WALTON JON D
Form 4
February 20, 2009

FORM 4

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

OMB APPROVAL
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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
WALTON JON D

(Last) (First) (Middle)

1000 SIX PPG PLACE

(Street)

PITTSBURGH, PA 15222-5479

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
ALLEGHENY TECHNOLOGIES INC [ATI]

3. Date of Earliest Transaction (Month/Day/Year)
02/18/2009

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
EVP, HR, CLCO, General Counsel

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock, $0.10 par value	02/18/2009		A		23,631	A	$ 0	148,205.019 (1) (2)	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
WALTON JON D 1000 SIX PPG PLACE PITTSBURGH, PA 15222-5479			EVP, HR, CLCO, General Counsel	

Signatures

/s/ Jon D. Walton	02/20/2009
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) This amount includes 45,599.00 shares of common stock owned indirectly by Mr. Walton's wife. The reporting person disclaims beneficial ownership of the shares directly or indirectly by his spouse, and this report shall not be deemed an admission that the reporting person is the beneficial owner of such shares for the purposes of Section 16 or for any other purpose.

(2) This amount includes 1,695.6620 shares of common stock that Mr. Walton owns indirectly in the Company's 401(k) plan. Fluctuations in 401(k) share amounts reflect the plan's unit reporting method. The reporting person holds approximately 1,630 units, which represent interests in the Company's stock fund.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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9,936

Accrued interest payable

5,196

4,319

Derivative liability

20,511

8,315

Other miscellaneous liabilities

9,923

11,101

Total other liabilities

$

46,018

$

49,164

Explanation of Responses:

Other liabilities totaled $46.0 million and $49.2 million at March 31, 2016 and December 31, 2015, respectively, and decreased $3.1 million, or 6.4%, during the three months ended March 31, 2016. The decrease was due to lower pending loan purchase settlements and accrued expenses of $9.3 million and $5.8 million, respectively. The decrease in pending loan purchase settlements was due to large loan settlements during the first quarter of 2015. Accrued expenses decreased largely due to lower bonus accruals of $2.5 million in the first quarter of 2016, lower sales incentive accruals of $1.1 million during the first quarter of 2016, and $0.8 million of 401k match that was paid during the first quarter of 2016. Offsetting these decreases was an increase in derivative liability of $12.2 million. For further discussion of the derivative liability, refer to note 14 of our consolidated financial statements.

Deposits

Deposits from banking clients serve as a primary funding source for our banking operations and our ability to gather and manage deposit levels is critical to our success. Deposits not only provide a low cost funding source for our loans, but also provide a

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foundation for the client relationships that are critical to future loan growth. The following table presents information regarding our deposit composition at March 31, 2016 and December 31, 2015:

	March 31, 2016		December 31, 2015	
Non-interest bearing demand deposits	$ 805,442	21.0%	$ 815,054	21.2%
Interest bearing demand deposits	429,298	11.2%	436,745	11.4%
Savings accounts	388,740	10.1%	357,505	9.3%
Money market accounts	1,033,517	26.9%	1,037,490	27.0%
Total transaction deposits	2,656,997	69.2%	2,646,794	68.9%
Time deposits < $100,000	746,527	19.4%	762,038	19.8%
Time deposits > $100,000	436,157	11.4%	431,845	11.3%
Total time deposits	1,182,684	30.8%	1,193,883	31.1%
Total deposits	$ 3,839,681	100.0%	$ 3,840,677	100.0%

The following table shows scheduled maturities of certificates of deposit with denominations greater than or equal to $100,000 as of March 31, 2016:

	March 31, 2016
Three months or less	$ 65,302
Over 3 months through 6 months	77,288
Over 6 months through 12 months	137,439
Thereafter	156,128
Total time deposits > $100,000	$ 436,157

