COBIZ FINANCIAL INC
Form 10-Q
October 23, 2015
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2015

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transitions period from ______________ to ______________

Commission File Number 001-15955

CoBiz Financial Inc.
(Exact name of registrant as specified in its charter)

COLORADO	84-0826324
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

821 17th Street Denver, CO	80202
(Address of principal executive offices)	(Zip Code)

(303) 312-3400
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation

S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

There were 41,071,451 shares of the registrant's Common Stock, $0.01 par value per share, outstanding at October 22, 2015.

Table of Contents

TABLE OF CONTENTS

	PART I. FINANCIAL INFORMATION	Page
Item 1.	Condensed Consolidated Financial Statements (unaudited)	3
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	41
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	60
Item 4.	Controls and Procedures	61
	PART II. OTHER INFORMATION	
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	62
Item 6.	Exhibits	63
	SIGNATURES	63

Table of Contents

Part I. Financial Information

Item 1. Condensed Consolidated Financial Statements (unaudited)

CoBiz Financial Inc. and Subsidiaries

Condensed Consolidated Balance Sheets (unaudited)

At September 30, 2015 and December 31, 2014

(in thousands, except share amounts)	September 30, 2015	December 31, 2014
Assets		
Cash and due from banks	$ 57,995	$ 54,629
Interest-bearing deposits and federal funds sold	35,954	36,936
Total cash and cash equivalents	93,949	91,565
Investment securities available for sale (cost of $150,021 and $448,253, respectively)	153,365	459,815
Investment securities held to maturity (fair value of $350,587 and $13,616, respectively)	349,020	13,329
Other investments	11,479	11,477
Total investments	513,864	484,621
Loans - net of allowance for loan losses of $34,899 and $32,765, respectively	2,586,154	2,372,810
Intangible assets - net of amortization of $6,354 and $6,197, respectively	2,076	2,526
Bank-owned life insurance	49,020	48,040
Premises and equipment - net of depreciation of $38,860 and $37,953, respectively	6,227	7,250
Accrued interest receivable	10,788	9,617
Deferred income taxes, net	19,465	20,008
Other real estate owned - net of valuation allowance of $8,722 and $8,760, respectively	5,481	5,819
Other	20,748	19,910
TOTAL ASSETS	$ 3,307,772	$ 3,062,166
Liabilities		
Deposits		
Noninterest-bearing demand	$ 1,127,747	$ 1,073,164
Interest-bearing demand	572,848	531,365
Money market	832,131	661,519
Savings	18,540	15,236
Certificates of deposits	156,147	211,007
Total deposits	2,707,413	2,492,291

Securities sold under agreements to repurchase	62,182	49,976
Other short-term borrowings	110,000	112,469
Accrued interest and other liabilities	27,030	26,495
Subordinated notes payable - net of unamortized discount and issuance costs of $988 and $0, respectively	59,012	-
Junior subordinated debentures	72,166	72,166
TOTAL LIABILITIES	3,037,803	2,753,397
Commitments and contingencies		
Shareholders' Equity		
Preferred stock, $.01 par value; 2,000,000 shares authorized; 0 and 57,366 issued and outstanding ($57,366 liquidation value)	-	1
Common stock, $.01 par value; 100,000,000 shares authorized; 41,067,051 and 40,770,390 issued and outstanding, respectively	406	401
Additional paid-in capital	191,464	245,020
Accumulated earnings	74,540	59,019
Accumulated other comprehensive income (AOCI), net of income tax of $2,181 and $2,655, respectively	3,559	4,328
TOTAL SHAREHOLDERS' EQUITY	269,969	308,769
TOTAL LIABILITIES AND EQUITY	$ 3,307,772	$ 3,062,166

See Notes to Condensed Consolidated Financial Statements

Table of Contents

CoBiz Financial Inc. and Subsidiaries

Condensed Consolidated Statements of Income (unaudited)

For the three and nine months ended September 30, 2015 and 2014

(in thousands, except per share amounts)	Three months ended September 30, 2015	2014	Nine months ended September 30, 2015	2014
INTEREST INCOME:				
Interest and fees on loans	$ 26,758	$ 25,452	$ 79,959	$ 72,598
Interest and dividends on investment securities:				
Taxable securities	3,046	3,493	9,422	11,461
Nontaxable securities	238	74	408	196
Dividends on securities	103	163	309	380
Interest on federal funds sold and other	32	23	87	71
Total interest income	30,177	29,205	90,185	84,706
INTEREST EXPENSE:				
Interest on deposits	916	970	2,722	2,915
Interest on short-term borrowings and securities sold under agreements to repurchase	46	134	135	388
Interest on subordinated debentures and notes payable	1,848	1,039	3,888	3,083
Total interest expense	2,810	2,143	6,745	6,386
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	27,367	27,062	83,440	78,320
Provision for loan losses	762	(452)	1,030	(3,281)
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	26,605	27,514	82,410	81,601
NONINTEREST INCOME:				
Service charges	1,490	1,424	4,438	4,194
Investment advisory income	1,478	1,418	4,444	4,282
Insurance income	3,023	2,622	9,110	8,278
Other income	1,433	1,916	4,690	3,663
Total noninterest income	7,424	7,380	22,682	20,417
NONINTEREST EXPENSE:				
Salaries and employee benefits	16,623	16,217	51,718	48,678
Occupancy expenses, premises and equipment	3,371	3,258	9,778	9,742
Amortization of intangibles	150	147	450	447
FDIC and other assessments	459	373	1,350	1,263
Other real estate owned and loan workout costs	105	283	248	848
Net gain on securities, other assets and other real estate owned	(59)	(598)	(123)	(2,428)
Other expense	4,089	3,642	11,039	10,688
Total noninterest expense	24,738	23,322	74,460	69,238

INCOME BEFORE INCOME TAXES	9,291	11,572	30,632	32,780
Provision for income taxes	2,337	4,039	8,892	11,269
NET INCOME FROM CONTINUING OPERATIONS	6,954	7,533	21,740	21,511
DISCONTINUED OPERATIONS:				
Income (loss) from discontinued operations	-	634	(113)	852
Provision (benefit) for income taxes	-	276	(42)	338
Net income (loss) from discontinued operations	-	358	(71)	514
NET INCOME	$ 6,954	$ 7,891	$ 21,669	$ 22,025
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$ 6,921	$ 7,747	$ 21,349	$ 21,595
EARNINGS PER COMMON SHARE:				
Basic - Continuing	$ 0.17	$ 0.18	$ 0.52	$ 0.52
Diluted - Continuing	$ 0.17	$ 0.18	$ 0.52	$ 0.52
Basic - Discontinued	$ -	$ 0.01	$ -	$ 0.01
Diluted - Discontinued	$ -	$ 0.01	$ -	$ 0.01
Basic	$ 0.17	$ 0.19	$ 0.52	$ 0.53
Diluted	$ 0.17	$ 0.19	$ 0.52	$ 0.53

See Notes to Condensed Consolidated Financial Statements

Table of Contents

CoBiz Financial Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (unaudited)

For the three and nine months ended September 30, 2015 and 2014

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	2015	2014	2015	2014
Net income	$ 6,954	$ 7,891	$ 21,669	$ 22,025
Other comprehensive income items:				
Available for sale securities:				
Net unrealized gain (loss)	(402)	(924)	686	5,085
Reclassification to operations	15	6	(83)	(1,164)
Reclassification for net unrealized holding gains transferred to held to maturity	-	-	(8,821)	-
	(387)	(918)	(8,218)	3,921
Held to maturity securities:				
Net unrealized gain on securities transferred	-	-	8,821	-
Reclassification to operations	(616)	-	(1,413)	-
	(616)	-	7,408	-
Cash flow hedges:				
Net unrealized loss	(1,559)	(241)	(1,257)	(1,421)
Reclassification to operations	262	319	824	992
	(1,297)	78	(433)	(429)
Total other comprehensive income items	$ (2,300)	$ (840)	$ (1,243)	$ 3,492
Income tax provision:				
Available for sale securities:				
Net unrealized gain (loss)	$ (152)	$ (351)	$ 261	$ 1,932
Reclassification to operations	4	3	(33)	(441)
Reclassification for net unrealized holding gains transferred to held to maturity	-	-	(3,352)	-
	(148)	(348)	(3,124)	1,491
Held to maturity securities:				
Net unrealized gain on securities transferred	-	-	3,352	-
Reclassification to operations	(234)	-	(537)	-
	(234)	-	2,815	-
Cash flow hedges:				
Net unrealized loss	(592)	(92)	(478)	(540)
Reclassification to operations	99	121	313	377
	(493)	29	(165)	(163)
Total income tax provision	$ (875)	$ (319)	$ (474)	$ 1,328

Other comprehensive income (loss), net of tax	(1,425)	(521)	(769)	2,164
Comprehensive income	$ 5,529	$ 7,370	$ 20,900	$ 24,189

See Notes to Condensed Consolidated Financial Statements

Table of Contents

CoBiz Financial Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows (unaudited)

For the nine months ended September 30, 2015 and 2014

(in thousands)	Nine months ended September 30, 2015		2014	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	$	21,669	$	22,025
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation, amortization and accretion		2,880		2,916
Provision for loan and credit losses		1,030		(3,281)
Stock-based compensation		2,611		2,440
Federal Home Loan Bank stock dividend		(126)		(201)
Deferred income taxes		1,018		3,971
Excess tax benefit from stock-based compensation		(610)		(503)
Bank-owned life insurance		(980)		(928)
Net gain on securities, other assets and other real estate owned		(123)		(2,428)
Other operating activities, net		(429)		(351)
Changes in operating assets and liabilities:				
Other assets		(1,549)		(855)
Other liabilities		(898)		(2,142)
Net cash provided by operating activities		24,493		20,663
CASH FLOWS FROM INVESTING ACTIVITIES:				
		(10,958)		(16,619)

Purchase of other investments		
Proceeds from other investments	12,407	13,031
Purchase of investment securities available for sale	(39,774)	(12,128)
Purchase of investment securities held to maturity	(74,813)	-
Proceeds from sale of investment securities available for sale	-	11,590
Maturity of investment securities available for sale	36,918	70,113
Maturity of investment securities held to maturity	44,831	28
Acquisition of client relationships	(75)	(250)
Purchase of bank-owned life insurance	-	(3,335)
Net proceeds from sale of loans, OREO and repossessed assets	2,073	11,951
Loan originations and repayments, net	(213,474)	(280,035)
Purchase of premises and equipment	(962)	(3,774)
Other investing activities, net	-	370
Net cash used in investing activities	(243,827)	(209,058)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand, money market and savings accounts	269,982	116,021
Net decrease in certificates of deposits	(54,860)	(28,682)
Net increase (decrease) in short-term borrowings	(2,469)	185,753
Net increase (decrease) in securities sold under agreements to repurchase	12,206	(62,453)
Net proceeds from issuance of subordinated notes payable	58,992	-
Proceeds from issuance of common stock, net	1,233	892

Taxes paid in net settlement of restricted stock	(1,183)	(1,042)
Redemption of preferred stock	(57,366)	-
Dividends paid on common stock	(5,107)	(4,462)
Dividends paid on preferred stock	(320)	(430)
Excess tax benefit from stock-based compensation	610	503
Net cash provided by financing activities	221,718	206,100
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,384	17,705
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	91,565	76,028
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 93,949	$ 93,733

See Notes to Condensed Consolidated Financial Statements

Table of Contents

CoBiz Financial Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

1. Nature of Operations and Significant Accounting Policies

The accompanying unaudited Condensed Consolidated Financial Statements of CoBiz Financial Inc. (Parent), and its subsidiaries: CoBiz Bank (Bank); CoBiz Insurance, Inc.; CoBiz GMB, Inc.; and CoBiz IM, Inc. (CoBiz IM); all collectively referred to as the "Company", "CoBiz", "we", "us", or "our" conform to accounting principles generally accepted in the United States of America for interim financial information and prevailing practices within the banking industry. The Bank operates in its Colorado market areas under the name Colorado Business Bank (CBB) and in its Arizona market areas under the name Arizona Business Bank (ABB).

The Bank is a commercial banking institution with nine locations in the Denver metropolitan area; one in Boulder; one near Vail; one in Colorado Springs; one in Fort Collins; and six in the Phoenix metropolitan area. As a state chartered bank, deposits are insured by the Bank Insurance Fund of the Federal Deposit Insurance Corporation (FDIC) and the Bank is subject to supervision, regulation and examination by the Federal Reserve, Colorado Division of Banking and the FDIC. Pursuant to such regulations, the Bank is subject to special restrictions, supervisory requirements and potential enforcement actions. CoBiz Insurance, Inc. provides commercial and personal property and casualty (P&C) insurance brokerage, risk management consulting services to small and medium-sized businesses and individuals and provides employee benefits consulting, insurance brokerage and related administrative support to employers. CoBiz GMB, Inc. provided investment banking services to middle-market companies through its wholly-owned subsidiary, Green Manning & Bunch, Ltd. (GMB), until its discontinuation on March 31, 2015. CoBiz IM provides wealth planning and investment management to institutions and individuals through its SEC-registered investment advisor subsidiary, CoBiz Wealth, LLC.

The following is a summary of certain of the Company's significant accounting and reporting policies.

Basis of Presentation —These financial statements and notes thereto should be read in conjunction with, and are qualified in their entirety by, the Company's Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the U.S. Securities and Exchange Commission (SEC).

The Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting only of normally recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2015, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2015.

The Condensed Consolidated Financial Statements include entities in which the Parent has a controlling financial interest. These entities include: the Bank; CoBiz Insurance, Inc.; CoBiz GMB, Inc.; and CoBiz IM. Intercompany balances and transactions are eliminated in consolidation. The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity (VIE).

Table of Contents

The voting interest model is used when the equity investment is sufficient to absorb the expected losses and the equity investment has all of the characteristics of a controlling financial interest. Under the voting interest model, the party with the controlling voting interest consolidates the legal entity. The VIE model is used when any of the following conditions exist: the equity investment at risk is not sufficient to finance the entity's activities without additional subordinated financial support; the holders of the equity investment do not have a controlling voting interest; or the holders of the equity investment are not obligated to absorb the expected losses or residual returns of the legal entity. An enterprise is considered to have a controlling financial interest of a VIE if it has both the power to direct the activities that most significantly impact economic performance and the obligation to absorb losses, or receive benefits, that are significant to the VIE. An enterprise that has a controlling financial interest is considered the primary beneficiary and must consolidate the VIE. The Company was not the primary beneficiary of a VIE at September 30, 2015 or December 31, 2014.

Certain reclassifications have been made to prior years' Condensed Consolidated Financial Statements and related notes to conform to the current year presentation.

Cash and Cash Equivalents — The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents include amounts that the Company is required to maintain at the Federal Reserve Bank of Kansas City to meet certain regulatory reserve balance requirements. The following table shows supplemental disclosures of certain cash and noncash items:

	Nine months ended September 30,	
(in thousands)	2015	2014
Cash paid during the period for:		
Interest	$ 5,609	$ 6,190
Income taxes	6,953	5,555
Other noncash activities:		
Available for sale securities transferred to held to maturity	$ 288,598	$ -
Loans transferred to OREO	-	2,659
Loans transferred to held for sale	1,628	7,087

Investments — The Company classifies its investment securities as held to maturity, available for sale or trading, according to management's intent.

Investment securities held to maturity consist of residential mortgage-backed securities (MBS), bonds, notes and debentures for which the Company has the positive intent and ability to hold to maturity and are reported at cost, adjusted for amortization or accretion of premiums and discounts.

Available for sale securities consist of MBS, bonds, notes and debentures (including corporate debt and trust preferred securities (TPS)) not classified as held to maturity securities and are reported at fair value as determined by quoted market prices. Unrealized holding gains and losses, net of tax, are reported as a net amount in AOCI until realized. The Company does not currently have any trading securities.

Premiums and discounts, adjusted for prepayments as applicable, are recognized in interest income. Other than temporary declines in the fair value of individual investment securities held to maturity and available for sale are charged against earnings. Gains and losses on disposal of investment securities are determined using the specific-identification method.

Transfers of debt securities into the held to maturity category from the available for sale category are made at fair value at the date of transfer. The unrealized gain or loss at the date of transfer is retained in AOCI and in the carrying value of the held to maturity securities. Such amounts are amortized over the remaining life of the security.

Table of Contents

Other-than-temporary-impairment (OTTI) on debt securities is separated between the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is the difference between a security's amortized cost basis and the discounted present value of expected future cash flows. The amount due to all other factors is recognized in other comprehensive income (OCI).

Bank Stocks — Federal Home Loan Bank of Topeka (FHLB), Federal Reserve Bank and other correspondent bank stocks are accounted for under the cost method.

Loans held for investment— Loans that the Company has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal balances adjusted for any charge-offs, the allowance for loan losses, deferred fees and costs on originated loans, and unamortized premiums or discounts on purchased loans. Interest is accrued and credited to income daily based on the principal balance outstanding. The accrual of interest income is generally discontinued when a loan becomes 90 days past due as to principal and interest. When a loan is designated as nonaccrual, the current period's accrued interest receivable is charged against current earnings while any portions relating to prior periods are charged against the allowance for loan losses. Interest payments received on nonaccrual loans are generally applied to the principal balance of the loan. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured and there has been demonstrated performance in accordance with contractual terms. The Company may elect to continue the accrual of interest when the loan is in the process of collection and the realizable value of collateral is sufficient to cover the principal balance and accrued interest.

Loans Held for Sale — Loans held for sale include loans the Company has demonstrated the ability and intent to sell. Loans held for sale are primarily nonperforming loans. Loans held for sale are carried at the lower of cost or fair value and are evaluated on a loan-by-loan basis.

Impaired Loans — Impaired loans, with the exception of groups of smaller-balance homogenous loans that are collectively evaluated for impairment, are defined as loans for which, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays of less than 90 days and monthly payment shortfalls of less than 10% of the contractual payment on a consumer loan generally are not classified as impaired if the Company ultimately expects to recover its full investment. The Company determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent. Loans that are deemed to be impaired are evaluated in accordance with Accounting Standards Codification (ASC) Topic 310-10-35, Receivables – Subsequent Measurement (ASC 310) and ASC Topic 450-20, Loss Contingencies (ASC 450).

Included in impaired loans are troubled debt restructurings. A troubled debt restructuring is a formal restructure of a loan where the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower. The concessions may be granted in various forms, including but not limited to reduction in the stated interest rate, reduction in the loan balance or accrued interest, or extension of the maturity date. Troubled debt restructurings are evaluated in accordance with ASC Topic 310-40, Troubled Debt Restructurings by Creditors. Interest payments on impaired loans are typically applied to principal unless collectability of principal is reasonably assured. Loans that have been modified in a formal restructuring are typically returned to accrual status when there has been a sustained period of performance (generally six months) under the modified terms, the borrower has shown the ability and willingness to repay and the Company expects to collect all amounts due under the modified terms.

Table of Contents

Loan Origination Fees and Costs — Loan fees and certain costs of originating loans are deferred and the net amount is amortized over the contractual life of the related loans in accordance with ASC Topic 310-20, Nonrefundable Fees and Other Costs.

Allowance for Loan Losses — The allowance for loan losses (ALL) is established as losses are estimated to have occurred through a provision for loan losses charged against earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The ALL is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as new information becomes available.

