC, and covered loans are presented separately from non-covered loans due to the FDIC loss sharing agreements associated with these loans. Covered loans comprised 7.2% of the total loan portfolio at June 30, 2015, compared to 9.0% of the total loan portfolio at December 31, 2014.

The table below shows the loan portfolio composition including carrying value by segment of loans accounted for under ASC Topic 310-30 Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality and loans not accounted for under this guidance, which includes our originated loans. The table also shows the amounts covered by the FDIC loss sharing agreements as of June 30, 2015 and December 31, 2014. The carrying value of loans are net of discounts, fees and costs on loans excluded from ASC 310-30 of $8.3 million and $10.5 million as of June 30, 2015 and December 31, 2014, respectively:

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