During the three months ended March 31, 2016, our total deposits decreased $1.0 million. Non-interest bearing and interest bearing demand deposits decreased $17.1 million, or 1.4% from December 31, 2015, coupled with decreases in time deposits and money market accounts of $15.1 million, or 0.7%, from December 31, 2015. These decreases were offset by an increase in savings accounts of $31.2 million, or 8.7%, from December 31, 2015. The mix of transaction deposits to total deposits improved to 69.2% at March 31, 2016, from 68.9% at December 31, 2015, as we continued to focus our deposit base on clients who were interested in market-rate time deposits and in developing a long-term banking relationship. At March 31, 2016 and December 31, 2015, we had $797.9 million and $807.7 million, respectively, of time deposits that were scheduled to mature within 12 months. Of the $797.9 million in time deposits scheduled to mature within 12 months at March 31, 2016, $280.0 million were in denominations of $100,000 or more, and $517.9 million were in denominations less than $100,000.

Results of Operations

Our net income depends largely on net interest income, which is the difference between interest income from interest earning assets and interest expense on interest bearing liabilities. Our results of operations are also affected by provisions for loan losses and non-interest income, such as service charges and bank card income. Our primary operating expenses, aside from interest expense, consist of salaries and benefits, occupancy costs, telecommunications data processing expense and intangible asset amortization. Any expenses related to the resolution of problem assets are also included in non-interest expense.

Overview of Results of Operations

We recorded net income of $0.3 million, or $0.01 per diluted share, during the three months ended March 31, 2016, compared to net income of $1.2 million, or $0.03 per diluted share, during the three months ended March 31, 2015. Fully taxable equivalent net interest income totaled $39.0 million and decreased $0.9 million, or 2.2% from the first three months of 2015. Net interest margin widened 9 basis points to 3.68%, on a fully taxable equivalent basis during the three months ended March 31, 2016, from 3.59% during the three months ended March 31, 2015. The increase in net interest margin was more than offset by the impact of lower interest earnings assets of $248.7 million, or 5.5%. Lower-yielding average cash balances decreased $234.6 million from March 31, 2015 to March 31, 2016, contributing to the lower interest earnings assets as well as the widening of the net interest margin.

Provision for loan loss expense was $10.6 million during the three months ended March 31, 2016 compared to $1.5 million during the three months ended March 31, 2015, an increase of $9.2 million. The increase in provision year-over-year was entirely due to a $10.7 million increase in ALL on the energy sector portfolio.

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Non-interest income was $7.9 million during the three months ended March 31, 2016, compared to a negative $0.5 million in the prior year, an increase of $8.4 million. The increase was driven by negative $8.5 million FDIC loss sharing related expense in the prior year, offset by lower OREO income and gain on previously charged-off acquired loans of $0.1 million. Banking related non-interest income (excludes FDIC-related non-interest income, gain on previously charged-off acquired loans and OREO related income) totaled $7.5 million and is consistent with prior year as higher bank card fees offset lower other non-interest income primarily due to negative mark-to-mark adjustments related to fair value interest rate swaps on fixed-rate term loans.

Non-interest expense totaled $34.9 million during the three months ended March 31, 2016, compared to $36.7 million during the three months ended March 31, 2015, a decrease of $1.8 million, or 5.0%. Problem asset workout expenses declined $0.9 million during the three months ended March 31, 2016, compared to the three months ended March 31, 2015.

Net Interest Income

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

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

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The table below presents the components of net interest income on a fully taxable equivalent basis for the three months ended March 31, 2016 and 2015:

	For the three months ended March 31, 2016			For the three months ended March 31, 2015		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate
Interest earning assets:						
ASC 310-30 loans	$ 190,658	$ 10,294	21.60%	$ 266,573	$ 12,694	19.05%
Non 310-30 loans(1)(2)(3)(4)(5)	2,401,257	23,637	3.96%	1,917,774	19,682	4.16%
Investment securities available-for-sale	1,137,509	5,657	1.99%	1,449,654	6,897	1.90%
Investment securities held-to-maturity	417,945	2,578	2.47%	519,155	3,675	2.83%
Other securities	18,804	228	4.85%	27,101	327	4.83%
Interest earning deposits and securities purchased under agreements to resell	95,049	135	0.57%	329,637	207	0.25%
Total interest earning assets(4)	$ 4,261,222	$ 42,529	4.01%	$ 4,509,894	$ 43,482	3.91%
Cash and due from banks	$ 71,265			$ 57,766		
Other assets	328,814			365,996		
Allowance for loan losses	(28,505)			(18,555)		
Total assets	$ 4,632,796			$ 4,915,101		
Interest bearing liabilities:						
Interest bearing demand, savings and money market deposits	$ 1,839,627	$ 1,183	0.26%	$ 1,718,010	$ 1,071	0.25%
Time deposits	1,186,126	2,127	0.72%	1,339,897	2,328	0.70%
Securities sold under agreements to repurchase	106,860	40	0.15%	227,584	45	0.08%
Federal Home Loan Bank advances	40,000	166	1.67%	40,000	164	1.66%
Total interest bearing liabilities	$ 3,172,613	$ 3,516	0.45%	$ 3,325,491	$ 3,608	0.44%
Demand deposits	$ 793,262			$ 733,230		
Other liabilities	50,711			75,917		
Total liabilities	4,016,586			4,134,638		
Shareholders' equity	616,210			780,463		
Total liabilities and shareholders' equity	$ 4,632,796			$ 4,915,101		
Net interest income		$ 39,013			$ 39,874	
Interest rate spread(4)			3.56%			3.47%
Net interest earning assets	$ 1,088,609			$ 1,184,403		
Net interest margin(4)			3.68%			3.59%

Ratio of average interest earning assets to average interest bearing liabilities	134.31 %	135.62%

(1) Originated loans are net of deferred loan fees, less costs, which are included in interest income over the life of the loan.
(2) Includes originated loans with average balances of $2.2 billion and $1.7 billion, interest income of $19.8 million and $16.2 million, with yields of 3.80% and 3.98% for the three months ended March 31, 2016 and 2015, respectively.
(3) Non 310-30 loans include loans held-for-sale. Average balances during the three months ended March 31, 2016 and 2015 were $12.3 million and $2.9 million, and interest income was $165 thousand and $77 thousand for the same periods, respectively.
(4) Presented on a fully taxable equivalent basis using the statutory tax rate of 35%. The taxable equivalent adjustments included above are $975 thousand and $395 thousand for the three months ended March 31, 2016 and 2015, respectively.
(5) Loan fees included in interest income totaled $1.5 million for each of the three months ended March 31, 2016 and 2015, respectively.

Net interest income totaled $38.0 million and $39.5 million for the three months ended March 31, 2016 and 2015, respectively. On a fully taxable equivalent basis, net interest income totaled $39.0 million for the three months ended March 31, 2016 and decreased $0.9 million, or 2.2%, from $39.9 million during the first quarter of 2015. Although the net interest margin widened 9 basis points to 3.68%, it was more than offset by the impact of lower interest earnings assets of $248.7 million, or 5.5%. Low-yielding average cash balances decreased $234.6 million, contributing both to the lower interest earnings assets as well as the widening of the net interest margin.

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Average loans comprised $2.6 billion, or 60.8%, of total average interest earning assets during the three months ended March 31, 2016, compared to $2.2 billion, or 48.4%, of total average interest earning assets during the three months ended March 31, 2015. The increase in average loan balances is reflective of our loan originations outpacing the exit of the acquired loans. The yield on the ASC 310-30 loan portfolio was 21.60% during the three months ended March 31, 2016, compared to 19.05% during the same period the prior year. This increase was attributable to the effects of the favorable transfers of non-accretable difference to accretable yield that are being accreted to interest income over the remaining lives of these loans.

Average investment securities comprised 36.5% of total interest earning assets during the three months ended March 31, 2016 compared to 43.7% during the three months ended March 31, 2015. The decrease in the investment portfolio was a result of scheduled paydowns and reflects the re-mixing of the interest-earning assets as we have utilized the runoff of the investment portfolio to fund loan originations. Short-term investments, comprised of interest earning deposits and securities purchased under agreements to resell, decreased to 2.2% of interest earning assets compared to 7.3% during the prior period, primarily due to a decrease in client repurchase agreements on deposit.