Allowance for Credit Losses — The allowance for credit losses is established as losses are estimated to have occurred through a provision for credit losses charged to earnings. The allowance for credit losses represents management's recognition of a separate reserve for off-balance sheet loan commitments and letters of credit. While the allowance for loan losses is recorded as a contra-asset to the loan portfolio on the Condensed Consolidated Balance Sheets, the allowance for credit losses is recorded under the caption "Accrued interest and other liabilities". Although the allowances are presented separately on the balance sheets, any losses incurred from credit losses would be reported as a charge-off in the allowance for loan losses, as any loss would be recorded after the off-balance sheet commitment had been funded.

Bank-Owned Life Insurance (BOLI) – The Bank invested in BOLI policies to fund certain future employee benefit costs and are recorded at net realizable value. Changes in the amount that could be realized and amounts realized from policy claims are recorded in the Condensed Consolidated Statements of Income as "Other Income".

Derivative Instruments — Derivative financial instruments are accounted for at fair value. The Company utilizes interest rate swaps to hedge a portion of its exposure to interest rate changes. These instruments are accounted for as cash flow hedges, as defined by ASC Topic 815, Derivatives and Hedging (ASC 815). The net cash flows from these hedges are classified in operating activities within the Condensed Consolidated Statements of Cash Flows with the hedged items. The Company also uses interest rate swaps to hedge against adverse changes in fair value on fixed-rate loans. These instruments are accounted for as fair value hedges in accordance with ASC 815. The Company also has a derivative program that offers interest-rate caps, floors, swaps and collars to customers of the Bank. The fair value amounts recognized for derivative instruments and the fair value amounts recognized for the right to reclaim or obligation to return cash collateral are not offset when represented under a master netting arrangement. The Company also uses foreign currency forward contracts (FX forwards) giving it the right to sell underlying currencies at specified future dates and predetermined prices in order to mitigate foreign exchange risk associated with long positions. FX forwards are carried at fair value with changes in value recognized in current earnings as the contracts are not designated as hedging instruments. See Note 7 – Derivatives.

Fair Value Measurements — The Company measures financial assets, financial liabilities, nonfinancial assets and nonfinancial liabilities pursuant to ASC Topic 820, Fair Value Measurement (ASC 820). ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

Loss From Discontinued Operations, Net of Income Taxes — During the first quarter of 2015, the Company ceased the operations of GMB due to increasing regulatory compliance costs and in order to focus on activities that provide recurring revenue. GMB’s revenues were transactional and highly dependent on deal volume which could vary significantly from period to period. The Company does not expect any significant continuing involvement because GMB’s business ceased and GMB’s broker-dealer status was terminated as of March 31, 2015. The primary assets and liabilities of GMB, comprised of cash and accrued compensation, were immaterial at March 31, 2015. GMB was a component of the Fee-Based Lines segment.

Table of Contents

The operating results of GMB have been retrospectively presented as discontinued operations for all periods presented. The table below presents the results of GMB for the three and nine months ended September 30, 2015 and 2014.

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	2015	2014	2015	2014
Noninterest income	$ -	$ 2,359	$ 623	$ 4,040
Noninterest expense	-	1,725	736	3,188
Income (loss) before income taxes	-	634	(113)	852
Provision (benefit) for income taxes	-	276	(42)	338
Net income (loss) from discontinued operations	$ -	$ 358	$ (71)	$ 514

The net income (loss) before income taxes approximates total cash flows from operating activities of the discontinued operations. Cash flows from investing activities were not material.

2. Recent Accounting Pronouncements

In August 2015, the Financial Accounting Standard Board (FASB) issued Accounting Standard Update (ASU) No. 2015-14, Revenue from Contracts with Customers (Topic 606) (ASU 2015-14). In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606), with an original effective date for annual reporting periods beginning after December 15, 2016. The core principle of ASU 2014-09 is 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. ASU 2015-14 deferred the effective date of ASU 2014-09 to annual periods and interim periods within those annual periods beginning after December 15, 2017. The Company is currently evaluating the effects of ASU 2015-14 on its financial statements and disclosures, if any.

Table of Contents

3. Earnings per Common Share and Dividends Declared per Common Share

Earnings per common share is calculated based on the two-class method prescribed in ASC 260, Earnings per Share. The two-class method is an allocation of undistributed earnings to common stock and securities that participate in dividends with common stock. The Company's restricted stock awards are considered participating securities since the recipients receive non-forfeitable dividends on unvested awards. The impact of participating securities is included in basic earnings per common share for the three and nine months ended September 30, 2015 and 2014. Income allocated to common shares and weighted average shares outstanding used in the calculation of basic and diluted earnings per share are as follows:

	Three months ended September 30,		Nine months ended September 30,	
(in thousands, except share and per share amounts)	2015	2014	2015	2014
Net income from continuing operations	$ 6,954	$ 7,533	$ 21,740	$ 21,511
Net (loss) income from discontinued operations	-	358	(71)	514
Net income	6,954	7,891	21,669	22,025
Preferred stock dividends	(33)	(144)	(320)	(430)
Net income available to common shareholders	6,921	7,747	21,349	21,595
Dividends and undistributed earnings allocated to participating securities	(84)	(123)	(279)	(351)
Earnings allocated to common shares (1)	$ 6,837	$ 7,624	$ 21,070	$ 21,244
Weighted average common shares - issued	41,041,238	40,665,177	40,958,467	40,580,395
Average unvested restricted share awards	(498,049)	(640,415)	(530,220)	(657,988)
Weighted average common shares outstanding - basic	40,543,189	40,024,762	40,428,247	39,922,407
Effect of dilutive stock options and awards outstanding	280,984	203,041	246,649	192,103
Weighted average common shares outstanding - diluted	40,824,173	40,227,803	40,674,896	40,114,510
Weighted average antidilutive securities outstanding (2)	92,859	328,225	182,627	792,925
Basic earnings per common share - continuing operations	$ 0.17	$ 0.18	$ 0.52	$ 0.52
Diluted earnings per common share - continuing operations	$ 0.17	$ 0.18	$ 0.52	$ 0.52
Basic earnings per common share - discontinued operations	$ -	$ 0.01	$ -	$ 0.01
Diluted earnings per common share - discontinued operations	$ -	$ 0.01	$ -	$ 0.01
Basic earnings per common share	$ 0.17	$ 0.19	$ 0.52	$ 0.53

Diluted earnings per common share	$ 0.17	$ 0.19	$ 0.52	$ 0.53
Dividends declared per share	$ 0.045	$ 0.04	$ 0.125	$ 0.11

(1) Earnings allocated to common shareholders for basic EPS under the two-class method may differ from earnings allocated for diluted EPS when use of the treasury method results in greater dilution than the two-class method.
(2) Antidilutive shares excluded from the diluted earnings per share computation.

Table of Contents

4. Investments

The amortized cost and estimated fair values of investment securities are summarized as follows:

	At September 30, 2015				At December 31, 2014			
(in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available for sale securities (AFS):								
Mortgage-backed securities	$ -	$ -	$ -	$ -	$ 275,855	$ 8,052	$ 403	$ 283,504
Trust preferred securities	44,795	1,898	558	46,135	57,974	2,127	446	59,655
Corporate debt securities	101,432	2,049	119	103,362	99,249	2,186	225	101,210
Municipal securities	3,794	98	24	3,868	15,175	280	9	15,446
Total AFS	$ 150,021	$ 4,045	$ 701	$ 153,365	$ 448,253	$ 12,645	$ 1,083	$ 459,815
Held to maturity securities (HTM):								
Mortgage-backed securities	$ 309,118	$ 969	$ 287	$ 309,800	$ 140	$ 4	$ -	$ 144
Trust preferred securities	13,264	916	82	14,098	13,189	294	11	13,472
Municipal securities	26,638	67	16	26,689	-	-	-	-
Total HTM	$ 349,020	$ 1,952	$ 385	$ 350,587	$ 13,329	$ 298	$ 11	$ 13,616

During the first quarter of 2015, the Company transferred MBS and municipal securities with a book value of $279.8 million and fair value of $288.6 million from AFS to HTM. The Company believes the HTM category is more consistent with the Company's intent for these securities. Transfers of securities from AFS to HTM were made at fair value at the time of transfer. The $8.8 million unrealized holding gain at the time of transfer is retained in AOCI and in the carrying value of HTM securities. Accordingly, the balance of HTM securities in the "Amortized cost" column in the table above includes a net unamortized unrealized gain of $7.4 million at September 30, 2015. Such amounts are amortized over the remaining life of the securities.

Proceeds from the sale of investments and the gains (losses) recognized on securities sold or called are summarized as follows:

(in thousands)	Three months ended September 30, 2015	2014	Nine months ended September 30, 2015	2014
Proceeds	$ -	$ -	$ -	$ 11,590
Gains	-	-	108	1,240
Losses	(15)	(6)	(25)	(76)

The amortized cost and estimated fair value of investments in debt securities at September 30, 2015, by contractual maturity are shown below. Expected maturities can differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties.

	Available for sale		Held to maturity	
(in thousands)	Amortized cost	Fair value	Amortized cost	Fair value
Due in one year or less	$ 7,157	$ 7,212	$ 587	$ 587
Due after one year through five years	79,242	80,858	18,184	18,180
Due after five years through ten years	18,827	19,160	7,290	7,342
Due after ten years	44,795	46,135	13,841	14,678
Mortgage-backed securities	-	-	309,118	309,800
	$ 150,021	$ 153,365	$ 349,020	$ 350,587

The Company uses investment securities to collateralize public deposits. Investment securities with an approximate fair value of $166.6 million and $171.1 million were pledged to secure public deposits of $139.5 million and $122.3 million at September 30, 2015 and December 31, 2014, respectively.

Changes in interest rates and market liquidity may cause adverse fluctuations in the market price of securities resulting in temporary unrealized losses. In reviewing the realizable value of its securities in a loss position, the Company considered the following factors: (1) the length of time and extent to which the market had been less than cost; (2) the financial condition and near-term prospects of the issuer; (3) investment downgrades by rating agencies; and (4) whether it is more likely than not that the Company will have to sell the security

Table of Contents

before a recovery in value. When it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the security, and the fair value of the investment security is less than its amortized cost, an other-than-temporary impairment is recognized in earnings.

For debt securities that are considered other-than temporarily impaired and that the Company does not intend to sell and will not be required to sell prior to recovery of the amortized cost basis, an OTTI is recognized. OTTI is separated into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is the difference between a security's amortized cost basis and the discounted present value of expected future cash flows. The amount due to all other factors is recognized in other comprehensive income. The Company did not have any credit impaired securities at September 30, 2015 and December 31, 2014.

There were 107 and 24 securities in the tables below at September 30, 2015 and December 31, 2014, respectively, in an unrealized loss position.

	September 30, 2015					
	Less than 12 months		12 months or greater		Total	
(in thousands)	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
AFS						
Trust preferred securities	$ 17,492	$ 536	$ 980	$ 22	$ 18,472	$ 558
Corporate debt securities	13,045	62	3,374	57	16,419	119
Municipal securities	834	24	-	-	834	24
Total AFS	$ 31,371	$ 622	$ 4,354	$ 79	$ 35,725	$ 701
HTM						
Mortgage-backed securities	$ 74,914	$ 287	$ -	$ -	$ 74,914	$ 287
Trust preferred securities	780	82	-	-	780	82
Municipal securities	4,340	16	-	-	4,340	16
Total HTM	$ 80,034	$ 385	$ -	$ -	$ 80,034	$ 385

	December 31, 2014					
	Less than 12 months		12 months or greater		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized

(in thousands)	value	loss	value	loss	value	loss
AFS						
Mortgage-backed securities	$ 9,699	$ 12	$ 26,470	$ 391	$ 36,169	$ 403
Trust preferred securities	17,175	48	6,145	398	23,320	446
Corporate debt securities	5,856	117	4,924	108	10,780	225
Municipal securities	773	9	-	-	773	9
Total AFS	$ 33,503	$ 186	$ 37,539	$ 897	$ 71,042	$ 1,083
HTM						
Trust preferred securities	$ 845	$ 11	$ -	$ -	$ 845	$ 11

Other investments at September 30, 2015 and December 31, 2014, consist of the following:

(in thousands)	September 30, 2015	December 31, 2014
Bank stocks — at cost	$ 9,307	$ 9,305
Investment in statutory trusts — equity method	2,172	2,172
Total	$ 11,479	$ 11,477

Table of Contents

Bank stocks consist primarily of stock in the FHLB, which is part of the Federal Home Loan Bank System (FHLB System). The purpose of the FHLB investment relates to maintenance of a borrowing base with the FHLB. FHLB stock holdings are largely dependent upon the Company's liquidity position. To the extent the need for wholesale funding increases or decreases, the Company may purchase additional or sell excess FHLB stock, respectively. The Company evaluates impairment in this investment based on the ultimate recoverability of the par value. At September 30, 2015, the Company did not consider the investment to be other-than-temporarily impaired.

5. Loans

The following disclosure reports the Company's loan portfolio segments and classes. Segments are groupings of similar loans at a level which the Company has adopted systematic methods of documentation for determining its allowance for loan and credit losses. Classes are a disaggregation of the portfolio segments. The Company's loan portfolio segments are:

- Commercial loans – Commercial loans consist of loans to small and medium-sized businesses in a wide variety of industries. The Bank's areas of emphasis in commercial lending include, but are not limited to, loans to wholesalers, manufacturers, municipalities, construction and business services companies. Commercial loans are generally collateralized by inventory, accounts receivable, equipment, real estate and other commercial assets, and may be supported by other credit enhancements such as personal guarantees. Risk arises primarily due to a difference between expected and actual cash flows of the borrowers. However, the recoverability of the Company's investment in these loans is also dependent on other factors primarily dictated by the type of collateral securing these loans. The fair value of the collateral securing these loans may fluctuate as market conditions change. In the case of loans secured by accounts receivable, the recovery of the Company's investment is dependent upon the borrowers' ability to collect amounts due from its customers.

- Real estate - mortgage loans – Real estate mortgage loans include various types of loans for which the Company holds real property as collateral. Commercial real estate lending activity is typically restricted to owner-occupied properties or to investor properties that are owned by customers with a current banking relationship. The primary risks of real estate mortgage loans include the borrower's inability to pay, material decreases in the value of the real estate that is being held as collateral and significant increases in interest rates, which may make the real estate mortgage loan unprofitable. Real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy.

- Construction and land – The Company originates loans to finance construction projects including one- to four-family residences, multifamily residences, commercial office, senior housing, and industrial projects. Residential construction loans are due upon the sale of the completed project and are generally collateralized by first liens on the real estate and have floating interest rates. Construction loans are considered to have higher risks due to construction completion and timing risk, and the ultimate repayment being sensitive to interest rate changes, governmental regulation of real property and the availability of long-term financing. Additionally, economic conditions may impact the Company's ability to recover its investment in construction loans. Adverse economic conditions may negatively impact the real estate market which could affect the borrowers' ability to complete and sell the project. Additionally, the fair value of the underlying collateral may fluctuate as market conditions change. The Company also originates loans for the acquisition and future development of land for residential building projects, as well as finished lots prepared to enter the construction phase. The primary risks include the borrower's inability to pay and the inability of the Company to recover its investment due to a decline in the fair value of the underlying collateral.

- Consumer loans – The Company provides a broad range of consumer loans to customers, including personal lines of credit, home equity loans, jumbo mortgage loans and automobile loans. Repayment of these loans is dependent on the borrowers' ability to pay and the fair value of the underlying collateral.

Table of Contents

- Other loans – Other loans include lending products, such as taxable and tax-exempt leasing, not defined as commercial, real estate, acquisition and development, construction, or consumer loans.

The loan portfolio segments at September 30, 2015 and December 31, 2014 were as follows:

(in thousands)	At September 30, 2015	At December 31, 2014
Commercial	$ 1,173,575	$ 977,628
Real estate - mortgage	918,647	990,594
Construction & land	230,281	182,869
Consumer	244,931	207,921
Other	54,254	47,904
Loans held for investment	2,621,688	2,406,916
Allowance for loan losses	(34,899)	(32,765)
Unearned net loan fees	(635)	(1,341)
Total net loans	$ 2,586,154	$ 2,372,810

The Company uses qualifying loans as collateral for advances and a line of credit from the FHLB. The FHLB line of credit had a $110.0 million outstanding balance at September 30, 2015, which was collateralized by loans of $848.2 million with a lending value of $576.7 million.

The Company maintains a loan review program independent of the lending function that is designed to reduce and control risk in lending. It includes the continuous monitoring of lending activities with respect to underwriting and processing new loans, preventing insider abuse and timely follow-up and corrective action for loans showing signs of deterioration in quality. The Company also has a systematic process to evaluate individual loans and pools of loans within our loan portfolio. The Company maintains a loan grading system whereby each loan is assigned a grade between 1 and 8, with 1 representing the highest quality credit, 7 representing a nonaccrual loan where collection or liquidation in full is highly questionable and improbable, and 8 representing a loss that has been or will be charged-off. Grades are assigned based upon the degree of risk associated with repayment of a loan in the normal course of business pursuant to the original terms. Loans that are graded 5 or better are categorized as non-classified credits while loans graded 6 and worse are categorized as classified credits. Loan grade changes are evaluated on a monthly basis. Loans above a certain dollar amount that are adversely graded are reported to the Special Assets Group Manager and the Chief Credit Officer along with current financial information, a collateral analysis and an action plan.

The loan portfolio showing total non-classified and classified balances by loan class at September 30, 2015 and December 31, 2014 is summarized below:

(in thousands)	At September 30, 2015 Non-classified	Classified	Total
Commercial			
Manufacturing	$ 136,934	$ 3,891	$ 140,825
Finance and insurance	68,961	85	69,046
Healthcare	121,042	604	121,646
Real estate services	119,620	1,651	121,271
Construction	62,654	2,057	64,711
Wholesale and retail trade	63,400	2,749	66,149
Other	571,805	18,122	589,927
	1,144,416	29,159	1,173,575
Real estate - mortgage			
Residential & commercial owner-occupied	436,863	7,050	443,913
Residential & commercial investor	473,659	1,075	474,734
	910,522	8,125	918,647
Construction & land	230,253	28	230,281
Consumer	244,076	855	244,931
Other	51,231	3,023	54,254
Total loans held for investment	$ 2,580,498	$ 41,190	$ 2,621,688
Unearned net loan fees			(635)
Net loans held for investment			$ 2,621,053

Table of Contents

(in thousands)	At December 31, 2014 Non-classified	Classified	Total
Commercial			
Manufacturing	$ 121,617	$ 4,501	$ 126,118
Finance and insurance	80,948	99	81,047
Healthcare	91,631	180	91,811
Real estate services	110,031	2,357	112,388
Construction	53,513	2,982	56,495
Wholesale and retail trade	68,811	3,484	72,295
Other	435,337	2,137	437,474
	961,888	15,740	977,628
Real estate - mortgage			
Residential & commercial owner-occupied	409,659	12,749	422,408
Residential & commercial investor	563,657	4,349	568,006
Other	180	-	180
	973,496	17,098	990,594
Construction & land	181,641	1,228	182,869
Consumer	205,131	2,790	207,921
Other	47,820	84	47,904
Total loans held for investment	$ 2,369,976	$ 36,940	$ 2,406,916
Unearned net loan fees			(1,341)
Net loans held for investment			$ 2,405,575

Table of Contents

Transactions in the allowance for loan losses by segment for the three and nine months ended September 30, 2015 and 2014 are summarized below:

(in thousands)	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Allowance for loan losses, beginning of period				
Commercial	$ 17,568	$ 13,831	$ 14,614	$ 14,103
Real estate - mortgage	10,879	13,254	12,463	14,919
Construction & land	2,206	2,626	2,316	3,346
Consumer	2,201	2,472	2,329	2,471
Other	609	432	488	479
Unallocated	369	1,307	555	1,732
Total	33,832	33,922	32,765	37,050
Provision				
Commercial	$ 944	$ 1,406	$ 4,242	$ 2,273
Real estate - mortgage	(1,104)	(1,021)	(3,641)	(2,909)
Construction & land	(19)	(761)	(360)	(2,048)
Consumer	396	86	299	42
Other	81	(3)	212	(55)
Unallocated	464	(159)	278	(584)
Total	762	(452)	1,030	(3,281)
Charge-offs				
Commercial	$ (32)	$ (200)	$ (501)	$ (1,648)
Real estate - mortgage	(38)	-	(186)	(52)
Construction & land	-	(16)	(104)	(54)
Consumer	(14)	(2)	(45)	(10)
Other	(3)	(4)	(285)	(5)
Total	(87)	(222)	(1,121)	(1,769)
Recoveries				
Commercial	$ 54	$ 72	$ 179	$ 381
Real estate - mortgage	5	58	1,106	333
Construction & land	323	300	658	905
Consumer	10	2	10	55
Other	-	2	272	8
Total	392	434	2,225	1,682
Allowance for loan losses, end of period				
Commercial	$ 18,534	$ 15,109	$ 18,534	$ 15,109
Real estate - mortgage	9,742	12,291	9,742	12,291
Construction & land	2,510	2,149	2,510	2,149
Consumer	2,593	2,558	2,593	2,558
Other	687	427	687	427

Unallocated	833	1,148	833	1,148
Total	$ 34,899	$ 33,682	$ 34,899	$ 33,682

The Company estimates the ALL in accordance with ASC 310 for purposes of evaluating loan impairment on a loan-by-loan basis and ASC 450 for purposes of collectively evaluating loan impairment by grouping loans with common risk characteristics (i.e. risk classification, past-due status, type of loan, and collateral). The ALL is comprised of the following components:

· Specific Reserves – The Company continuously evaluates its reserve for loan losses to maintain an adequate level to absorb loan losses incurred in the loan portfolio. Reserves on loans identified as impaired, including troubled debt restructurings, are based on discounted expected cash flows using the loan's initial effective interest rate, the observable market value of the loan or the fair value of the collateral for certain collateral-dependent loans. The fair value of the collateral is determined in accordance with ASC 820. Loans are considered to be impaired in accordance with the provisions of ASC 310 when it is probable that all amounts due in accordance with the contractual terms will not be collected. Factors contributing to the determination of specific reserves include the financial condition

Table of Contents

of the borrower, changes in the value of pledged collateral and general economic conditions. Troubled debt restructurings meet the definition of an impaired loan under ASC 310 and therefore, troubled debt restructurings are subject to impairment evaluation on a loan-by-loan basis.

For collateral dependent loans that have been specifically identified as impaired, the Company measures fair value based on third-party appraisals, adjusted for estimated costs to sell the property. Upon impairment, the Company will obtain a new appraisal if one had not been previously obtained in the last 12 months. For credits over $2.0 million, the Company engages an additional third-party appraiser to review the appraisal. For credits under $2.0 million, the Company's internal appraisal department reviews the appraisal. All appraisals are reviewed for reasonableness based on recent sales transactions that may have occurred subsequent to or at the time of the appraisal. Based on this analysis, the appraised value may be adjusted downward if there is evidence that the appraised value may not be indicative of fair value. Each appraisal is updated on an annual basis, either through a new appraisal or through the Company's comprehensive internal review process.

Values are reviewed and monitored internally and fair value is re-assessed at least quarterly or more frequently when events or circumstances occur that indicate a change in fair value. It has been the Company's experience that appraisals quickly become outdated due to the volatile real estate environment. As such, fair value based on property appraisals may be adjusted to reflect estimated declines in the fair value of properties since the time the last appraisal was performed.

- General Reserves – General reserves are considered part of the allocated portion of the ALL. The Company uses a comprehensive loan grading process for its loan portfolios. Based on this process, a loss factor is assigned to each pool of graded loans. A combination of loss experience and external loss data is used in determining the appropriate loss factor. This estimate represents the probable incurred losses within the portfolio. In evaluating the adequacy of the ALL, management considers historical losses (Migration), as well as other factors including changes in:

- Lending policies and procedures
- National and local economic and business conditions and developments
- Nature and volume of portfolio
- Trends of the volume and severity of past-due and classified loans
- Trends in the volume of nonaccrual loans, troubled debt restructurings, and other loan modifications
- Credit concentrations

Troubled debt restructurings have a direct impact on the allowance to the extent a loss has been recognized in relation to the loan modified. This is consistent with the Company's consideration of Migration in determining general reserves.

The aforementioned factors enable management to recognize environmental conditions contributing to incurred losses in the portfolio, which have not yet manifested in Migration. Management believes Migration history adequately captures a great percentage of probable incurred losses within the portfolio.

In addition to the allocated reserve for graded loans, a portion of the ALL is determined by segmenting the portfolio into product groupings with similar risk characteristics. Part of the segmentation involves assigning increased reserve factors to those lending activities deemed higher-risk, such as leverage-financings, unsecured loans, certain loans lacking personal guarantees, and multifamily loans.

· Unallocated Reserves – The unallocated reserve, which is judgmentally determined, is maintained to recognize the imprecision in estimating and measuring loss when evaluating reserves for individual loans or pools of loans. The unallocated reserve consists of a missed grade component that is intended to capture the inherent risk that certain loans may be assigned an incorrect loan grade.

Table of Contents

In assessing the reasonableness of management's assumptions, consideration is given to select peer ratios, industry standards and directional consistency of the ALL. Ratio analysis highlights divergent trends in the relationship of the ALL to nonaccrual loans, to total loans and to historical charge-offs. Although these comparisons can be helpful as a supplement to assess reasonableness of management assumptions, they are not, by themselves, sufficient basis for determining the adequacy of the ALL. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company's control, including the performance of the loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

The following table summarizes loans held for investment and the allowance for loan and credit losses on the basis of the impairment method:

	At September 30, 2015				At December 31, 2014			
	Individually evaluated for impairment		Collectively evaluated for impairment		Individually evaluated for impairment		Collectively evaluated for impairment	
(in thousands)	Loans held for investment	Allowance for loan losses	Loans held for investment	Allowance for loan losses	Loans held for investment	Allowance for loan losses	Loans held for investment	Allowance for loan losses
Commercial	$ 23,934	$ 3,940	$ 1,150,016	$ 14,594	$ 20,415	$ 3,441	$ 957,284	$ 11,173
Real estate - mortgage	6,583	341	911,608	9,401	17,803	281	971,916	12,182
Construction & land	2,661	214	226,623	2,296	4,004	280	177,860	2,036
Consumer	1,270	115	243,724	2,478	2,506	139	205,449	2,190
Other	-	-	54,634	687	84	6	48,254	482
Unallocated	-	-	-	833	-	-	-	555
Total	$ 34,448	$ 4,610	$ 2,586,605	$ 30,289	$ 44,812	$ 4,147	$ 2,360,763	$ 28,618

Information on impaired loans at September 30, 2015 and December 31, 2014 is reported in the following tables:

	At September 30, 2015				
(in thousands)	Unpaid principal balance	Recorded investment in impaired loans	Recorded investment with a related allowance	Recorded investment with no related allowance	Related allowance
Commercial					
Manufacturing	$ 6,163	$ 5,937	$ 5,937	$ -	$ 641
Finance and insurance	86	86	86	-	86
Real estate services	7,751	7,751	7,751	-	669

Construction	1,874	1,874	1,874	-	203
Wholesale and retail trade	2,584	2,545	2,517	28	1,415
Other	7,143	5,741	5,731	10	926
	25,601	23,934	23,896	38	3,940
Real estate - mortgage					
Residential & commercial owner-occupied	1,812	1,812	1,490	322	195
Residential & commercial investor	4,771	4,771	4,771	-	146
	6,583	6,583	6,261	322	341
Construction & land	2,694	2,661	2,633	28	214
Consumer	1,270	1,270	1,160	110	115
Total	$ 36,148	$ 34,448	$ 33,950	$ 498	$ 4,610

Table of Contents

	At December 31, 2014				
(in thousands)	Unpaid principal balance	Recorded investment in impaired loans (1)	Recorded investment with a related allowance	Recorded investment with no related allowance	Related allowance
Commercial					
Manufacturing	$ 5,169	$ 4,887	$ 4,833	$ 54	$ 431
Finance and insurance	99	99	99	-	53
Healthcare	140	140	140	-	9
Real estate services	8,469	8,469	8,469	-	782
Construction	2,050	2,050	1,961	89	296
Wholesale and retail trade	3,713	3,091	2,741	350	1,611
Other	1,989	1,679	1,670	9	259
	21,629	20,415	19,913	502	3,441
Real estate - mortgage					
Residential & commercial owner-occupied	3,063	3,050	1,183	1,867	117
Residential & commercial investor	6,210	6,210	4,885	1,325	164
	9,273	9,260	6,068	3,192	281
Construction & land	4,038	4,004	3,325	679	280
Consumer	2,506	2,506	494	2,012	139
Other	84	84	84	-	6
Total	$ 37,530	$ 36,269	$ 29,884	$ 6,385	$ 4,147

(1) Recorded investment in impaired loans in this table does not agree to loans individually evaluated for impairment disclosed in the previous table due to certain loans being excluded pursuant to ASC 310-40-50-2.

Interest income recognized on impaired loans presented in the table below primarily represents interest earned on troubled debt restructurings that meet the definition of an impaired loan pursuant to ASU 310-10-35-16 and are subject to disclosure requirement under ASU 310-10-50-15.

	Impaired loans							
	Three months ended September 30,				Nine months ended September 30,			
	2015		2014		2015		2014	
(in thousands)	Average recorded	Interest income	Average recorded	Interest income	Average recorded	Interest income	Average recorded	Interest income
Commercial								
Manufacturing	$ 5,967	$ 72	$ 4,297	$ 113	$ 5,915	$ 252	$ 3,840	$ 198
	108	13	227	2	196	21	349	11

Finance and insurance								
Healthcare	-	-	183	6	-	-	217	11
Real estate services	7,894	70	7,510	65	8,117	215	5,878	190
Construction	1,791	37	1,491	60	1,604	84	1,407	92
Wholesale and retail trade	2,578	7	1,540	97	2,804	86	653	118
Other	5,641	136	2,417	59	3,349	281	2,723	120
	23,979	335	17,665	402	21,985	939	15,067	740
Real estate - mortgage								
Residential & commercial owner-occupied	1,555	-	4,946	11	1,431	103	5,795	72
Residential & commercial investor	4,784	35	4,935	41	5,224	138	5,875	207
	6,339	35	9,881	52	6,655	241	11,670	279
Construction & land	2,677	23	5,022	40	3,036	83	6,597	126
Consumer	1,298	60	1,060	17	1,948	212	889	37
Other	-	-	91	-	35	11	40	1
Total	$ 34,293	$ 453	$ 33,719	$ 511	$ 33,659	$ 1,486	$ 34,263	$ 1,183

Table of Contents

The table below summarizes transactions related to troubled debt restructurings during the nine months ended September 30, 2015.

(in thousands)	Performing	Nonperforming	Total
Beginning balance at December 31, 2014	$ 27,275	$ 2,915	$ 30,190
New restructurings	8,541	442	8,983
Change in accrual status	(1,931)	1,931	-
Net paydowns	(4,318)	(2,721)	(7,039)
Net recoveries	-	299	299
Ending balance at September 30, 2015	$ 29,567	$ 2,866	$ 32,433

The below table provides information regarding troubled debt restructurings that occurred during the three and nine months ended September 30, 2015 and 2014. Pre-modification outstanding recorded investment reflects the Company's recorded investment immediately before the modification. Post-modification outstanding recorded investment represents the Company's recorded investment at the end of the reporting period. The table below does not include loans restructured and paid-off during the periods presented.

	Three months ended September 30, 2015			Three months ended September 30, 2014		
($ in thousands)	Number of contracts	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Number of contracts	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment
Commercial						
Manufacturing	1	$ 191	$ 191	4	$ 1,949	$ 1,943
Real estate services	-	-	-	2	283	150
Construction	1	813	773	1	1,750	1,625
Wholesale and retail trade	-	-	-	2	1,135	1,135
Other	3	2,320	1,230	2	389	378
	5	3,324	2,194	11	5,506	5,231
Real estate - mortgage						
Residential & commercial owner-occupied	-	-	-	1	29	29
Consumer	-	-	-	1	458	440
Total	5	$ 3,324	$ 2,194	13	$ 5,993	$ 5,700

Nine months ended September 30, 2015	Nine months ended September 30, 2014

($ in thousands)	Number of contracts	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Number of contracts	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment
Commercial						
Manufacturing	4	$ 2,117	$ 1,512	4	$ 1,949	$ 1,943
Finance and insurance	1	75	48	-	-	-
Real estate services	-	-	-	2	283	150
Construction	2	1,638	973	3	2,050	1,945
Wholesale and retail trade	2	110	16	3	1,182	1,174
Other	10	6,564	4,168	6	916	796
	19	10,504	6,717	18	6,380	6,008
Real estate - mortgage						
Residential and commercial owner-occupied	1	1,000	1,000	1	29	29
Construction & land	-	-	-	1	121	102
Consumer	1	148	136	1	458	440
Other	-	-	-	1	91	91
Total	21	$ 11,652	$ 7,853	22	$ 7,079	$ 6,670

Troubled debt restructurings during the three and nine months ended September 30, 2015 and 2014 resulted primarily from the extension of repayment terms and interest rate reductions. The Company had no charge-offs in conjunction with loans restructured during the three and nine months ended September 30, 2015 and 2014.

During the nine months ended September 30, 2015, there were no troubled loans restructured within the past 12 months from the reporting period with a payment default. During the nine months ended September 30, 2014 such loans were immaterial.

Table of Contents

At September 30, 2015 and December 31, 2014, there were $1.7 million and $2.4 million in outstanding commitments on restructured loans, respectively.

The Company’s nonaccrual loans by class at September 30, 2015 and December 31, 2014 are reported in the following table:

(in thousands)	At September 30, 2015	At December 31, 2014
Commercial		
Manufacturing	$ 1,075	$ 66
Finance and insurance	86	50
Real estate services	120	212
Construction	477	312
Wholesale and retail trade	2,090	2,491
Other	345	186
Total commercial	4,193	3,317
Real estate - mortgage		
Residential & commercial owner-occupied	518	2,091
Residential & commercial investor	-	1,325
Total real estate - mortgage	518	3,416
Construction & land	28	135
Consumer	142	2,126
Total nonaccrual loans	$ 4,881	$ 8,994

Table of Contents

The tables below summarize the aging of the Company's loan portfolio at September 30, 2015 and December 31, 2014. The Company did not have any loans 90 days or more past due and accruing at September 30, 2015.

	At September 30, 2015					
(in thousands)	30 - 59 Days past due	60 - 89 Days past due	90+ Days past due	Total past due	Current	Total loans
Commercial						
Manufacturing	$ -	$ -	$ -	$ -	$ 140,825	$ 140,825
Finance and insurance	48	-	-	48	68,998	69,046
Healthcare	99	-	-	99	121,547	121,646
Real estate services	3,991	-	-	3,991	117,280	121,271
Construction	-	-	-	-	64,711	64,711
Wholesale and retail trade	-	-	2,062	2,062	64,087	66,149
Other	596	1,000	194	1,790	588,137	589,927
	4,734	1,000	2,256	7,990	1,165,585	1,173,575
Real estate - mortgage						
Residential & commercial owner-occupied	-	1,246	-	1,246	442,667	443,913
Residential & commercial investor	-	-	-	-	474,734	474,734
	-	1,246	-	1,246	917,401	918,647
Construction & land	-	-	-	-	230,281	230,281
Consumer	-	7	-	7	244,924	244,931
Other	-	-	-	-	54,254	54,254
Total loans held for investment	$ 4,734	$ 2,253	$ 2,256	$ 9,243	$ 2,612,445	$ 2,621,688
Unearned net loan fees						(635)
Net loans held for investment						$ 2,621,053

	At December 31, 2014						
(in thousands)	30 - 59 Days past due	60 - 89 Days past due	90+ Days past due	Total past due	Current	Total loans	Recorded investment in loans 90 days or more past due and accruing
Commercial							
Manufacturing	$ 45	$ 9	$ -	$ 54	$ 126,064	$ 126,118	$ -
Finance and insurance	-	-	-	-	81,047	81,047	-
Healthcare	193	-	-	193	91,618	91,811	-

Real estate services	-	-	-	-	112,388	112,388	-
Construction	-	-	122	122	56,373	56,495	-
Wholesale and retail trade	247	-	2,095	2,342	69,953	72,295	161
Other	-	-	9	9	437,465	437,474	-
	485	9	2,226	2,720	974,908	977,628	161
Real estate - mortgage							
Residential & commercial owner-occupied	-	-	473	473	421,935	422,408	-
Residential & commercial investor	235	-	-	235	567,771	568,006	-
Other	-	-	-	-	180	180	-
	235	-	473	708	989,886	990,594	-
Construction & land	-	-	104	104	182,765	182,869	-
Consumer	176	253	1,954	2,383	205,538	207,921	-
Other	-	-	-	-	47,904	47,904	-
Total loans held for investment	$ 896	$ 262	$ 4,757	$ 5,915	$ 2,401,001	$ 2,406,916	$ 161
Unearned net loan fees						(1,341)	
Net loans held for investment						$ 2,405,575	

Table of Contents

6. Accumulated Other Comprehensive Income (Loss)

The following table provides information on reclassifications out of accumulated other comprehensive income:

AOCI component (in thousands)	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014	Line item in Condensed Consolidated Statement of Income
Available for sale securities:					
Realized gain (loss)	$ (15)	$ (6)	$ 83	$ 1,164	Net gain on securities, other assets and OREO
Tax (provision) benefit	4	3	(33)	(441)	Provision for income taxes
Subtotal	(11)	(3)	50	723	
Held to maturity securities:					
Amortization of net unrealized gain on HTM securities	616	-	1,413	-	Interest on taxable / nontaxable securities
Tax provision	(234)	-	(537)	-	Provision for income taxes
Subtotal	382	-	876	-	
Cash flow hedges:					
Loans	233	240	698	665	Interest and fees on loans
Debt	(495)	(559)	(1,522)	(1,657)	Interest on subordinated debentures and notes payable
Realized loss	(262)	(319)	(824)	(992)	
Tax benefit	99	121	313	377	Provision for income taxes
Subtotal	(163)	(198)	(511)	(615)	
Total reclassifications out of AOCI	$ 208	$ (201)	$ 415	$ 108	

The following table provides the beginning and ending balances of AOCI and changes during the nine months ended September 30, 2015.