Average balances of interest bearing liabilities decreased $152.9 million during the three months ended March 31, 2016 compared to the three months ended March 31, 2015, driven by a decrease of $153.8 million in average time deposits and a $120.7 million decrease in securities sold under agreements to repurchase, offset by an increase of $121.6 in interest bearing demand, saving and money market deposits. Total interest expense related to interest bearing liabilities was $3.5 million and $3.6 million during the three months ended March 31, 2016 and 2015, respectively at an average cost of 0.45% and 0.44%, respectively. Additionally, the average cost of deposits declined one basis point to 0.35% from the same period in the prior year, resulting from the decrease in higher-cost time deposits.

The following table summarizes the changes in net interest income on a fully taxable equivalent basis by major category of interest earning assets and interest bearing liabilities, identifying changes related to volume and changes related to rates for the three months ended March 31, 2016 compared to the three months ended March 31, 2015:

	Three months ended March 31, 2016 compared to Three months ended March 31, 2015 Increase (decrease) due to		
	Volume	Rate	Net
Interest income:			
ASC 310-30 loans	$ (4,099)	$ 1,699	$ (2,400)
Non 310-30 loans(1)(2)(3)	4,759	(804)	3,955
Investment securities available-for-sale	(1,552)	312	(1,240)
Investment securities held-to-maturity	(624)	(473)	(1,097)

Other securities	(101)	2	(99)
Interest earning deposits and securities purchased under agreements to resell	(333)	261	(72)
Total interest income	$ (1,950)	$ 997	$ (953)
Interest expense:			
Interest bearing demand, savings and money market deposits	$ 78	$ 34	$ 112
Time deposits	(276)	75	(201)
Securities sold under agreements to repurchase	—	2	2
Federal Home Loan Bank advances	(45)	40	(5)
Total interest expense	(243)	151	(92)
Net change in net interest income	$ (1,707)	$ 846	$ (861)

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

(2) Non 310-30 loans include loans held-for-sale. Average balances during the three months ended March 31, 2016 and 2015 were $12.3 million and $2.9 million, and interest income was $165 thousand and $77 thousand for the same periods, respectively.

(3) Presented on a fully taxable equivalent basis using the statutory tax rate of 35%. The taxable equivalent adjustments included above are $975 thousand and $395 thousand for three months ended March 31, 2016 and 2015, respectively.

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Below is a breakdown of deposits and the average rates paid during the periods indicated:

	For the three months ended									
	March 31, 2016		December 31, 2015		September 30, 2015		June 30, 2015		March 31, 20
	Average balance	Average rate paid	Average balance	Average rate paid	Average balance	Average rate paid	Average balance	Average rate paid	Average balance
and	$ 793,264	0.00%	$ 825,979	0.00%	$ 810,895	0.00%	$ 758,288	0.00%	$ 733,230
ing	426,769	0.09%	417,460	0.08%	402,468	0.07%	391,523	0.07%	386,665
ket	1,037,376	0.33%	1,047,072	0.33%	1,034,284	0.33%	1,008,229	0.32%	1,049,936
ounts	375,481	0.25%	347,811	0.26%	344,047	0.28%	323,677	0.27%	281,409
ts	1,186,126	0.72%	1,222,829	0.70%	1,268,476	0.71%	1,294,908	0.73%	1,339,897
osits	$ 3,819,016	0.35%	$ 3,861,151	0.34%	$ 3,860,170	0.35%	$ 3,776,625	0.37%	$ 3,791,137

Provision for Loan Losses

The provision for loan losses represents the amount of expense that is necessary to bring the ALL to a level that we deem appropriate to absorb probable losses inherent in the loan portfolio as of the balance sheet date. The ALL is in addition to the remaining purchase accounting marks of $4.6 million on acquired non 310-30 loans that were established at the time of acquisition. The determination of the ALL, and the resultant provision for loan losses, is subjective and involves significant estimates and assumptions. Below is a summary of the provision for loan losses for the periods indicated:

For the three months ended March 31,

	2016	2015
(Recoupment) provision for impairment loans accounted for under ASC 310-30	$ (862)	$ 50
Provision for loan losses	11,481	1,403
Total provision for loan losses	$ 10,619	$ 1,453

Provision for loan loss expense was $10.6 million and $1.5 million during the three months ended March 31, 2016 and 2015, respectively, an increase of $9.2 million. The increase was entirely due to a $10.7 million increase in ALL for loans in the energy sector portfolio. The non 310-30 allowance was 1.53% of total non 310-30 loans compared to 0.92% in the prior year, driven by higher specific reserves. At quarter end, the energy related allowance for loan losses totaled 11.0% of the energy loan balances. Annualized net charge-offs on non 310-30 loans remained low at only 0.10% for the three months ended March 31, 2016 compared to 0.04% for the three months ended March 31, 2015.

For the three months ended March 31, 2016 and March 31, 2015, we recorded recoupments of $862 thousand and recorded impairments of $50 thousand, respectively, of provision for loan losses accounted for under ASC 310-30 in connection with our re-measurements of expected cash flows. The decreases in expected future cash flows are reflected immediately in our financial statements through increased provisions for loan losses. Increases in expected future cash flows are reflected through an increase in accretable yield that is accreted to income in future periods once any previously recorded provision expense has been reversed.

Non-Interest Income

The table below details the components of non-interest income during the three months ended March 31, 2016 and 2015, respectively:

	For the three months ended March 31,	
	2016	2015
Service charges	$ 3,260	$ 3,327
Bank card fees	2,767	2,550
Gain on sale of mortgages, net	474	400
Bank-owned life insurance income	395	394
Other non-interest income	566	772
Gain on previously charged-off acquired loans	125	58
OREO related write-ups and other income	336	500
FDIC loss-sharing related	—	(8,480)
Total non-interest income	$ 7,923	$ (479)

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Non-interest income for the three months ended March 31, 2016 and 2015 was $7.9 million and negative $0.5 million, respectively. The $8.4 million increase during the three months ended March 31, 2016, compared to the prior period was largely driven by negative $8.5 million of FDIC-related income in the prior year, offset by lower OREO income and gains on previously charged-off acquired assets of $0.1 million. FDIC loss-sharing related represents the income (expense) recognized in connection with the actual reimbursement of costs/recoveries related to the resolution of covered assets by the FDIC.

Banking-related non-interest income (excludes FDIC-related non-interest income, gain on previously charged-off acquired loans, OREO related income, and bargain purchase gain) totaled $7.5 million during the three months ended March 31, 2016, and is consistent with prior year as higher bank card fees offset lower other non-interest income primarily due to negative mark-to-market adjustments related to fair value interest rate swaps on fixed-rate term loans. Service charges, which represent various fees charged to clients for banking services, including fees such as non-sufficient funds (“NSF”) charges and service charges on deposit accounts, decreased $0.1 million during the three months ended March 31, 2016, compared to the three months ended March 31, 2015. Bank card fees totaled $2.8 million during the three months ended March 31, 2016, respectively, and $2.6 million during the three months ended March 31, 2015, respectively.

Gain on previously charged-off acquired loans represent recoveries on loans that were previously charged-off by the predecessor banks prior to takeover by the FDIC. During the three months ended March 31, 2016, these gains were $125 thousand, compared to $58 thousand during the same period in the prior year.

OREO related write-ups and other income include rental income and insurance proceeds received on OREO properties and write-ups to the fair value of collateral that exceed the loan balance at the time of foreclosure. During the three months ended March 31, 2016 and 2015, these gains totaled $336 thousand and $500 thousand, respectively.