Accumulated other comprehensive income (in thousands)	Available for sale securities	Held to maturity securities	Cash flow hedges	Total
Balance at December 31, 2014	$ 7,168	$ -	$ (2,840)	$ 4,328
Other comprehensive income items	425	-	(779)	(354)
Reclassifications	(50)	(876)	511	(415)
Transfers	(5,469)	5,469	-	-

Other comprehensive income (loss), net of of tax	(5,094)	4,593	(268)	(769)
Balance at September 30, 2015	$ 2,074	$ 4,593	$ (3,108)	$ 3,559

7. Derivatives

ASC 815 contains the authoritative guidance on accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities. As required by ASC 815, the Company records all derivatives on the consolidated balance sheets at fair value.

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity and credit risk, primarily by managing the amount, sources, and duration of its assets and liabilities and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and unknown cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to certain variable-rate loan assets and variable-rate borrowings. The Company also enters into derivative financial instruments to protect against adverse changes in fair value on fixed-rate loans.

Table of Contents

The Company’s objective in using derivatives is to minimize the impact of interest rate fluctuations on the Company’s interest expense. To accomplish this objective, the Company uses interest-rate swaps as part of its cash flow hedging strategy. The Company also offers an interest-rate hedge program that includes derivative products such as swaps, caps, floors and collars to assist its customers in managing their interest-rate risk profile. In order to eliminate the interest-rate risk associated with offering these products, the Company enters into derivative contracts with third parties to offset the customer contracts. These customer accommodation interest rate swap contracts are not designated as hedging instruments.

The Company has also expanded its product offering by adding international banking products, which expose the Company to foreign exchange-rate risk. The Company utilizes foreign exchange forward contracts to manage the risk associated with fluctuation in foreign exchange rates.

The Company has agreements with its derivative counterparties that contain a provision where if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations. Also, the Company has agreements with certain of its derivative counterparties that contain a provision where if the Bank fails to maintain its status as a well or adequately capitalized institution, then the counterparty could terminate the derivative positions and the Company would be required to settle its obligations under the agreements.

At September 30, 2015, the fair value of derivatives in a net liability position, including accrued interest but excluding any adjustment for nonperformance risk, related to these agreements was $12.7 million. The Company has minimum collateral posting thresholds with certain of its derivative counterparties and has posted collateral of $12.0 million against its obligations under these agreements. At September 30, 2015, the Company was not in default with any of its debt or capitalization covenants.

The table below presents the fair value of the Company’s derivative financial instruments as well as the classification within the Condensed Consolidated Balance Sheets.

	Asset derivatives			Liability derivatives		
		Fair value at			Fair value at	
(in thousands)	Balance sheet classification	September 30, 2015	December 31, 2014	Balance sheet classification	September 30, 2015	December 31, 2014
Derivatives designated as hedging instruments under ASC 815:						

Cash flow hedge - interest rate swap	Other assets	$ 1,207	$ 437	Accrued interest and other liabilities	$ 6,220	$ 5,017
Fair value hedge - interest rate swap	Other assets	$ -	$ 297	Accrued interest and other liabilities	$ 2,054	$ 988
Derivatives not designated as hedging instruments under ASC 815:						
Interest rate swap	Other assets	$ 3,970	$ 4,103	Accrued interest and other liabilities	$ 4,226	$ 4,284
Foreign exchange forward contracts	Other assets	$ 11	$ 54	Accrued interest and other liabilities	$ 12	$ 17

The tables below include information about financial instruments that are eligible to offset as required by ASU No. 2011-11, Disclosures about Offsetting Assets and Liabilities.

	At September 30, 2015					
	Gross amounts of recognized	Gross amounts		Gross amounts not offset		
			Net	Financial		Net
(in thousands)	assets	offset	amounts	Instruments	Collateral	Amount
Derivatives designated as hedges(1)	$ 1,207	$ -	$ 1,207	$ (422)	$ -	$ 785
Derivatives not designated as hedges(1)	3,981	-	3,981	(73)	-	3,908
Total	$ 5,188	$ -	$ 5,188	$ (495)	$ -	$ 4,693

Table of Contents

	At September 30, 2015					
	Gross amounts of recognized	Gross amounts	Net	Gross amounts not offset Financial		Net
(in thousands)	liabilities	offset	amounts	Instruments	Collateral	Amount
Derivatives designated as hedges(2)	$ (8,274)	$ -	$ (8,274)	$ 422	$ 7,852	$ -
Derivatives not designated as hedges(2)	(4,238)	-	(4,238)	73	3,692	(473)
Securities sold under agreements to repurchase(3)	(62,182)	-	(62,182)	-	62,182	-
Total	$ (74,694)	$ -	$ (74,694)	$ 495	$ 73,726	$ (473)

	At December 31, 2014					
	Gross amounts of recognized	Gross amounts	Net	Gross amounts not offset Financial		Net
(in thousands)	assets	offset	amounts	Instruments	Collateral	Amount
Derivatives designated as hedges(1)	$ 734	$ -	$ 734	$ (487)	$ -	$ 247
Derivatives not designated as hedges(1)	4,157	-	4,157	(220)	-	3,937
Total	$ 4,891	$ -	$ 4,891	$ (707)	$ -	$ 4,184

	At December 31, 2014					
	Gross amounts of recognized	Gross amounts	Net	Gross amounts not offset Financial		Net
(in thousands)	liabilities	offset	amounts	Instruments	Collateral	Amount
Derivatives designated as hedges(2)	$ (6,005)	$ -	$ (6,005)	$ 487	$ 5,518	$ -
Derivatives not designated as hedges(2)	(4,301)	-	(4,301)	220	3,891	(190)
Securities sold under agreements to repurchase(3)	(49,976)	-	(49,976)	-	49,976	-
Total	$ (60,282)	$ -	$ (60,282)	$ 707	$ 59,385	$ (190)

(1) Included in other assets.
(2) Included in accrued interest and other liabilities.
(3) Separately stated in the Condensed Consolidated Balance Sheets.

Cash Flow Hedges of Interest Rate Risk — For hedges of the Company's variable-rate loan assets, interest-rate swaps designated as cash flow hedges involve the receipt of fixed-rate amounts from a counterparty in exchange for the Company making variable-rate payments over the life of the agreements without exchange of the underlying notional amount. At September 30, 2015, the Company had five interest rate swaps with a notional value of $75.0 million that effectively fixed the interest rate on a portion of its 1-Month LIBOR loan portfolio. The weighted average fixed rate under these swaps was 1.41%. The swaps have remaining maturities ranging from two to four years.

For hedges of the Company's variable-rate borrowings, interest-rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments. The Company has executed a series of interest-rate swap transactions in order to fix the effective interest rate for payments due on its junior subordinated debentures with the objective of reducing the Company's exposure to adverse changes in cash flows relating to payments on its LIBOR-based floating rate debt. The swaps have remaining maturities from five to nine years. Select critical terms of the cash flow hedges are as follows:

(in thousands)	Notional	Fixed rate		Termination date
Hedged item - Junior subordinated debentures issued by:				
CoBiz Statutory Trust I	$ 20,000	4.99	%	March 17, 2022
CoBiz Capital Trust II	$ 30,000	5.99	%	April 23, 2020
CoBiz Capital Trust III	$ 20,000	5.02	%	March 30, 2024

Table of Contents

Based on the Company's ongoing assessments (including at inception of the hedging relationship), it is probable that there will be sufficient variable interest payments through the maturity date of the swaps. The Company also monitors the risk of counterparty default on an ongoing basis. The Company uses the "Hypothetical Derivative" method described in ASC 815, for both prospective and retrospective assessments of hedge effectiveness on a quarterly basis. The Company also uses this methodology to measure hedge ineffectiveness each period. The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in AOCI and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. The Company's derivatives did not have any hedge ineffectiveness recognized in earnings during the three and nine months ended September 30, 2015 and 2014.

Amounts reported in AOCI related to derivatives will be reclassified to interest income/expense as interest payments are received/paid on the Company's variable-rate assets/liabilities. During the next 12 months, the Company estimates that $1.8 million will be reclassified as an increase to interest expense and $0.8 million as an increase to interest income.

Fair Value Hedges of Fixed-Rate Assets – The Company is exposed to changes in the fair value of certain of its fixed-rate assets due to changes in benchmark interest rates based on LIBOR. The Company uses interest rate swaps to manage its exposure to changes in fair value on certain fixed-rate loans. Interest rate swaps designated as fair value hedges involve the receipt of variable-rate payments from a counterparty in exchange for the Company's fixed-rate payments over the life of the agreements without the exchange of the underlying notional amount. Certain interest-rate swaps met the criteria to qualify for the shortcut method of accounting. Under the shortcut method of accounting, no ineffectiveness is assumed. For interest-rate swaps not accounted for under the shortcut method, the Company performs ongoing retrospective and prospective effectiveness assessments (including at inception) using a regression analysis to compare periodic changes in fair value of the swaps to periodic changes in fair value of the fixed-rate loans attributable to changes in the benchmark interest rate. At September 30, 2015, the Company had interest rate swaps with a notional amount of $56.0 million used to hedge the change in the fair value of nine commercial loans. For derivatives that are designated and qualify as fair value hedges that are not accounted for under the shortcut method, the gain or loss on the derivative as well as the gain or loss on the hedged item attributable to the hedged risk are recognized in earnings. The net amount recognized in "Other income" during the three and nine months ended September 30, 2015 and 2014 representing hedge ineffectiveness was immaterial.

Non-designated Hedges — Derivatives not designated as hedges are not speculative and primarily result from a service the Company provides to its customers. The Company executes interest-rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest-rate swaps are simultaneously hedged by offsetting interest-rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. As the interest-rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings. At September 30, 2015, the Company had 88 interest-rate swaps with an aggregate notional amount of $176.7 million related to this program. During the three and nine months ended September 30, 2015 and 2014, gains and losses arising from changes in the fair value of these swaps, which are included in "Other income," were immaterial.

The Company's product offerings also include international banking products that create foreign currency exchange-rate risk exposure. At September 30, 2015, the Company's foreign currency holdings included British pounds, Euros, Japanese Yen, Mexican Pesos, New Zealand, Australian and Canadian dollars. In order to economically reduce the risk associated with the fluctuation of foreign exchange rates, the Company utilizes short-term foreign exchange forward contracts to lock in exchange rates so the gain or loss on the forward contracts approximately offsets the transaction gain or loss. These contracts are not designated as hedging instruments. Ineffectiveness in the economic hedging relationship may occur as the foreign currency holdings are revalued based upon changes in the currency's spot rate, while the forward contracts are revalued using the currency's forward rates. Forward contracts in gain positions are recorded at fair value in 'other' assets, while contracts in loss positions are recorded in 'other' liabilities in the Condensed Consolidated Balance Sheets. Net changes in the fair value of the forward contracts are recognized through

Table of Contents

earnings, disclosed as 'other' noninterest income in the Condensed Consolidated Statement of Income. At September 30, 2015, the Company had entered into forward contracts with a notional amount of $6.1 million that mature in 2015. Net gains recognized and included in "Other income" during the three and nine months ended September 30, 2015 and 2014 on foreign exchange forward contracts were immaterial.

8. Borrowed Funds

Securities sold under agreements to repurchase at September 30, 2015 and December 31, 2014 are summarized below.

(in thousands)	September 30, 2015	December 31, 2014
Securities sold under agreements to repurchase (principally mortgage-backed securities with an estimated fair value of $66,905 and $54,652 at September 30, 2015 and December 31, 2014, respectively)	$ 62,182	$ 49,976

The Company enters into sales of securities under agreements to repurchase. The amounts received under these agreements represent short-term borrowings and are reflected as a liability in the condensed consolidated balance sheets. The securities underlying these agreements are included in investment securities in the condensed consolidated balance sheets. At September 30, 2015, all securities sold under agreements to repurchase mature on a daily basis. The Company has no control over the market value of the securities, which fluctuates due to market conditions. However, the Company is obligated to promptly transfer additional securities if the market value of the securities falls below the repurchase agreement price. The Company manages this risk by maintaining an unpledged securities portfolio that it believes is sufficient to cover a decline in the market value of the securities sold under agreements to repurchase.

During the second quarter of 2015, the Company renewed a revolving Line of Credit (LOC) agreement with an aggregate principal sum of up to $20.0 million bearing interest at 1-month LIBOR plus 225 basis points. The Company pays a quarterly commitment fee of 0.35% per annum on the unused portion of the LOC. The line matures May 2016 at which time any outstanding amounts are due and payable. Proceeds from the line will be used for general corporate purposes and backup liquidity. Although the credit facility is unsecured, the Company has agreed not to sell, pledge or transfer any part of its right, title or interest in the Bank. At September 30, 2015 and December 31, 2014, there was no amount outstanding on the LOC.

9. Long-Term Debt

On June 25, 2015, the Company completed an offering of $60.0 million of unsecured 5.625% Fixed to Floating Rate Subordinated Notes due on June 25, 2030 (Notes). The Notes bear a 5.625% annual fixed rate through June 25, 2025 and thereafter an annual floating rate equal to three-month LIBOR plus 317 basis points (3.17%). The Notes contain an embedded call option that allows the Company to repay the Notes prior to their contractual maturity. The call option is available on June 25, 2025 and quarterly thereafter at 100% of the principal amount. Proceeds, net of a discount and debt issuance costs of $1.1 million, were $58.9 million. Debt issuance costs incurred in conjunction with the offering were $0.3 million. The Notes have an effective interest rate of 5.85%.

The Company adopted ASU 2015-03, Interest – Imputation of Interest (Subtopic 835-30), that requires debt issuance costs to be reported as a direct deduction from the face of the note and not as a deferred charge. The discount and related debt issuance costs will be amortized into interest expense using the interest method over a 10-year term to the first call date. Concurrently with the issuance of the Notes, the Company announced its plans to redeem 57,366 shares of the outstanding Senior Non-Cumulative perpetual preferred stock, series C, issued through the Small Business Lending Fund (SBLF). The shares were redeemed at their liquidation value of $1,000 per share plus accrued dividends (aggregate payment of $57.4 million) on July 22, 2015. A summary of the outstanding Notes at September 30, 2015 follows:

(in thousands)	September 30, 2015	December 31, 2014	Interest rate	Maturity date	Earliest call date
Subordinated notes payable ($60,000 face amount)	$ 59,012	$ -	Fixed 5.625%	June 25, 2030	June 25, 2025

Table of Contents

10. Employee Benefit and Stock Compensation Plans

Stock Options and Awards

During the three and nine months ended September 30, 2015 and 2014, the Company recognized compensation expense, net of estimated forfeitures, of $0.7 million and $2.6 million, respectively, compared to $0.7 million and $2.4 million in the relative prior year periods.

The following table summarizes changes in option awards during nine months ended September 30, 2015:

	Shares	Weighted average exercise price
Outstanding at December 31, 2014	819,755	$ 9.66
Granted	62,363	12.46
Exercised	(113,938)	7.81
Forfeited	(254,263)	12.94
Outstanding at September 30, 2015	513,917	$ 8.78
Exercisable at September 30, 2015	398,925	$ 8.14

The weighted average grant date fair value of options granted nine months ended September 30, 2015 was $2.49 per option.

The following table summarizes changes in stock awards during the nine months ended September 30, 2015.

	Shares	Weighted average grant date fair value
Unvested at December 31, 2014	635,598	$ 9.05
Granted	262,925	11.52
Vested	(378,637)	8.33

Forfeited	(8,081)		10.74
Unvested at September 30, 2015	511,805	$	10.82

At September 30, 2015, there was $4.4 million of total unrecognized compensation expenses related to unvested share-based compensation arrangements granted under the plans. The expense is expected to be recognized over a weighted-average period of 1.9 years.

11. Segments

The Company's operating segments consist of Commercial Banking, Fee-Based Lines and Corporate Support and Other.

As discussed in Note 1, the Company discontinued the operations of GMB, which was a component of the Fee-Based Lines segment. The Company has considered the impact of the discontinuation on its operating segments and has determined that no change to its segment reporting is required. The activities of GMB have been reported as discontinued operations within the Fee-Based Lines segment for all periods presented.

The financial information for the Commercial Banking and Fee-Based Lines segments reflect activities which are specifically identifiable or which are allocated based on an internal allocation method. The Corporate Support and Other segment includes activities that are not directly attributable to the other reportable segments including centralized bank operations and the activities of the Parent. The following tables report the results of operations for the three and nine months ended September 30, 2015 and 2014 by segment.

	Three months ended September 30, 2015			
Income Statement (in thousands)	Commercial Banking	Fee-Based Lines	Corporate Support and Other	Consolidated
Total interest income	$ 30,084	$ 1	$ 92	$ 30,177
Total interest expense	986	12	1,812	2,810
Provision for loan losses	774	-	(12)	762
Noninterest income	2,765	4,501	158	7,424
Noninterest expense	8,445	4,080	12,213	24,738
Management fees and allocations, net of tax	6,627	280	(6,907)	-
Provision (benefit) for income taxes	7,451	109	(5,223)	2,337
Net income (loss) from continuing operations	$ 8,566	$ 21	$ (1,633)	$ 6,954
Net income from discontinued operations	-	-	-	-
Net income (loss)	$ 8,566	$ 21	$ (1,633)	$ 6,954

	Nine months ended September 30, 2015			
Income Statement (in thousands)	Commercial Banking	Fee-Based Lines	Corporate Support and Other	Consolidated
Total interest income	$ 88,909	$ 2	$ 1,274	$ 90,185
Total interest expense	2,926	33	3,786	6,745
Provision for loan losses	1,160	-	(130)	1,030
Noninterest income	8,208	13,554	920	22,682
Noninterest expense	26,988	11,994	35,478	74,460
Management fees and allocations, net of tax	19,429	892	(20,321)	-
Provision (benefit) for income taxes	22,366	565	(14,039)	8,892
Net income (loss) from continuing operations	$ 24,248	$ 72	$ (2,580)	$ 21,740
Net loss from discontinued operations	-	(71)	-	(71)
Net income (loss)	$ 24,248	$ 1	$ (2,580)	$ 21,669

	Three months ended September 30, 2014			
			Corporate	

Income Statement (in thousands)	Commercial Banking	Fee-Based Lines	Support and Other	Consolidated
Total interest income	$ 29,098	$ 2	$ 105	$ 29,205
Total interest expense	1,111	9	1,023	2,143
Provision for loan losses	(197)	-	(255)	(452)
Noninterest income	2,740	4,040	600	7,380
Noninterest expense	8,534	3,735	11,053	23,322
Management fees and allocations, net of tax	5,725	270	(5,995)	-
Provision (benefit) for income taxes	8,021	138	(4,120)	4,039
Net income (loss) from continuing operations	$ 8,644	$ (110)	$ (1,001)	$ 7,533
Net income from discontinued operations	-	358	-	358
Net income (loss)	$ 8,644	$ 248	$ (1,001)	$ 7,891

Table of Contents

	Nine months ended September 30, 2014			
Income Statement (in thousands)	Commercial Banking	Fee-Based Lines	Corporate Support and Other	Consolidated
Total interest income	$ 84,386	$ 4	$ 316	$ 84,706
Total interest expense	3,349	31	3,006	6,386
Provision for loan losses	(2,572)	-	(709)	(3,281)
Noninterest income	6,968	12,560	889	20,417
Noninterest expense	26,280	11,169	31,789	69,238
Management fees and allocations, net of tax	17,676	807	(18,483)	-
Provision (benefit) for income taxes	22,944	555	(12,230)	11,269
Net income (loss) from continuing operations	$ 23,677	$ 2	$ (2,168)	$ 21,511
Net income from discontinued operations	-	514	-	514
Net income (loss)	$ 23,677	$ 516	$ (2,168)	$ 22,025

12. Fair Value Measurements

ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing an asset or liability. As a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

- Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates and yield curves that are observable at commonly quoted intervals.
- Level 3 inputs are unobservable inputs for the asset or liability, which is typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability. The Company evaluates fair value measurement inputs on an ongoing basis in order to determine if there is a change of sufficient significance to warrant a transfer between levels. For example, changes in market activity or the addition of new unobservable inputs could, in the Company's judgment, cause a transfer to either a higher or lower level.

A description of the valuation methodologies used for financial instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Available for sale securities – At September 30, 2015, the Company held, as part of its investment portfolio, available for sale securities reported at fair value consisting of municipal securities, corporate debt securities, and TPS. The fair value of the majority of municipal securities is determined using widely accepted valuation techniques including matrix pricing and broker-quote based applications. Inputs include benchmark yields, reported trades, issuer spreads, and other relevant items. As a result, the Company has determined that these valuations fall within Level 2 of the fair value hierarchy. The Company also holds TPS that are recorded at fair value based on unadjusted quoted market prices for identical securities in an active market. The majority of the TPS are actively traded in the market and as a result, the Company has determined that the valuation of these securities falls within Level 1 of the fair value hierarchy. The Company also holds certain TPS and corporate debt securities for which unadjusted market prices are not available or the markets are not active and are therefore classified as Level 2 or Level 3. For these securities, broker-dealer quotes, valuations based on similar but not identical securities or the most recent market trade (which may not be current), are used. Total net unrealized gain recognized in AOCI at September 30, 2015 on TPS Level 3 securities was immaterial.

Derivative financial instruments – The Company uses interest-rate swaps as part of its cash flow strategy to manage its interest-rate risk. The valuation of these instruments is determined using widely accepted valuation techniques as discussed further below. The fair values of interest-rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves.

Pursuant to guidance in ASC 820, credit valuation adjustments are incorporated into the valuation to appropriately reflect both the Company's own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings and thresholds. The Company has made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

The Company uses Level 2 and Level 3 inputs to determine the valuation of its derivatives portfolio. The valuation of derivative instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs (Level 2 inputs), including interest rate curves and implied volatilities. The estimates of fair value are made using a standardized methodology that nets the discounted expected future cash receipts and cash payments (based on observable market inputs). Level 3 inputs include the credit valuation adjustments which use estimates of current credit spreads to evaluate the likelihood of default by the Company and its counterparties. At September 30, 2015 and December 31, 2014, the Company assessed the impact of the Level 3 inputs on the overall derivative valuations in terms of the significance of the credit valuation adjustments in basis points and as a percentage of the overall derivative portfolio valuation and the overall notional value. The Company's assessment determined that credit valuation adjustments were not significant to the overall valuation of the portfolio. In addition, the significance of the credit value adjustments and overall derivative portfolio to the Company's financial statements was considered. As a result of the insignificance of the credit value adjustments to the derivative portfolio valuations and the Company's financial statements, the Company classified the derivative valuations in their entirety in Level 2.

The Company uses foreign exchange forward contracts to mitigate exchange-rate risk arising from the Company's foreign currency holdings to support its international banking product offering. Fair value measurements of these assets or liabilities are priced based on spot and forward foreign currency rates and the credit worthiness of the contract counterparty. These contracts are classified in Level 2.

Impaired loans – Certain collateral-dependent impaired loans are reported at the fair value of the underlying collateral. Impairment is measured based on the fair value of the collateral, which is typically derived from appraisals that take into consideration prices in observed transactions involving similar assets and similar locations. Each appraisal is updated on an annual basis, either through a new appraisal or through the Company's comprehensive internal review process. Appraised values are reviewed and monitored internally and fair value is assessed at least quarterly or more frequently when circumstances occur that indicate a change in fair value has occurred. The Company classified impaired loans as Level 3.

Table of Contents

The following tables present the Company's assets and liabilities measured at fair value on a recurring basis at September 30, 2015 and December 31, 2014, aggregated by the level in the fair value hierarchy within which those measurements fall.

(in thousands)	Balance at September 30, 2015	Fair value measurements using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other observable inputs (Level 3)
Assets				
Available for sale securities:				
Trust preferred securities	$ 46,135	$ 13,033	$ 27,096	$ 6,006
Corporate debt securities	103,362	-	103,362	-
Municipal securities	3,868	-	3,868	-
Total available for sale securities	$ 153,365	$ 13,033	$ 134,326	$ 6,006
Derivatives:				
Cash flow hedges	$ 1,207	$ -	$ 1,207	$ -
Fair value hedges	-	-	-	-
Non-designated hedges	3,970	-	3,970	-
Foreign exchange forward contracts	11	-	11	-
Total derivative assets	$ 5,188	$ -	$ 5,188	$ -
Liabilities				
Derivatives:				
Cash flow hedges	$ 6,220	$ -	$ 6,220	$ -
Fair value hedges	2,054	-	2,054	-
Non-designated hedges	4,226	-	4,226	-
Foreign exchange forward contracts	12	-	12	-
Total derivative liabilities	$ 12,512	$ -	$ 12,512	$ -

(in thousands)	Balance at December 31, 2014	Fair value measurements using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other observable inputs (Level 3)
Assets				
Available for sale securities:				
Mortgage-backed securities	$ 283,504	$ -	$ 283,504	$ -
Trust preferred securities	59,655	21,737	31,164	6,754
Corporate debt securities	101,210	-	101,210	-
Municipal securities	15,446	-	15,446	-

Total available for sale securities	$ 459,815	$ 21,737	$ 431,324	$ 6,754
Derivatives:				
Cash flow hedges	$ 437	$ -	$ 437	$ -
Fair value hedges	297	-	297	-
Non-designated hedges	4,103	-	4,103	-
Foreign exchange forward contracts	54	-	54	-
Total derivative assets	$ 4,891	$ -	$ 4,891	$ -
Liabilities				
Derivatives:				
Cash flow hedges	$ 5,017	$ -	$ 5,017	$ -
Fair value hedge	988	-	988	-
Non-designated hedges	4,284	-	4,284	-
Foreign exchange forward contracts	17	-	17	-
Total derivative liabilities	$ 10,306	$ -	$ 10,306	$ -

Table of Contents

A reconciliation of the beginning and ending balances of assets measured at fair value, on a recurring basis, using Level 3 inputs follows:

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	2015	2014	2015	2014
Beginning balance	$ 5,867	$ 6,892	$ 6,754	$ 6,036
Transfers	-	-	-	706
Net accretion	15	15	54	44
Sales / calls / maturities	-	-	(995)	-
Unrealized gain included in comprehensive income	124	37	193	158
Ending balance	$ 6,006	$ 6,944	$ 6,006	$ 6,944

Fair value is used on a nonrecurring basis to evaluate certain financial assets and financial liabilities in specific circumstances. The following table presents the Company's assets measured at fair value on a nonrecurring basis at the dates specified in the following table, aggregated by the level in the fair value hierarchy within which those measurements fall.

		Fair value measurements using:		
(in thousands)	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other observable inputs (Level 3)
Impaired loans, net of specific reserve:				
At September 30, 2015	$ 2,671	$ -	$ -	$ 2,671
At December 31, 2014	$ 15,734	$ -	$ -	$ 15,734

During the three and nine months ended September 30, 2015, the Company recorded a $0.1 million and a $1.0 million provision for loan loss reversal on impaired loans, respectively. For the three and nine months ended September 30, 2015, the Company recorded net recoveries of $0.3 million and $1.1 million, respectively, on impaired loans.

Fair value is also used on a nonrecurring basis for nonfinancial assets and nonfinancial liabilities such as foreclosed assets, other real estate owned, intangible assets, nonfinancial assets and liabilities evaluated in a goodwill impairment analysis and other nonfinancial assets measured at fair value for purposes of assessing impairment. A description of the valuation methodologies used for nonfinancial assets measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Other real estate owned (OREO) – OREO represents real property taken by the Company either through foreclosure or through a deed in lieu thereof from the borrower. The fair value of OREO is based on property appraisals adjusted at management's discretion to reflect a further decline in the fair value of properties since the time the appraisal analysis was performed. It has been the Company's experience that appraisals quickly become outdated due to the volatile real-estate environment. Therefore, the inputs used to determine the fair value of OREO fall within Level 3. The Company may include within OREO other repossessed assets received as partial satisfaction of a loan. Other repossessed assets are not material and do not typically have readily determinable market values and are considered Level 3 inputs.

The following tables present the Company's nonfinancial assets measured at fair value on a nonrecurring basis at September 30, 2015 and December 31, 2014, aggregated by the level in the fair value hierarchy within which those measurements fall.

		Fair value measurements using:			
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other observable inputs (Level 3)	Year-to-date gain (loss)
(in thousands)	Total				
OREO:					
At September 30, 2015	$ 5,775	$ -	$ -	$ 5,775	$ 45
At December 31, 2014	$ 6,132	$ -	$ -	$ 6,132	$ 1,459

Table of Contents

In accordance with ASC 310, the fair value of OREO recorded as an asset is reduced by estimated selling costs. The following table is a reconciliation of the fair value measurement of OREO disclosed pursuant to ASC 820 to the amount recorded on the Condensed Consolidated Balance Sheets:

(in thousands)	At September 30, 2015	At December 31, 2014
OREO recorded at fair value	$ 5,775	$ 6,132
Estimated selling costs	(294)	(313)
OREO	$ 5,481	$ 5,819

Valuation adjustments on OREO and additional gains or losses at the time OREO is sold are recognized in current earnings under the caption "Net (gain) loss on securities, other assets and other real estate owned." Below is a summary of OREO transactions for nine months ended September 30, 2015:

(in thousands)	OREO
Beginning OREO balance	$ 5,819
OREO sales	(383)
Valuation adjustments	45
Ending OREO balance	$ 5,481

The following tables provide information describing the valuation processes used to determine recurring and nonrecurring fair value measurements categorized within Level 3 of the fair value hierarchy at September 30, 2015 and December 31, 2014.

Category	At September 30, 2015 Fair Value (in thousands)	Valuation Technique	Unobservable Input	Weighted Average	Range
Trust preferred securities	$ 6,006	Market approach	Discount to carrying value using broker quotes or observable prices on similar securities	12 %	0% to 16%
Impaired loans:					
Commercial	$ 1,237	Sales comparison (1)		57 %	0% - 76%

			Management discount for asset type			
Commercial	799	Sales comparison (1)	Sales comparison adjustments	(32)	%	NA
Real estate - mortgage	531	Sales comparison (1)	Sales comparison adjustments	1	%	(15)% to 14%
Construction & land	28	Sales comparison (1)	Sales comparison adjustments	(24)	%	NA
Consumer	76	Sales comparison (1)	Sales comparison adjustments	14	%	NA
Total impaired loans	$ 2,671					
OREO:						
Commercial	$ 223	Property appraisals (1)	Management discount for property type and recent market volatility	0%	%	NA
Construction & land	5,552	Property appraisals (1)	Management discount for property type and recent market volatility	17	%	NA
Total OREO	$ 5,775					

36 | Page

Table of Contents

Category	At December 31, 2014 Fair Value (in thousands)	Valuation Technique	Unobservable Input	Weighted Average		Range
Trust preferred securities	$ 6,754	Market approach	Discount to carrying value using broker quotes or observable prices on similar securities	14	%	0% to 18%
Impaired loans:						
Commercial	$ 1,150	Market approach	Management discount for asset type	41	%	77% to 6%
Real estate - mortgage	9,486	Income approach	Capitalization and/or discount rate	9	%	9% to 10%
Real estate - mortgage	2,407	Sales comparison (1)	Sales comparison adjustments	4	%	(9)% to 14%
Construction & land	679	Sales comparison (1)	Sales comparison adjustments	3	%	(24)% to 5%
Consumer	2,012	Sales comparison (1)	Sales comparison adjustments	7	%	5% to 14%
Total impaired loans	$ 15,734					
OREO:						
Commercial	$ 455	Property appraisals (1)	Management discount for property type and recent market volatility	19	%	0% to 30%
Construction & land	5,677	Property appraisals (1)	Management discount for property type and recent market volatility	19	%	17% to 50%
Total OREO	$ 6,132					

(1) The fair value of OREO and collateral-dependent impaired loans is based on third-party property appraisals. The majority of the appraisals utilize a single valuation approach or a combination of approaches including a market approach, where prices and other relevant information generated by market transactions involving identical or comparable properties are used to determine fair value. Appraisals may include an 'as is' sales comparison approach and an 'upon completion' valuation approach. Adjustments are routinely made in the appraisal process by third-party appraisers to adjust for differences between the comparable sales and income data. Adjustments also result from the consideration of relevant economic and demographic factors with the potential to affect property values. Also, prospective values are based on the market conditions which exist at the date of inspection combined with informed forecasts based on current trends in supply and demand for the property types under appraisal. For sales comparisons, positive adjustments disclosed in these tables represent increases and negative adjustments represent decreases in fair value.

The following table includes the estimated fair value of the Company's financial instruments. The methodologies for estimating the fair value of financial assets and financial liabilities measured at fair value on a recurring and nonrecurring basis are discussed above. The methodologies for estimating the fair value for other financial assets and financial liabilities are discussed below. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data in order to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts at September 30, 2015 and December 31, 2014.

Table of Contents

	September 30, 2015		December 31, 2014	
(in thousands)	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Financial assets:				
Cash and cash equivalents	$ 93,949	$ 93,949	$ 91,565	$ 91,565
Investment securities available for sale	153,365	153,365	459,815	459,815
Investment securities held to maturity	349,020	350,587	13,329	13,616
Other investments	11,479	11,479	11,477	11,477
Loans — net	2,586,154	2,583,087	2,372,810	2,371,756
Accrued interest receivable	10,788	10,788	9,617	9,617
Derivatives	5,188	5,188	4,891	4,891
Financial liabilities:				
Deposits	$ 2,707,413	$ 2,707,203	$ 2,492,291	$ 2,492,340
Securities sold under agreements to repurchase	62,182	61,540	49,976	49,991
Short-term borrowings	110,000	110,000	112,469	112,469
Accrued interest payable	1,935	1,935	813	813
Subordinated notes payable	59,012	58,682	-	-
Junior subordinated debentures	72,166	72,166	72,166	72,166
Derivatives	12,512	12,512	10,306	10,306

The fair value estimation methodologies utilized by the Company for financial instruments and the classification level within the fair value hierarchy that those instruments fall are summarized as follows:

Cash and cash equivalents — The carrying amount of cash and cash equivalents is a reasonable estimate of fair value which is classified as Level 2.

Other investments — Included in this category are the Company's investment in the FHLB and other equity method investments. Due to restrictions on transferability, it is not practical to estimate fair value on the FHLB investment which is reported at carrying value. The fair value of other equity method investments approximates fair value and is classified as Level 2.

Loans — The fair value of loans is estimated by discounting future contractual cash flows using estimated market rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. In computing the estimate of fair value for all loans, the estimated cash flows and/or carrying value have been reduced by specific and general reserves for loan losses. The fair value of loans is classified as Level 3 within the fair value hierarchy.

Accrued interest receivable/payable — The fair value of accrued interest receivable/payable approximates the carrying amount due to the short-term nature of these amounts and is classified in the same level hierarchy as the underlying assets/liabilities.

Deposits — The fair value of certificates of deposit is estimated by discounting the expected life using an index of the U.S. Treasury curve. Non-maturity deposits are reflected at their carrying value for purposes of estimating fair value. The fair value of all deposits is classified as Level 2.

Securities sold under agreements to repurchase — Estimated fair value is based on discounting cash flows and is classified as Level 2.

Short-term borrowings — The estimated fair value of short-term borrowings approximates their carrying value, due to their short-term nature and is classified as Level 2.

Subordinated notes payable — The estimated fair value of subordinated notes payable is based on discounting cash flows for comparable instruments and is classified as Level 3.

Junior subordinated debentures — The estimated fair value of junior subordinated debentures approximates their carrying value, due to the variable interest rate paid on the debentures and is classified as Level 2.

Table of Contents

Commitments to extend credit and standby letters of credit — The Company's off-balance sheet commitments are funded at current market rates at the date they are drawn upon. It is management's opinion that the fair value of these commitments would approximate their carrying value, if drawn upon, and are classified as Level 3.

The fair value estimates presented herein are based on pertinent information available to management at September 30, 2015 and December 31, 2014. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

13. Regulatory Matters

In March 2015, the Company implemented the Basel III capital rules that reformed the regulatory capital framework for banking institutions. Basel III has increased both the quantity and quality of regulatory capital. On July 22, 2015, the Company redeemed its Senior Non-Cumulative Perpetual Preferred Stock, Series C, issued through the SBLF. As a result of the redemption, the Company's Tier 1 capital decreased. However, Tier 2 capital at June 30, 2015 increased due to the inclusion of the Notes. Refer to Note 9 for additional information.

The following table shows the Company's and the Bank's capital amounts, ratios and regulatory thresholds under Basel III at September 30, 2015:

At September 30, 2015		
(in thousands)	Company	Bank
Common shareholders' equity	$ 269,969	$ 343,905
Regulatory adjustments and deductions:		
Disallowed intangible assets	(830)	-
Net operating loss carryforwards	(37)	(37)
Unrealized net gain on HTM securities	(4,593)	(4,593)
Unrealized net gain on AFS securities	(2,074)	(2,074)
Unrealized (gain) loss on cash flow hedges	3,108	(748)
Tier 1 deductions applied to CET1	-	(12,882)
Common equity tier 1 capital (CET1)	265,543	323,571
Subordinated debentures	70,000	-
Tier 1 capital deductions	(15,073)	-

Tier 1 capital	320,470	323,571
Allowance for loan losses	34,899	34,486
Subordinated notes payable	59,012	-
Tier 2 capital deductions	(4,420)	(3,775)
Total risk-based regulatory capital	$ 409,961	$ 354,282

At September 30, 2015	Company Risk-based Common			Leverage
(in thousands)	Tier 1	Tier 1	Total capital	Tier 1
Regulatory capital	$ 265,543	$ 320,470	$ 409,961	$ 320,470
Well-capitalized requirement	188,526	232,032	290,040	157,680
Regulatory capital - excess	$ 77,017	$ 88,438	$ 119,921	$ 162,790
Capital ratios	9.2 %	11.0 %	14.1 %	10.2 %
Minimum capital requirement	4.5 %	6.0 %	8.0 %	4.0 %
Well-capitalized requirement (1)	6.5 %	8.0 %	10.0 %	5.0 %

Table of Contents

At September 30, 2015 (in thousands)	Bank Risk-based Common Tier 1		Tier 1		Total capital		Leverage Tier 1	
Regulatory capital	$ 323,571		$ 323,571		$ 354,282		$ 323,571	
Well-capitalized requirement	186,481		229,515		286,894		156,090	
Regulatory capital - excess	$ 137,090		$ 94,056		$ 67,388		$ 167,481	
Capital ratios	11.3	%	11.3	%	12.3	%	10.4	%
Minimum capital requirement	4.5	%	6.0	%	8.0	%	4.0	%
Well-capitalized requirement	6.5	%	8.0	%	10.0	%	5.0	%

(1) The ratios for the well-capitalized requirement are only applicable to the Bank. However, the Company manages its capital position as if the requirement applies to the consolidated entity and has presented the ratios as if they also applied to the Company.