Non-Interest Expense

The table below details non-interest expense for the periods presented:

	For the three months ended March 31,	
	2016	2015
Salaries and benefits	$ 20,612	$ 20,077
Occupancy and equipment	6,066	6,089
Telecommunications and data processing	1,641	3,062
Marketing and business development	426	1,009

FDIC deposit insurance	921	1,041
ATM/debit card expenses	913	757
Professional fees	456	1,120
Other non-interest expense	1,955	2,242
Problem asset workout	974	1,852
Intangible asset amortization	1,370	1,336
Gain on OREO sales, net	(432)	(1,471)
Gain from the change in fair value of warrant liability	—	(390)
Total non-interest expense	$ 34,902	$ 36,724

Non-interest expense totaled $34.9 million for the three months ended March 31, 2016, compared to $36.7 million for the three months ended March 31, 2015, decreasing $1.8 million, or 5.0% million. The decrease was driven by lower telecommunications and data processing expense of $1.4 million benefitting from the core system conversion, and marketing expense of $0.6 million due to timing of marketing campaigns, coupled with a decrease in professional fees of $0.7 million due to timing of special projects in the first quarter of 2015. Offsetting these decreases was an increase in salary and benefits expense of $0.5 million for the three months ended March 31, 2016 as compared to the three months ended March 31, 2015, due to normal merit increases last year.

Gains on sales of OREO decreased $1.0 million and the change in fair value of the warrant liability increased expenses $0.4 million compared to the prior year, due to the Company's reclassification of the warrants to additional-paid in capital during the fourth quarter of 2015. Problem asset workout expense decreased $0.9 million compared to prior year.

Occupancy and equipment expense remained at $6.1 million for the three months ended March 31, 2016 and 2015.

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Income taxes

Income tax expense totaled $0.2 million for the three months ended March 31, 2016, compared to income tax benefit of $0.4 million for the three months ended March 31, 2015.

The effective tax rate was 43.0% for the period ended March 31, 2016 compared to a negative 51.4% in the same period of the prior year. The increase in the effective tax rate compared to the statutory and prior period tax rates, was a result of the Company recording income tax expense on a full year forecast method rather than on a discrete quarter basis that was used for 2015.

Certain stock-based compensation awards have market-based vesting/exercisability criteria. For restricted stock with market-based vesting, the target share prices of the Company's stock that is required for vesting range from $25.00 to $34.00 per share. The strike prices for options range from $18.09 to $22.10, with a large portion of the awards having strike prices of $20.00. These stock-based compensation awards may expire unexercised or may be exercised at an intrinsic value that is less than the fair value recorded at the time of grant, and therefore, the related tax benefits may not be realizable in future periods. In this case, upon the expiration or exercise (or forfeiture in the case of the restricted stock with market-based vesting criteria) of these awards, any related remaining deferred tax asset would be written off through a charge to income tax expense. As of March 31, 2016, we had $10.0 million of deferred tax assets related to stock-based compensation, $7.9 million of which is associated with executive officers still employed by the Company.

Additional information regarding income taxes can be found in note 21 of our audited consolidated financial statements in our 2015 Annual Report on Form 10-K.

Liquidity and Capital Resources

Liquidity is monitored and managed to ensure that sufficient funds are available to operate our business and pay our obligations to depositors and other creditors, while providing ample available funds for opportunistic and strategic investments. On-balance sheet liquidity is represented by our cash and cash equivalents, securities purchased under agreements to resell, and unencumbered investment securities, and is detailed in the table below as of March 31, 2016 and December 31, 2015:

	March 31, 2016	December 31, 2015
Cash and due from banks	$ 183,498	$ 155,985

Interest bearing bank deposits	10,126	10,107
Unencumbered investment securities, at fair value	1,042,889	1,093,517
Total	$ 1,236,513	$ 1,259,609

Total on-balance sheet liquidity decreased $23.1 million from March 31, 2016 to December 31, 2015. The decrease was largely due to a planned reduction of $50.6 million in unencumbered available-for-sale and held-to-maturity securities balances, offset by an increase in cash and due from banks of $27.5 million.

Our primary sources of funds are deposits, securities sold under agreements to repurchase, prepayments and maturities of loans and investment securities, the sale of investment securities, and funds provided from operations. We are also a party to a master repurchase agreement with a large financial institution and we anticipate that, through this agreement, we would have access to a significant amount of liquidity. We anticipate having access to other third party funding sources, including the ability to raise funds through the issuance of shares of our common stock or other equity or equity-related securities, incurrence of debt, and federal funds purchased, that may also be a source of liquidity. We anticipate that these sources of liquidity will provide adequate funding and liquidity for at least a 12 month period.