14. Supplemental Financial Data

Other income and Other expense as shown in the Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2015 and 2014 is detailed in the following schedules.

Other income (in thousands)	Three months ended September 30, 2015	2014	Nine months ended September 30, 2015	2014
Loan fees	$ 305	$ 394	$ 1,000	$ 1,323
Other customer service fees	709	607	1,838	1,580
Bank-owned life insurance	349	326	980	1,228
Private equity investment income (loss)	70	555	859	(503)
Other	-	34	13	35
Total	$ 1,433	$ 1,916	$ 4,690	$ 3,663

Other expense (in thousands)	Three months ended September 30, 2015	2014	Nine months ended September 30, 2015	2014
Marketing and business development	$ 646	$ 805	$ 2,114	$ 2,202

Service contracts	1,342	1,012	3,349	2,732
Professional fees	770	668	1,906	1,874
Office supplies and delivery	428	400	1,069	1,154
Other	903	757	2,601	2,726
Total	$ 4,089	$ 3,642	$ 11,039	$ 10,688

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion should be read in conjunction with our Condensed Consolidated Financial Statements and notes thereto included in this Form 10-Q. Certain terms used in this discussion are defined in the notes to these financial statements. For a description of our accounting policies, see Note 1 of the Notes to Consolidated Financial Statements included in our Form 10-K for the year ended December 31, 2014. For a discussion of the segments included in our principal activities, see Note 11 of the Notes to the Condensed Consolidated Financial Statements on this Form 10-Q.

Executive Summary

CoBiz Financial Inc. is a $3.3 billion financial holding company offering a broad array of financial service products to its target market of professionals, small and medium-sized businesses, and high-net-worth individuals primarily in Arizona and Colorado.

Earnings are derived primarily from our net interest income, which is interest income less interest expense, and our noninterest income earned from fee-based business lines and banking service fees, offset by noninterest expense. As the majority of our assets are interest-earning and our liabilities are interest-bearing, changes in interest rates impact our net interest margin, the largest component of our operating revenue (defined as net interest income plus noninterest income). We manage our interest-earning assets and interest-bearing liabilities to reduce the impact of interest rate changes on our operating results. We also have focused on reducing our dependency on the net interest margin by increasing our noninterest income from complementary financial service activities including wealth management and insurance brokerage.

Industry Overview

At its September 2015 meeting, the Federal Open Market Committee (FOMC) kept the target range for the federal funds rate at 0-25 basis points. The FOMC noted that it will be appropriate to raise the target federal funds rate based on progress towards the objectives of maximum employment and 2% inflation. The FOMC notes that recent global economic and financial developments may restrain economic activity somewhat and are likely to put further downward pressure on inflation in the near term. The FOMC continues to see the risks to the outlook for economic activity and the labor market as nearly balanced but is monitoring developments abroad.

The unemployment rate improved in 2015 with the national unemployment rate decreasing to 5.1% in September 2015, from 5.6% and 6.7% at the end of 2014 and 2013, respectively. As of August 2015, Colorado's unemployment rate was 4.2%, compared to 4.2% and 5.9% at the end of 2014 and 2013, respectively. Arizona's unemployment rate was 6.3% in August 2015, compared to 6.6% and 7.2% at the end of 2014 and 2013, respectively.

In the second quarter of 2015, FDIC insured commercial banks and savings institutions reported their highest quarterly income on record. Only 5.6% of banks were unprofitable, which is the lowest number since the first quarter of 2005. However, the industry net interest margin remains under pressure at 3.06% in the second quarter of 2015, only slightly above the 30-year low of 3.02% in the first quarter of 2015. Loan growth remained strong, as community banks reported a 12-month loan growth rate of 8.8%.

Financial and Operational Highlights

As discussed in Note 1 to the Condensed Consolidated Financial Statements, the Company discontinued the operations of its investment banking subsidiary during the first quarter of 2015. The results of investment banking have been reported as discontinued operations. The prior period disclosures in the following section of this report have been adjusted to conform to the new presentation.

Table of Contents

Noted below are some of the Company's significant financial performance measures and operational results for the three and nine months ended September 30, 2015 and 2014:

INCOME STATEMENT (in thousands, except per share amounts)	Three months ended September 30, 2015		Three months ended September 30, 2014		Nine months ended September 30, 2015		Nine months ended September 30, 2014	
Net interest income before provision	$ 27,367		$ 27,062		$ 83,440		$ 78,320	
Provision for loan losses	762		(452)		1,030		(3,281)	
Noninterest income	7,424		7,380		22,682		20,417	
Net income from continuing operations	6,954		7,533		21,740		21,511	
Net income	6,954		7,891		21,669		22,025	
Diluted earnings per common share	$ 0.17		$ 0.19		$ 0.52		$ 0.53	
Net interest margin	3.72	%	3.90	%	3.91	%	3.91	%
Return on average assets	0.87	%	1.05	%	0.93	%	1.02	%
Return on average shareholders' equity	9.76	%	10.46	%	9.50	%	10.09	%

· Net interest income for the three and nine months ended September 30, 2015 increased over the prior year periods primarily due to growth in the average loan portfolio. However, the net interest margin declined from 3.90% in the third quarter of 2014 to 3.72% in the third quarter of 2015 due to a decline in the investment yield and interest on the subordinated notes issued on June 25, 2015. The net interest margin was 3.91% for the first nine months of 2015 and 2014. Net interest income and the net interest margin were also positively impacted by the collection of past due interest of $1.5 million on problem loan resolutions during 2015.

· Provision for loan losses for the three and nine months ended September 30, 2015 were $0.8 million and $1.0 million, respectively. The provision was primarily the result of continued growth in the loan portfolio.

· Noninterest income was $7.4 million in both the third quarter of 2015 and 2014, but increased $2.3 million for the nine months ended September 30, 2015 over the prior year period. Income on equity method investments was the primary driver of the increase. Year-to-date in 2015, the Company realized income on equity method investments of $0.9 million, compared to a loss of $0.5 million in the same period of 2014.

· Net income from continuing operations for the three and nine months ended September 30, 2015 of $7.0 million and $21.7 million decreased $0.6 million and increased $0.2 million, respectively, over the prior year periods.

BALANCE SHEET AND CREDIT QUALITY (in thousands)	At September 30, 2015	At December 31, 2014
Total assets	$ 3,307,772	$ 3,062,166

Total investments		513,864			484,621	
Total loans		2,621,053			2,405,575	
Total deposits		2,707,413			2,492,291	
Securities sold under agreements to repurchase		62,182			49,976	
Total shareholders' equity		269,969			308,769	
Allowance for loan losses	$	34,899		$	32,765	
Nonperforming assets		10,362			14,974	
Allowance for loan and credit losses to total loans		1.33	%		1.36	%
Nonperforming assets to total assets		0.31	%		0.49	%

· The loan portfolio at September 30, 2015 increased $215.5 million, or 9.0%, over the balance at December 31, 2014.

· The allowance for loan and credit losses was 1.33% of total loans at September 30, 2015 and 1.36% at December 31, 2014, respectively. Year-to-date in 2015, the Company had net recoveries of $1.1 million in the allowance for loan and credit losses.

Table of Contents

· In the first quarter of 2015, the Company transferred securities with a book value of $279.8 million and a fair value of $288.6 million from the available for sale category to the held to maturity category.

· Total deposits at September 30, 2015 increased $215.1 million, or 8.6%, over the balance at December 31, 2014.

· Noninterest-bearing demand deposits increased $54.6 million in 2015, and comprise 41.7% of total deposits, compared to 43.1% at the end of 2014.

· On June 25, 2015, the Company issued $60.0 million of unsecured fixed-to-floating rate subordinated notes. The Notes qualify as Tier 2 capital. See Note 9 for additional information on the terms of the Notes.

· Concurrent with the subordinated notes issuance, the Company announced its plans to redeem the $57.4 million outstanding preferred stock issued through the Small Business Lending Fund (SBLF). Redemption of the preferred stock was completed on July 22, 2015.

· The Company's total risk-based capital ratio was 14.1% at September 30, 2015 compared to 15.7% at the end of 2014. Implementation of Basel III in 2015 had the effect of reducing total risk-based capital. Also impacting the composition of risk-based capital during 2015 was the issuance of the subordinated notes in 2015, which increased Tier 2 capital, and the redemption of the SBLF preferred stock in July 2015 which decreased Tier 1 capital. See Note 13 for additional information.

Critical Accounting Policies

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's Condensed Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions to Form 10-Q. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. In making those critical accounting estimates, we are required to make assumptions about matters that may be highly uncertain at the time of the estimate. Different estimates we could reasonably have used, or changes in the assumptions that could occur, could have a material effect on our financial condition or results of operations. A description of our critical accounting policies is provided in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of our Annual Report on Form 10-K for the year ended December 31, 2014.

Financial Condition

Total assets at September 30, 2015 were $3.31 billion, increasing $245.6 million or 8.0% from $3.06 billion at December 31, 2014. Assets consist primarily of net loans and investment securities, accounting for 94% of total assets. Total liabilities at September 30, 2015 were $3.04 billion, increasing $284.4 million or 10.3% from $2.75 billion at December 31, 2014. Liabilities consist primarily of deposits and securities sold under agreements to repurchase, comprising 91% of total liabilities. Shareholder's equity at September 30, 2015 was $270.0 million, decreasing $38.8 million or 12.6% from $308.8 million at December 31, 2014. The following paragraphs discuss changes in the relative mix of certain assets and liability classes and reasons for such changes.

Investments. The Company manages its investment portfolio to provide interest income and to meet the collateral requirements for public deposits, customer repurchases and wholesale borrowings. Investments accounted for 15.5% of total assets at September 30, 2015 and 15.8% at December 31, 2014.

The investment portfolio is primarily comprised of MBS explicitly (GNMA) and implicitly (FNMA and FHLMC) backed by the U.S. Government. The portfolio does not include any securities exposed to sub-prime mortgage loans. The investment portfolio also includes single-issuer TPS and corporate debt securities. The corporate debt securities portfolio is mainly comprised of securities issued by six Fortune 100 companies.

Table of Contents

Approximately 86% of the corporate debt securities portfolio is investment grade. None of the issuing institutions are in default, nor have interest payments on the TPS been deferred.

Certain TPS and corporate debt securities held by the Company are subject to deduction from regulatory capital under the Corresponding Deduction Approach promulgated in Basel III. These deductions are being phased in over a three-year period beginning in 2015, which will allow the Company to mitigate the impact of the deduction of the impacted securities through calls, maturities and sales. As such, the Company expects its portfolio of TPS and corporate debt securities to decrease in future periods.

In the first quarter of 2015, the Company transferred MBS and municipal securities with a book value of $279.8 million and a fair value of $288.6 million from the available for sale category to the held to maturity category. The net pre-tax unrealized gain on these securities at the time of transfer was $8.8 million and is now part of the amortized cost basis of the securities that will be amortized to interest income over the life of the securities. The amortization of this net pre-tax unrealized gain will be offset by the amortization of the related pre-tax amount recorded in accumulated other comprehensive income. There will be no net effect to interest income as a result of this transfer.

The net unrealized gain on available for sale securities was $3.3 million at September 30, 2015. Excluding the securities transferred to held to maturity, the unrealized gain on available for sale securities at December 31, 2014 was $3.7 million. The Company did not recognize any OTTI in earnings during the three and nine months ended September 30, 2015.

	At September 30, 2015								
	Amortized	Fair	% of			Net Unrealized	% of unrealized	
(in thousands)	Cost	Value	portfolio			gain (loss)	gain	
Mortgage-backed securities	$ 309,118	$ 309,800	61.4	%	$	682	13.9	%
Trust preferred securities	58,059	60,233	12.0	%		2,174	44.3	%
Corporate debt securities	101,432	103,362	20.5	%		1,930	39.3	%
Municipal securities	30,432	30,557	6.1	%		125	2.5	%
Total	$ 499,041	$ 503,952	100.0	%	$	4,911	100.0	%

Loans. Gross loans increased $215.5 million to $2.62 billion at September 30, 2015, from $2.41 billion at December 31, 2014. Year-to-date in 2015, the Company extended $962.7 million in new credit relationships and advances on existing lines. Partially offsetting credit extensions were paydowns and maturities of $746.1 million and gross charge-offs of $1.1 million.

LOANS (in thousands)	At September 30, 2015 Amount	% of portfolio		At December 31, 2014 Amount	% of portfolio		At September 30, 2014 Amount	% of portfolio	
Commercial	$ 1,173,950	45.4	%	$ 977,699	41.2	%	$ 962,438	41.4	%
Owner-occupied real estate	443,907	17.1	%	422,471	17.8	%	476,279	20.5	%
Investor real estate	474,284	18.3	%	567,248	23.9	%	487,821	21.0	%
Construction & land	229,284	8.9	%	181,864	7.7	%	182,288	7.8	%
Consumer	244,994	9.5	%	207,955	8.8	%	202,414	8.7	%
Other	54,634	2.1	%	48,338	2.0	%	45,829	2.0	%
Total loans	2,621,053	101.3	%	2,405,575	101.4	%	2,357,069	101.4	%
Allowance for loan losses	(34,899)	(1.3)	%	(32,765)	(1.4)	%	(33,682)	(1.4)	%
Total net loans	$ 2,586,154	100.0	%	$ 2,372,810	100.0	%	$ 2,323,387	100.0	%

Loan growth during 2015 was primarily due to a $196.3 million increase in Commercial loans and a $47.4 million increase in Construction & land loans. Offsetting these increases was a $93.0 million decline in Investor real estate loans. Geographically, Colorado loans totaled $1.8 billion, an increase of $66.1 million from the end of 2014. Arizona loans totaled $822.5 million, an increase of $149.4 million from the end of 2014.

The allowance for loan losses increased $2.1 million during 2015, through a provision for loan losses of $1.0 million and $1.1 million in net recoveries. See the Provision and Allowance for Loan and Credit Losses section and Note 5 for additional discussion.

Table of Contents

Deferred Income Taxes. Net deferred income tax assets decreased $0.5 million to $19.5 million at September 30, 2015, from $20.0 million at December 31, 2014. The decrease was primarily related to the tax effect of annual bonus payments made in the first quarter of 2015 and usage of a state net operating loss. These decreases were partially offset by an increase in the allowance for loan losses.

Other Assets. Other assets increased $0.8 million from the end of 2014 to $20.7 million at September 30, 2015. The increase was primarily due to a $1.1 million increase in prepaid expenses, offset by a decline in accounts receivable and equity-method investments. Prepaid expenses increased due to the annual renewal of certain maintenance contracts. Accounts receivable decreased primarily due to a tax refund that was applied to 2015 tax liabilities.

Deposits. Total deposits increased $215.1 million to $2.71 billion at September 30, 2015 from $2.49 billion at December 31, 2014. Noninterest-bearing deposits at September 30, 2015 comprised 41.7% of total deposits. The Company has sustained noninterest-bearing deposit levels of 40% or more since the third quarter of 2012.

The Company views its reciprocal Certificate of Deposit Account Registry Service ® (CDARS) accounts and Insured Cash Sweep (ICS) accounts as customer-related deposits. The CDARS and ICS programs are provided through a third party and are designed to provide full FDIC insurance on deposit amounts by exchanging or reciprocating larger depository relationships with other member banks. Depositor funds are broken into smaller amounts and placed with other banks that are members of the network. Each member bank issues deposit amounts at a level that the entire deposit is eligible for FDIC insurance. CDARS and ICS are technically brokered deposits; however, the Company considers the reciprocal deposits placed through these programs as core funding due to the customer relationship that generated the transaction and does not report the balances as brokered sources in its internal or external financial reports. The Company had balances of $225.2 million and $184.5 million in CDARS and ICS accounts at September 30, 2015 and December 31, 2014, respectively.

DEPOSITS AND CUSTOMER REPURCHASE AGREEMENTS	At September 30, 2015			At December 31, 2014			At September 30, 2014		
(in thousands)	Amount	% of portfolio		Amount	% of portfolio		Amount	% of portfolio	
Money market	$ 832,131	30.0	%	$ 661,519	26.0	%	$ 619,377	25.4	%
Interest-bearing demand	572,848	20.7	%	531,365	20.9	%	509,352	20.9	%
Savings	18,540	0.7	%	15,236	0.6	%	19,091	0.8	%
Certificates of deposits under $100	22,220	0.8	%	24,184	1.0	%	24,971	1.0	%
Certificates of deposits $100 and over	100,958	3.7	%	122,216	4.8	%	127,054	5.2	%
Reciprocal CDARS	32,969	1.2	%	64,607	2.5	%	64,610	2.6	%
Total interest-bearing deposits	1,579,666	57.1	%	1,419,127	55.8	%	1,364,455	55.9	%

Noninterest-bearing demand deposits		1,127,747	40.7	%		1,073,164	42.2	%		1,001,921	41.0	%
Customer repurchase agreements		62,182	2.2	%		49,976	2.0	%		76,041	3.1	%
Total deposits and customer repurchase agreements	$	2,769,595	100.0	%	$	2,542,267	100.0	%	$	2,442,417	100.0	%

Securities Sold Under Agreements to Repurchase. Customer Repos are transacted with customers as a way

to enhance our customers' interest-earning ability. The Company does not consider Customer Repos to be a wholesale funding source, but rather an additional treasury management service provided to a limited number of customers. Our Customer Repos are based on an overnight investment sweep that can fluctuate based on our customers' operating account balances. In 2014, the Company intentionally shifted customers out of Customer Repos and into other deposit products to allow the Company more flexibility with its investment portfolio due to the reduced need of collateral for Customer Repos. While the number of customers utilizing Customer Repos is not expected to grow, the balance will vary from period-to-period based on the operations of the underlying customers.

Other Short-Term Borrowings. Other short-term borrowings consist of federal funds purchased, overnight borrowings from the FHLB and advances on a line of credit maintained at the Parent. Short-term borrowings are used as part of our liquidity management strategy and fluctuate based on the Company's cash position. The Company's wholesale funding needs are largely dependent on core deposit levels which can be volatile in uncertain economic conditions and sensitive to competitive pricing. At September 30, 2015, the Company had $110.0 million in short-term borrowings outstanding, compared to $112.5 million at the end of 2014. If the Company is unable to retain deposits or maintain deposit balances at a level sufficient to fund asset

Table of Contents

growth, the composition of interest-bearing liabilities may shift toward additional wholesale funds or other borrowings, which historically bear a higher interest cost than core deposits.

Subordinated Notes Payable. On June 25, 2015, the Company completed the offering of $60.0 million of unsecured 5.625% Fixed to Floating Rate Subordinated Notes due June 25, 2030. The Notes bear a 5.625% annual fixed rate through June 25, 2025 and thereafter an annual floating rate equal to three-month LIBOR plus 317 basis points (3.17%). Proceeds, net of a discount and debt issuance costs of $1.1 million were $58.9 million. Debt issuance costs incurred in conjunction with the offering were $0.3 million. See Note 9 to the Condensed Consolidated Financial Statements for additional discussion.

Accrued Interest and Other Liabilities. Accrued interest and other liabilities increased $0.5 million from the end of 2014 to $27.0 million at September 30, 2015. The increase is primarily due to a $2.2 million increase in derivative liabilities and a $0.9 million increase in accrued interest on the Notes, offset by a $2.4 million decline in the bonus accrual. The values of derivative liabilities fluctuate based on projected future interest rates and vary from period-to-period, particularly on contracts with longer-term maturities. The bonus accrual is accrued throughout the year and represents approximately 75% of the estimated payout for 2015. At the end of 2014, the full payout for the year had been accrued.

Results of Operations

Overview

The following table presents the Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2015 and 2014, followed by a discussion of the major components of our revenues, expenses and performance.

On March 31, 2015, the Company closed GMB, its investment banking subsidiary. The following information is presented for the current and prior period amounts to exclude amounts relating to GMB, which is reported as discontinued operations.

INCOME STATEMENT	Three months ended September 30,	2015 vs 2014 Increase (decrease)	Nine months ended September 30,	2015 vs 2014 Increase (decrease)

(in thousands)	2015	2014	Amount	%	2015	2014	Amount	%
Interest income	$ 30,177	$ 29,205	$ 972	3.3 %	$ 90,185	$ 84,706	$ 5,479	6.5 %
Interest expense	2,810	2,143	667	31.1 %	6,745	6,386	359	5.6 %
NET INTEREST INCOME BEFORE PROVISION	27,367	27,062	305	1.1 %	83,440	78,320	5,120	6.5 %
Provision for loan losses	762	(452)	1,214	(268.6)%	1,030	(3,281)	4,311	(131.4)%
NET INTEREST INCOME AFTER PROVISION	26,605	27,514	(909)	(3.3) %	82,410	81,601	809	1.0 %
Noninterest income	7,424	7,380	44	0.6 %	22,682	20,417	2,265	11.1 %
Noninterest expense	24,738	23,322	1,416	6.1 %	74,460	69,238	5,222	7.5 %
INCOME BEFORE INCOME TAXES	9,291	11,572	(2,281)	(19.7) %	30,632	32,780	(2,148)	(6.6) %
Provision for income taxes	2,337	4,039	(1,702)	(42.1) %	8,892	11,269	(2,377)	(21.1) %
NET INCOME FROM CONTINUING OPERATIONS	6,954	7,533	(579)	(7.7) %	21,740	21,511	229	1.1 %
Net income (loss) from discontinued operations	-	358	(358)	(100.0)%	(71)	514	(585)	(113.8)%
NET INCOME	$ 6,954	$ 7,891	$ (937)	(11.9) %	$ 21,669	$ 22,025	$ (356)	(1.6) %

Annualized return on assets for the three and nine months ended September 30, 2015 and 2014 was 0.87% and 0.93%, respectively, compared to 1.05% and 1.02% over the prior year periods. Net income for the three and nine months ended September 30, 2015 decreased $0.9 million and $0.4 million, respectively, over the prior year periods due to an increase in the provision for loan losses and lower gains on OREO and securities in 2015. Noninterest income as a percentage of operating revenue (taxable equivalent) was 20.43% and 20.59% for the three and nine months ended September 30, 2015, compared to 20.79% and 20.10% in the prior-year periods, respectively. The Company’s tax equivalent efficiency ratio(1) was 68.25% and 67.70% for the three and nine months ended September 30, 2015, respectively, compared to 67.39% and 70.55% in the respective prior year periods.

(1) The efficiency ratio equals noninterest expenses adjusted to exclude gains and losses on OREO, other assets and investments, divided by the sum of tax equivalent net interest income and noninterest income. To calculate tax equivalent net interest income, the interest earned on tax exempt loans and investment securities has been adjusted to reflect the amount that would have been earned had these investments been subject to normal income taxation.

Net Interest Income. The largest component of our net income is our net interest income. Net interest income is the difference between interest income, principally from loans and investment securities, and interest expense, principally on customer deposits and borrowings. Changes in net interest income result from changes in volume, net interest spread and net interest margin. Volume refers to the average dollar levels of interest-earning assets and interest-bearing liabilities. Net interest spread refers to the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities. Net interest margin refers to net interest income divided by average interest-earning assets and is influenced by the level and relative mix of interest-earning assets and interest-bearing liabilities.

As the majority of our assets are interest-earning and our liabilities are interest-bearing, changes in interest rates may impact our net interest margin. The FOMC uses the federal funds rate, which is the interest rate used by banks to lend to each other, to influence interest rates and the national economy. Changes in the fed funds rate have a direct correlation to changes in the prime rate, the underlying index for most of the variable-rate loans issued by the Company. The FOMC has held the target federal funds rate at a range of 0-25 basis points since December 2008.

The following table sets forth the average amounts outstanding for each category of interest-earning assets and interest-bearing liabilities, the interest earned or paid on such amounts on a taxable equivalent basis, and the average rate earned or paid for the three and nine months ended September 30, 2015 and 2014.

Table of Contents

.	Three months ended September 30,					
	2015			2014		
(in thousands)	Average balance	Interest earned or paid	Average yield or cost(3)	Average balance	Interest earned or paid	Average yield or cost(3)
Assets						
Federal funds sold and other	$ 27,217	$ 17	0.24 %	$ 19,971	$ 23	0.45 %
Investment securities (1)	513,469	3,540	2.76 %	512,579	3,775	2.95 %
Loans (1)(2)	2,539,774	28,162	4.34 %	2,327,777	26,458	4.45 %
Total interest-earning assets	$ 3,080,460	$ 31,719	4.04 %	$ 2,860,327	$ 30,256	4.15 %
Noninterest-earning assets	100,637			123,166		
Total assets	$ 3,181,097			$ 2,983,493		
Liabilities and Shareholders' Equity						
Deposits						
Money market	$ 798,098	$ 546	0.27 %	$ 626,199	$ 508	0.32 %
Interest-bearing demand	575,977	193	0.13 %	499,467	209	0.17 %
Savings	19,047	3	0.06 %	16,791	3	0.07 %
Certificates of deposit						
Reciprocal	37,333	19	0.20 %	64,174	51	0.32 %
Under $100	22,401	22	0.39 %	25,096	35	0.55 %
$100 and over	103,636	133	0.51 %	143,040	164	0.45 %
Total interest-bearing deposits	$ 1,556,492	$ 916	0.23 %	$ 1,374,767	$ 970	0.28 %
Other borrowings						
Securities sold under agreements to repurchase	60,687	9	0.06 %	92,429	31	0.13 %
Other short-term borrowings	56,347	37	0.26 %	145,395	103	0.28 %
Long-term debt	131,167	1,848	5.51 %	72,166	1,039	5.63 %
Total interest-bearing liabilities	$ 1,804,693	$ 2,810	0.61 %	$ 1,684,757	$ 2,143	0.50 %
Noninterest-bearing demand accounts	1,075,395			976,563		
Total deposits and interest-bearing liabilities	2,880,088			2,661,320		
Other noninterest-bearing liabilities	18,323			22,769		
Total liabilities	2,898,411			2,684,089		
Total equity	282,686			299,404		
Total liabilities and equity	$ 3,181,097			$ 2,983,493		
Net interest income - taxable equivalent		$ 28,909			$ 28,113	
Net interest spread			3.43 %			3.65 %
Net interest margin			3.72 %			3.90 %
Ratio of average interest-earning assets to average interest-bearing liabilities	170.69 %			169.78 %		

Table of Contents

	Nine months ended September 30,					
	2015			2014		
(in thousands)	Average balance	Interest earned or paid	Average yield or cost(3)	Average balance	Interest earned or paid	Average yield or cost(3)
Assets						
Federal funds sold and other	$ 25,524	$ 44	0.23 %	$ 18,976	$ 71	0.49 %
Investment securities (1)	494,697	10,417	2.81 %	533,289	12,156	3.04 %
Loans (1)(2)	2,472,634	83,773	4.47 %	2,225,159	75,316	4.46 %
Total interest-earning assets	$ 2,992,855	$ 94,234	4.16 %	$ 2,777,424	$ 87,543	4.16 %
Noninterest-earning assets	106,265			121,487		
Total assets	$ 3,099,120			$ 2,898,911		
Liabilities and Shareholders' Equity						
Deposits						
Money market	$ 740,002	$ 1,549	0.28 %	$ 598,761	$ 1,437	0.32 %
Interest-bearing demand	586,461	587	0.13 %	474,646	690	0.19 %
Savings	17,768	7	0.05 %	14,607	7	0.06 %
Certificates of deposit						
Reciprocal	48,689	84	0.23 %	71,253	174	0.33 %
Under $100	23,044	69	0.40 %	32,131	94	0.39 %
$100 and over	110,927	426	0.51 %	131,683	513	0.52 %
Total interest-bearing deposits	$ 1,526,891	$ 2,722	0.24 %	$ 1,323,081	$ 2,915	0.29 %
Other borrowings						
Securities sold under agreements to repurchase	59,029	28	0.06 %	92,148	138	0.20 %
Other short-term borrowings	54,766	107	0.26 %	121,352	250	0.27 %
Long-term debt	93,346	3,888	5.49 %	72,166	3,083	5.63 %
Total interest-bearing liabilities	$ 1,734,032	$ 6,745	0.52 %	$ 1,608,747	$ 6,386	0.53 %
Noninterest-bearing demand accounts	1,045,603			975,765		
Total deposits and interest-bearing liabilities	2,779,635			2,584,512		
Other noninterest-bearing liabilities	14,559			22,545		
Total liabilities	2,794,194			2,607,057		
Total equity	304,926			291,854		
Total liabilities and equity	$ 3,099,120			$ 2,898,911		
Net interest income - taxable equivalent		$ 87,489			$ 81,157	
Net interest spread			3.64 %			3.64 %
Net interest margin			3.91 %			3.91 %
Ratio of average interest-earning assets to average interest-bearing liabilities	172.60 %			172.65 %		

(1) Interest earned has been adjusted to reflect tax exempt assets on a fully tax-equivalent basis.

(2) Loan fees included in interest income are not material. Nonaccrual loans are included with average loans outstanding.

(3) Yields have been adjusted to reflect a tax-equivalent basis where applicable.

Net interest income on a taxable equivalent basis for the three and nine months ended September 30, 2015 grew 2.8% and 7.8% compared to the prior year periods, driven primarily by higher loan volume. Average interest-earning assets for the three and nine months ended September 30, 2015 increased $220.1 million to $3.08 billion and $215.4 million to $2.99 billion compared to the respective year-earlier averages. The yield on average interest-earning assets benefited from $1.5 million of recaptured interest on problem loan resolutions during 2015.

Including noninterest-bearing deposits, the Company's overall deposit interest cost was 14 basis points (0.14%) for the three and nine months ended September 30, 2015 compared to 16 basis points (0.16%) and 17 basis points (0.17%) in the respective prior year periods. The average rate on total interest-bearing liabilities for the three months ended September 30, 2015 increased 11 basis points (0.11%) over the prior year period due to the Notes issued in the second quarter of 2015. The third quarter of 2015 was the first full quarter of interest expense related to the Notes, which amounted to $0.9 million. For the nine months ended September 30, 2015, the average rate on total interest-bearing liabilities remained comparable to the prior year period.

Table of Contents

The following table presents noninterest income for the three and nine months ended September 30, 2015 and 2014.

NONINTEREST INCOME (in thousands)	Three months ended September 30, 2015	2014	2015 vs 2014 Increase (decrease) Amount	%	Nine months ended September 30, 2015	2014	2015 vs 2014 Increase (decrease) Amount	%
Service charges	$ 1,490	$ 1,424	$ 66	4.6 %	$ 4,438	$ 4,194	$ 244	5.8 %
Investment advisory income	1,478	1,418	60	4.2 %	4,444	4,282	162	3.8 %
Insurance income	3,023	2,622	401	15.3 %	9,110	8,278	832	10.1 %
Other income	1,433	1,916	(483)	(25.2) %	4,690	3,663	1,027	28.0 %
Total noninterest income	$ 7,424	$ 7,380	$ 44	0.6 %	$ 22,682	$ 20,417	$ 2,265	11.1 %

Service Charges. Service charges primarily consist of fees earned from our treasury management services. Customers are given the option to pay for these services in cash or by offsetting the fees for these services against an earnings credit that is given for maintaining noninterest-bearing deposits. Service charges grew in 2015 due to growth in the average balance of deposit accounts using our treasury management services.

Investment Advisory Income. Investment advisory income has increased during the three and nine months ended September 30, 2015 over the prior year periods due to an increase in assets under management (AUM). Fees earned are generally based on a percentage of AUM, and market volatility has a direct impact on earnings. AUM totaled $845.7 million at September 30, 2015 compared to $849.7 million at September 30, 2014. While the end-of-period AUM is lower at September 30, 2015 compared to September 30, 2014, average AUM grew 4.7% in 2015 compared to the prior year period.

Insurance Income. Insurance income is derived from two main areas: benefits consulting and P&C. Revenue from benefits consulting and P&C are recurring revenue sources as policies and contracts generally renew or rewrite on an annual or more frequent basis. Insurance revenue increased $0.4 million and $0.8 million for the three and nine months ended September 30, 2015 compared to the prior year periods. The year-over-year improvement is due to organic growth and higher profit sharing bonuses in the current year period.

Other Income. Other income is comprised of increases in the cash surrender value of bank-owned life insurance, loan fees, earnings on equity method investments, merchant charges, bankcard fees, wire transfer fees, foreign exchange fees and safe deposit income. Other income for the three and nine months ended September 30, 2015 decreased $0.5

million and increased $1.0 million, respectively, from the prior year periods. The three-month and year-to-date fluctuations were primarily due to equity method investments in certain SBIC funds. Income on these funds varies due to the performance of the underlying investments. In the first quarter of 2014, the Company had a loss on one of these passive funds related to a realized loss on an underlying investment that did not reoccur in 2015.

The following table presents noninterest expense for the three and nine months ended September 30, 2015 and 2014.

Table of Contents

NONINTEREST EXPENSE (in thousands)	Three months ended September 30, 2015	2014	2015 vs 2014 Increase (decrease) Amount	%	Nine months ended September 30, 2015	2014	2015 vs 2014 Increase (decrease) Amount	%
Salaries and employee benefits	$ 15,916	$ 15,513	$ 403	2.6 %	$ 49,107	$ 46,249	$ 2,858	6.2 %
Share-based compensation expense	707	704	3	0.4 %	2,611	2,429	182	7.5 %
Occupancy expenses, premises and equipment	3,371	3,258	113	3.5 %	9,778	9,742	36	0.4 %
Amortization of intangibles	150	147	3	2.0 %	450	447	3	0.7 %
FDIC and other assessments	459	373	86	23.1 %	1,350	1,263	87	6.9 %
Other real estate owned and loan workout costs	105	283	(178)	(62.9) %	248	848	(600)	(70.8) %
Net gain on securities, other assets and OREO	(59)	(598)	539	(90.1) %	(123)	(2,428)	2,305	(94.9) %
Other expense	4,089	3,642	447	12.3 %	11,039	10,688	351	3.3 %
Total noninterest expense	$ 24,738	$ 23,322	$ 1,416	6.1 %	$ 74,460	$ 69,238	$ 5,222	7.5 %

Salaries and Employee Benefits. Salaries and employee benefits increased $0.4 million or 2.6% and $2.9 million or 6.2% for the three and nine months ended September 30, 2015, respectively, over the prior year periods. The increase relates to investments in new personnel and annual cost of living and merit increases effective in the second quarter of 2014. The Company had 530 full-time equivalent employees at September 30, 2015, up from 524 a year earlier.

Share-based Compensation. The Company uses share-based compensation to recruit new employees and reward and retain existing employees. Share-based compensation increased during the three and nine months ended September 30, 2015 compared to the prior year periods due to the issuance of restricted stock during the first quarter of 2015 and an increase in the grant-date fair value of awards. The Company recognizes compensation costs for the grant-date fair value of awards issued to employees and expects to continue using share-based compensation in the future.

Occupancy Costs. Occupancy costs consist primarily of rent, depreciation, utilities, property taxes and insurance. Occupancy costs increased for the three months ended September 30, 2015, compared to the prior year period, primarily due to higher common area maintenance expenses on our leased facilities. Occupancy costs increased only marginally for the nine months ended September 30, 2015.

FDIC and Other Assessments. FDIC and other assessments consist of premiums paid by the Company that are required for all FDIC-insured institutions and Colorado chartered banks. FDIC and other assessments for the three and nine months ended September 30, 2015 have increased due to asset growth outpacing equity growth. The assessments are based on statutory and risk classification factors to determine an assessment rate that is then applied to the average net assets of the Company.

OREO and Loan Workout Costs. Carrying costs and workout expenses of nonperforming loans and OREO decreased $0.2 million and $0.6 million during the three and nine months ended September 30, 2015 compared to the prior year periods. These costs are related to the level of nonperforming assets. While costs may fluctuate from period to period due to specific circumstances, the Company has seen a general decline in these costs over the last few years.

Net Gain on Securities, Other Assets, and OREO. Gains and losses on available for sale securities are recognized upon the sale or call of a security. Gains and losses on OREO are recognized upon sale or due to valuation changes on OREO held at the balance sheet date. The $0.1 million and $0.6 million net gains recognized during the three months ended September 30, 2015 and 2014, respectively, were the result of OREO sales. Net gains recognized during the nine months ended September 30, 2014 were comprised of $1.3 million net gains on OREO sales and $1.1 million net gains on securities.

Table of Contents

Other Operating Expenses. Other operating expenses consist primarily of business development expenses (meals, entertainment and travel), charitable donations, and professional services (auditing, legal, marketing and courier). Other operating expenses for the three and nine months ended September 30, 2015 increased $0.4 million over the prior year periods primarily as a result of higher service contract costs.

Provision for Income Taxes. The effective income tax rate for the three and nine months ended September 30, 2015 was 25% and 29%, respectively, compared to 35% in the prior year periods. The decrease in the effective tax rate in 2015 compared to 2014 is due to growth in the Company's tax-exempt loan and investment portfolios and a decline in nondeductible compensation. In addition, during the third quarter of 2015, the Company recorded a $0.1 million reduction to tax expense related to the finalization of its 2014 tax return. Income from tax-exempt loans, investments and BOLI are the primary activities impacting the effective tax rate.

Provision and Allowance for Loan and Credit Losses

The following table presents the provision for loan and credit losses for the three and nine months ended September 30, 2015 and 2014:

	Three months ended September 30,			Nine months ended September 30,		
(in thousands)	2015	2014	Increase (decrease)	2015	2014	Increase (decrease)
Provision for loan losses	$ 762	$ (452)	$ 1,214	$ 1,030	$ (3,281)	$ 4,311
Provision for credit losses (included in other expenses)	-	-	-	-	-	-
Total provision for loan and credit losses	$ 762	$ (452)	$ 1,214	$ 1,030	$ (3,281)	$ 4,311

The Company recorded a $0.8 million and $1.0 million in provision for loan losses for the three and nine months ended September 30, 2015, respectively. Although nonperforming assets have had a declining trend in 2015, classified loans at September 30, 2015 increased $4.3 million from December 31, 2014. The increase in classified loans, driven primarily by the downgrade in a single commercial credit, combined with continued loan growth, resulted in the increase in the provision for loan losses in 2015 over 2014.