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

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Exclusive from the investing activities related to acquisitions, our primary investing activities are originations and pay-offs and pay downs of loans and purchases and sales of investment securities. At March 31, 2016, pledgeable investment securities represented our largest source of liquidity. Our available-for-sale investment securities are carried at fair value and our held-to-maturity securities are carried at amortized cost. Our collective investment securities portfolio totaled $1.5 billion at March 31, 2016, inclusive of pre-tax net unrealized gains of $3.9 million on the available-for-sale securities portfolio. Additionally, our held-to-maturity securities portfolio had $5.5 million of pre-tax net unrealized gains at March 31, 2016. The gross unrealized gains and losses are detailed in note 3 of our consolidated financial statements. As of March 31, 2016, our investment securities portfolio consisted primarily of mortgage-backed securities, all of which were issued or guaranteed by U.S. Government agencies or sponsored enterprises. The anticipated repayments and marketability of these securities offer substantial resources and flexibility to meet new loan demand, reinvest in the investment securities portfolio, or provide optionality for reductions in our deposit funding base.

At present, financing activities primarily consist of changes in deposits and repurchase agreements, and advances from FHLB, in addition to the payment of dividends and the repurchase of our common stock. Maturing time deposits represent a potential use of funds. As of March 31, 2016, $797.9 million of time deposits were scheduled to mature within 12 months. Based on the current interest rate environment, market conditions, and our consumer banking strategy focusing on both lower cost transaction accounts and term deposits, we expect to replace a significant portion of those maturing time deposits with transaction deposits and market-rate time deposits.

As of March 31, 2016, we were a member of the FHLB of Topeka. As of December 31, 2015, we were a member of the FHLB of Des Moines. Through these relationships, we have pledged qualifying loans and investment securities allowing us to obtain additional liquidity through FHLB advances. FHLB advances held with the FHLB of Des Moines totaled $40.0 million at March 31, 2016. We can obtain additional liquidity through FHLB advances if required.

The new Basel III rules, effective January 1, 2015, changed the components of regulatory capital and changed the way in which risk ratings are assigned to various categories of bank assets. Also, a new Tier I common risk-based ratio was defined. Under the Basel III requirements, at March 31, 2016, the Company met all capital adequacy requirements and had regulatory capital ratios in excess of the levels established for well-capitalized institutions. For more information on regulatory capital, see note 8 in our consolidated financial statements.

Our shareholders' equity is impacted by the retention of earnings, changes in unrealized gains on securities, net of tax, share repurchases and the payment of dividends. At March 31, 2016 and December 31, 2015, NBH Bank and the consolidated holding company exceeded all capital requirements to which they were subject.

The Board of Directors has authorized multiple programs to repurchase shares of the Company’s common stock from time to time either in open market or in privately negotiated transactions in accordance with applicable regulations of the SEC. On January 21, 2016, the Company announced that its Board of Directors authorized a new program to

repurchase up to an additional $50.0 million of the Company's common stock.

During the three months ended March 31, 2016, we repurchased 1.1 million shares of our common stock at a weighted average price of $19.62, and all such shares are held as treasury shares. We believe that our repurchases could serve to offset any future share issuances for future acquisitions.

On May 4, 2016, our Board of Directors declared a quarterly dividend of $0.05 per common share, payable on June 15, 2016 to shareholders of record at the close of business on May 27, 2016.

Asset/Liability Management and Interest Rate Risk

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

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

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

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

Our interest rate risk model indicated that the Company was asset sensitive in terms of interest rate sensitivity at March 31, 2016. During the three months ended March 31, 2016, we increased our asset sensitivity as a result of the balance sheet mix towards more variable rate assets, even after adjusting our models for the excess capital deployment. The table below illustrates the impact of an immediate and sustained 200 and 100 basis point increase and a 50 basis point decrease in interest rates on net interest income based on the interest rate risk model at March 31, 2016 and December 31, 2015:

Hypothetical shift in interest rates (in bps)	% change in projected net interest income	
	March 31, 2016	December 31, 2015
200	6.62%	5.81%
100	4.04%	3.13%
(50)	(2.60)%	(1.33)%

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

As part of the asset/liability management strategy to manage primary market risk exposures expected to be in effect in future reporting periods, management has emphasized the origination of shorter duration loans as well as variable rate loans to limit the negative exposure to a rate increase. The strategy with respect to liabilities has been to emphasize transaction accounts, particularly non-interest or low interest bearing non-maturing deposit accounts which are less sensitive to changes in interest rates. In response to this strategy, non-maturing deposit accounts have grown $10.2 million during the three months March 31, 2016, and totaled 69.2% of total deposits at March 31, 2016 compared to 68.9% at December 31, 2015. We currently have no brokered time deposits and intend to continue to focus on our strategy of increasing non-interest or low-cost interest bearing non-maturing deposit accounts.

Off-Balance Sheet Activities

In the normal course of business, we are a party to various contractual obligations, commitments and other off-balance sheet activities that contain credit, market, and operational risk that are not required to be reflected in our consolidated financial statements. The most significant of these are the loan commitments that we enter into to meet the financing needs of clients, including commitments to extend credit, commercial and consumer lines of credit and standby letters of credit. As of March 31, 2016 and December 31, 2015, we had loan commitments totaling $556.5 million and $627.2 million, respectively, and standby letters of credit that totaled $10.1 million and $9.8 million, respectively. Unused commitments do not necessarily represent future credit exposure or cash requirements, as commitments often expire without being drawn upon. We do not anticipate any material losses arising from commitments or contingent liabilities and we do not believe that there are any material commitments to extend credit that represent risks of an unusual nature.

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Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Item 4. CONTROLS AND PROCEDURES

Our management, with the participation of our principal executive officer and principal financial officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as of March 31, 2016. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of March 31, 2016.

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

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PART II: OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

Item 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2015.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Period	Total Number of Shares (or Units) Purchased	Average Price Paid Per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (2)(3)
January 1 - January 31, 2016 (1)	65	$ 20.22	—	$ 56,093,512
February 1 - February 29, 2016	967,274	19.59	967,274	37,146,575
March 1 - March 31, 2016	150,000	19.85	150,000	34,169,075
March 1 - March 31, 2016 (1)	34,489	20.56	—	34,169,075
Total	1,151,828	$ 19.65	1,117,274	$ 34,169,075

(1) These shares represent shares purchased other than through publicly announced plans and were purchased pursuant to the Company's 2014 Omnibus Incentive Plan (the "2014 Plan"). Under the 2014 Plan, shares were purchased from plan participants at the then current market value in satisfaction of stock option exercises prices, settlements of restricted stock, and tax withholdings.

(2) On February 11, 2015, the Company announced that the Board of Directors authorized the repurchase of up to an additional $50.0 million of common stock. This authorization has been completed.

(3) On January 25, 2016, the Company announced that the Board of Directors authorized the repurchase of up to an additional $50.0 million of common stock.

Item 5. OTHER INFORMATION

None.

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Item 6. EXHIBITS

3.1	Second Amended and Restated Certificate of Incorporation (incorporated herein by reference to Exhibit 3.1 to our Form S-1 Registration Statement (Registration No. 333-177971), filed August 22, 2012)
3.2	Second Amended and Restated By-Laws (incorporated herein by reference to Exhibit 3.2 to our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2015, filed November 7, 2014)
31.1	Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certifications of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income (Loss), (iv) the Consolidated Statements of Changes in Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Consolidated Financial Statements, tagged as blocks of text and in detail

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SIGNATURES

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

NATIONAL BANK HOLDINGS CORPORATION

/s/ Brian F. Lilly
Brian F. Lilly
Chief Financial Officer; Chief of M&A and Strategy
(principal financial officer)

Date: May 9, 2016

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