All loans are continually monitored to identify potential problems with repayment and collateral deficiency. Classified loans increased to $41.2 million at September 30, 2015 from $36.9 million at December 31, 2014 and $36.5 million at September 30, 2014. At September 30, 2015 and December 31, 2014, the allowance for loan and credit losses was 1.33% and 1.36% of total loans, respectively. At September 30, 2014, the allowance for loan and credit losses to total loans was 1.43%. The ratio of allowance for loan and credit losses to nonperforming loans increased to 715.00% at September 30, 2015 from 357.89% at December 31, 2014 and 407.13% at September 30, 2014. Though management believes the current allowance provides adequate coverage of probable incurred losses in the loan portfolio as whole, negative economic trends could adversely affect future earnings and asset quality.

The allowance for loan losses represents management's recognition of the risks of extending credit and its evaluation of the quality of the loan portfolio. The allowance is maintained to provide for probable losses related to specifically identified loans and for losses inherent in the loan portfolio that have been incurred as of the balance sheet date. The allowance is based on various factors affecting the loan portfolio, including a review of problem loans, business conditions, historical loss experience, evaluation of the quality of the underlying collateral, and holding and disposal costs. The allowance is increased by additional charges to operating income and reduced by loans charged off, net of recoveries. The Company had net recoveries of $0.3 million and $1.1 million during the three and nine months ended September 30, 2015, respectively. Activity in the allowance for loan and credit losses for the current and relevant prior year periods is summarized below:

Table of Contents

(in thousands)	Nine months ended September 30, 2015	Year ended December 31, 2014	Nine months ended September 30, 2014
Allowance for loan losses at beginning of period	$ 32,765	$ 37,050	$ 37,050
Charge-offs:			
Commercial	(501)	(1,956)	(1,648)
Real estate - mortgage	(186)	(52)	(52)
Construction & land	(104)	(50)	(54)
Consumer	(45)	(453)	(10)
Other	(285)	(6)	(5)
Total charge-offs	(1,121)	(2,517)	(1,769)
Recoveries:			
Commercial	179	373	381
Real estate - mortgage	1,106	435	333
Construction & land	658	1,519	905
Consumer	10	54	55
Other	272	6	8
Total recoveries	2,225	2,387	1,682
Net recoveries (charge-offs)	1,104	(130)	(87)
Provision for loan losses charged to operations	1,030	(4,155)	(3,281)
Allowance for loan losses at end of period	$ 34,899	$ 32,765	$ 33,682
Ratio of net recoveries (charge-offs) to average loans	0.04 %	(0.01) %	(0.00) %

Nonperforming Assets

Nonperforming assets consist of nonaccrual loans, past due loans, repossessed assets and OREO. The following table presents information regarding nonperforming assets as of the dates indicated:

(in thousands)	At September 30, 2015	At December 31, 2014	At September 30, 2014
Nonperforming loans:			
Loans 90 days or more past due and still accruing interest	$ -	$ 161	$ -
Nonaccrual loans:			
Commercial	4,193	3,317	3,565
Real estate - mortgage	518	3,416	3,957
Construction & land	28	135	136
Consumer & other	142	2,126	615
Total nonaccrual loans	4,881	8,994	8,273
Total nonperforming loans	4,881	9,155	8,273
OREO and repossessed assets	5,481	5,819	3,750

Total nonperforming assets	$	10,362		$	14,974		$	12,023
Performing renegotiated loans	$	29,567		$	27,275		$	29,121
Classified loans	$	41,190		$	36,940		$	36,534
Allowance for loan losses	$	34,899		$	32,765		$	33,682
Allowance for credit losses		-			-			-
Allowance for loan and credit losses	$	34,899		$	32,765		$	33,682
Nonperforming assets to total assets		0.31	%		0.49	%		0.40	%
Nonperforming loans to total loans		0.19	%		0.38	%		0.35	%
Nonperforming loans and OREO to total loans and OREO		0.39	%		0.62	%		0.51	%
Allowance for loan and credit losses to total loans (excluding loans held for sale)		1.33	%		1.36	%		1.43	%
Allowance for loan and credit losses to nonperforming loans		715.00	%		357.89	%		407.13	%

Nonperforming assets decreased $4.6 million or 30.8% at September 30, 2015, from December 31, 2014 and decreased $1.7 million or 13.8% from the prior year period. Approximately 84.0% or $8.7 million of nonperforming assets at September 30, 2015 were concentrated in Colorado, while the remaining 16.0% or $1.6 million were in Arizona. Nonperforming loans represented 47.1% of total nonperforming assets with the remaining 52.9% comprised of OREO.

Table of Contents

Segment Results

The Company has three segments: Commercial Banking, Fee-Based Lines and Corporate Support and Other. See Note 11 to the Condensed Consolidated Financial Statements for additional discussion regarding segments.

Certain financial metrics and discussion of results for each segment for the three and nine months ended September 30, 2015 and 2014 are presented below.

Commercial Banking Income Statement (in thousands)	Three months ended September 30, 2015	Three months ended September 30, 2014	2015 vs 2014 Increase (decrease) Amount	2015 vs 2014 Increase (decrease) %	Nine months ended September 30, 2015	Nine months ended September 30, 2014	2015 vs 2014 Increase (decrease) Amount	2015 vs 2014 Increase (decrease) %
Net interest income	$ 29,098	$ 27,987	$ 1,111	4.0 %	$ 85,983	$ 81,037	$ 4,946	6.1 %
Provision for loan losses	774	(197)	971	492.9 %	1,160	(2,572)	3,732	145.1 %
Noninterest income	2,765	2,740	25	0.9 %	8,208	6,968	1,240	17.8 %
Noninterest expense	8,445	8,534	(89)	(1.0) %	26,988	26,280	708	2.7 %
Provision for income taxes	7,451	8,021	(570)	(7.1) %	22,366	22,944	(578)	(2.5) %
Net income before management fees and overhead allocations	15,193	14,369	824	5.7 %	43,677	41,353	2,324	5.6 %
Management fees and overhead allocations, net of tax	6,627	5,725	902	15.8 %	19,429	17,676	1,753	9.9 %
Net income	$ 8,566	$ 8,644	$ (78)	(0.9) %	$ 24,248	$ 23,677	$ 571	2.4 %

Net income for the Commercial Banking segment for the three months ended September 30, 2015 decreased $0.1 million from the prior year period. Higher net interest income driven by increased loan volume during the quarterly period was offset by an increase in the provision for loan losses. Noninterest income and expense during the third quarter of 2015 remained stable as compared to the prior year period.

Net income for the Commercial Banking segment increased $0.6 million during the nine months ended September 30, 2015 compared to the prior year period. The increase was primarily a result of higher net interest income on increased loan volume, which was partially offset by the provision for loan losses. Noninterest income increased during the nine months ended September 30, 2015 on improved results from passive equity method investments, which recorded losses of $0.5 million during the comparable prior year period. Until the second quarter of 2015, Commercial Banking had recorded negative provision for loan losses due to improved credit quality metrics since the first quarter of 2012. Current period loan loss provision is primarily the result of higher loan volume and not a reflection of adverse trends in the segment’s credit quality metrics.

Fee-Based Lines Income Statement (in thousands)	Three months ended September 30, 2015	2014	2015 vs 2014 Increase (decrease) Amount	%		Nine months ended September 30, 2015	2014	2015 vs 2014 Increase (decrease) Amount	%	
Net interest income	$ (11)	$ (7)	$ (4)	(57.1)	%	$ (31)	$ (27)	$ (4)	(14.8)	%
Noninterest income	4,501	4,040	461	11.4	%	13,554	12,560	994	7.9	%
Noninterest expense	4,080	3,735	345	9.2	%	11,994	11,169	825	7.4	%
Provision for income taxes	109	138	(29)	(21.0)	%	565	555	10	1.8	%
Net income before management fees and overhead allocations	301	160	141	88.1	%	964	809	155	19.2	%
Net income (loss) from discontinued operations	-	358	(358)	(100.0)	%	(71)	514	(585)	(113.8)	%
Management fees and overhead allocations, net of tax	280	270	10	3.7	%	892	807	85	10.5	%
Net income	$ 21	$ 248	$ (227)	(91.5)	%	$ 1	$ 516	$ (515)	(99.8)	%

Table of Contents

During the first quarter of 2015, the Company discontinued the operations of GMB, a component of the Fee-Based Lines segment, due to increased regulatory compliance costs and to focus on recurring revenue streams. The activities and results of operations for GMB have been summarized and reported as discontinued operations for the periods presented.

The Fee-Based Lines segment is composed of financial service activities that are complementary to the Company's core Commercial Banking segment. Revenue from this segment includes investment advisory fees and insurance income (continuing operations) and investment banking fees (discontinued operations). Net income from continuing operations before management fees and overhead allocations increased $0.2 million for the Fee-Based Lines during the three and nine months ended September 30, 2015. Insurance income was the primary contributor to the $0.5 million and $1.0 million increase in noninterest income during the three and nine months ending September 30, 2015, respectively. Compensation of production employees in the Fee-Based lines, which is variable and tied to revenues, was the primary driver of higher noninterest expense in 2015 compared to 2014.

Corporate Support and Other Income Statement (in thousands)	Three months ended September 30, 2015	2014	2015 vs 2014 Increase (decrease) Amount	%	Nine months ended September 30, 2015	2014	2015 vs 2014 Increase (decrease) Amount	%
Net interest income	$ (1,720)	$ (918)	$ (802)	(87.4)%	$ (2,512)	$ (2,690)	$ 178	6.6 %
Provision for loan losses	(12)	(255)	243	95.3 %	(130)	(709)	579	81.7 %
Noninterest income	158	600	(442)	(73.7)%	920	889	31	3.5 %
Noninterest expense	12,213	11,053	1,160	10.5 %	35,478	31,789	3,689	11.6 %
Benefit for income taxes	(5,223)	(4,120)	(1,103)	(26.8)%	(14,039)	(12,230)	(1,809)	(14.8)%
Net loss before management fees and overhead allocations	(8,540)	(6,996)	(1,544)	(22.1)%	(22,901)	(20,651)	(2,250)	(10.9)%
Management fees and overhead allocations, net of tax	(6,907)	(5,995)	(912)	(15.2)%	(20,321)	(18,483)	(1,838)	(9.9) %
Net loss	$ (1,633)	$ (1,001)	$ (632)	(63.1)%	$ (2,580)	$ (2,168)	$ (412)	(19.0)%

The Corporate Support and Other segment is composed of activities of the Parent; non-production, back-office support operations; and eliminating transactions in consolidation. Non-production, back-office operations include human resources, accounting and finance, information technology, and loan and deposit operations. The Company has a process for allocating these support operations back to the production lines based on an internal allocation methodology that is updated annually.

The primary component of net interest expense for the segment is interest expense related to the Company's long-term debt. The provision for loan losses relates to a nonperforming loan portfolio the Parent owns. This portfolio has steadily decreased since the 2009 purchase due to loan repayments and collateral sales. In addition, asset quality improvement within the portfolio has contributed to the decline in the provision for loan losses.

Net interest income decreased $0.8 million during the third quarter of 2015 and remained stable for the year-to date period ending on September 30, 2015. The decrease is due to $0.9 million of interest expense recognized on the Notes issued in June 2015. The impact of the interest expense on the Notes for year-to-date 2015 was offset by the collection of past due interest on a problem loan resolution in the first quarter of 2015. The decline in noninterest income for the three months ended September 30, 2015 is primarily due to lower income on equity method investments. Noninterest expense includes salaries and benefits of employees of the Parent and support functions as well as the nonemployee overhead operating costs not directly associated with another segment. Lower net gains recorded in 2015 and higher overall salary and benefits expense resulted in an increase in noninterest expense for the nine months ended September 30, 2015 compared to the prior year period.

Table of Contents

Contractual Obligations and Commitments

Summarized below are the Company’s contractual obligations (excluding deposit liabilities) to make future payments at September 30, 2015:

(in thousands)	Within one year	After one but within three years	After three but within five years	After five years	Total
FHLB overnight funds purchased (1)	$ 110,000	$ -	$ -	$ -	$ 110,000
Repurchase agreements (1)	62,182	-	-	-	62,182
Operating lease obligations	5,015	6,672	4,508	840	17,035
Long-term debt obligations (2)(3)	7,274	14,547	13,753	153,430	189,004
Total contractual obligations	$ 184,471	$ 21,219	$ 18,261	$ 154,270	$ 378,221

(1) Interest on these obligations has been excluded due to the short-term nature of the instruments.

(2) Principal repayment of the junior subordinated debentures is assumed to be at the contractual maturity, currently beyond five years. Interest on the junior subordinated debentures is calculated at the fixed rate associated with the applicable hedging instrument through the instrument maturity date and is reported in the "due within" categories during which the interest expense is expected to be incurred. Interest payments on junior subordinated debentures after maturity of the related fixed interest rate swap hedges are variable and no estimate of those payments has been included in the preceding table. The weighted average variable rate applicable to the junior subordinated debentures as of the date of this report is 2.69% and ranges from 1.78% to 3.28%.

(3) Principal repayment of the $60.0 million fixed to floating subordinated notes issued in June 2015 is assumed to be at the contractual maturity, currently beyond five years. Interest on the Notes is calculated at an annual fixed rate of 5.625% through June 2025 and is reported in the “due within” categories during which the interest expense is expected to be incurred. From June 25, 2025 to maturity on June 25, 2030, the Notes will bear interest at a floating rate equal to three-month LIBOR plus 317 basis points. No estimate of interest payments during the floating rate period is included in the preceding table.

The contractual amount of the Company’s financial instruments with off-balance sheet risk at September 30, 2015, is presented below, classified by the type of commitment and the term within which the commitment expires:

(in thousands)	Within one year	After one but within three years	After three but within five years	After five years	Total
Unfunded loan commitments	$ 586,773	$ 271,288	$ 45,951	$ 9,430	$ 913,442
Standby letters of credit	22,685	4,853	1,260	510	29,308
Commercial letters of credit	68	-	-	-	68
Unfunded commitments for unconsolidated investments	6,701	-	-	-	6,701
Company guarantees	1,930	-	-	755	2,685
Total commitments	$ 618,157	$ 276,141	$ 47,211	$ 10,695	$ 952,204

The Company is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the liquidity, credit enhancement and financing needs of its customers. These financial instruments include legally binding commitments to extend credit and standby letters of credit and involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the consolidated balance sheet. Credit risk is the principal risk associated with these instruments. The contractual amounts of these instruments represent the amount of credit risk should the instruments be fully drawn upon and the customer defaults.

To control the credit risk associated with entering into commitments and issuing letters of credit, the Company uses the same credit quality, collateral policies, and monitoring controls in making commitments and letters of credit as it does with its lending activities. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation.

Table of Contents

Legally binding commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Standby letters of credit obligate the Company to meet certain financial obligations of its customers if, under the contractual terms of the agreement, the customers are unable to do so. The financial standby letters of credit issued by the Company are irrevocable. Payment is only guaranteed under these letters of credit upon the borrower's failure to perform its obligations to the beneficiary.

Approximately $49.9 million of total loan commitments at September 30, 2015 represent commitments to extend credit at fixed rates of interest, which exposes the Company to some degree of interest-rate risk.

The Company has also entered into interest-rate swap agreements under which it is required to either receive cash or pay cash to the counterparty depending on changes in interest rates. The interest-rate swaps are carried at fair value on the Condensed Consolidated Balance Sheets with the fair value representing the net present value of expected future cash receipts or payments based on market interest rates as of the balance sheet date. The fair value of interest-rate swaps recorded on the balance sheet at September 30, 2015 do not represent the actual amounts that will ultimately be received or paid under the contracts since the fair value is based on estimated future interest rates and are therefore excluded from the table above.

Liquidity and Capital Resources

Liquidity refers to the Company's ability to generate adequate amounts of cash to meet financial obligations to its customers and shareholders in order to fund loans, to respond to deposit outflows and to cover operating expenses. Maintaining a level of liquid funds through asset/liability management seeks to ensure that these needs are met at a reasonable cost. Liquidity is essential to compensate for fluctuations in the balance sheet and provide funds for growth and normal operating expenditures. Sources of funds include customer deposits, scheduled amortization of loans, loan prepayments, scheduled maturities of investments and cash flows from MBS. Liquidity needs may also be met by deposit growth, converting assets into cash, raising funds in the brokered CD market or borrowing using lines of credit with correspondent banks, the FHLB or the FRB. Longer-term liquidity needs may be met by selling securities available for sale or raising additional capital.

Liquidity management is the process by which the Company manages the continuing flow of funds necessary to meet its financial commitments on a timely basis and at a reasonable cost. The objective of liquidity management is to ensure the Company has the ability to satisfy the cash flow requirements of depositors and borrowers and to allow us to sustain our operations. These funding commitments include withdrawals by depositors, credit commitments to borrowers, shareholder dividends, debt payments, expenses of its operations and capital expenditures. Liquidity is monitored and closely managed by the Company's Asset and Liability Committee (ALCO), a group of senior officers from the lending, deposit gathering, finance and treasury areas. ALCO's primary responsibilities are to ensure the necessary level of funds are available for normal operations as well as maintain a contingency funding policy to ensure that liquidity stress events are quickly identified and management plans are in place to respond. This is accomplished through the use of policies which establish limits and require measurements to monitor liquidity trends, including management reporting that identifies the amounts and costs of all available funding sources.

The Company's current liquidity position is expected to be more than adequate to fund expected asset growth. Historically, our primary source of funds has been customer deposits. Scheduled loan repayments are a relatively stable source of funds, while deposit inflows and unscheduled loan prepayments – which are influenced by fluctuations in the general level of interest rates, returns available on other investments, competition, business and economic conditions, and other factors – are less predictable.

Liquidity from asset categories is provided through cash and interest-bearing deposits with other banks, which totaled $93.9 million at September 30, 2015, compared to $91.6 million at December 31, 2014. Additional asset liquidity sources include principal and interest payments from securities in the Company’s investment portfolio and cash flows from its amortizing loan portfolio. Liability liquidity sources include attracting deposits at competitive rates and maintaining wholesale borrowing (short-term borrowings and brokered CDs) credit relationships.

The Company's loan to core deposit ratio increased to 96.8% at September 30, 2015, from 96.5% at December 31, 2014. At September 30, 2015, the Company had $110.0 million of wholesale borrowings outstanding and average wholesale borrowings were $56.3 million and $54.8 million during the three and nine months ended September 30, 2015, respectively. Average wholesale borrowings were $113.5 million during the year ended December 31, 2014.

The Company uses various forms of short-term borrowings for cash management and liquidity purposes, regularly accessing its federal funds and FHLB lines to manage its daily cash position. At September 30, 2015, the Bank has approved federal funds purchase lines with seven correspondent banks with an aggregate credit line of $175.0 million. The Bank also has a line of credit from the FHLB that is limited by the amount of eligible collateral available to secure it and the Company's investment in FHLB stock. Borrowings under the FHLB line are required to be secured by unpledged securities and qualifying loans. Borrowings may also be used on a longer-term basis to support expanded lending activities and to match the maturity or repricing intervals of assets.

Available funding through correspondent lines and the FHLB at September 30, 2015 totaled $638.5 million. Available funding is comprised of $175.0 million through the unsecured federal fund lines and $463.5 million in secured FHLB borrowing capacity. Access to funding through correspondent lines is dependent upon the cash position of the correspondent banks and there may be times when certain lines are not available. In addition, certain lines require a resting period after a specified number of consecutive days of accessing the lines. The Company believes it has sufficient borrowing capacity and diversity in correspondent banks to meet its needs.

At the holding company level, our primary sources of funds are dividends paid from the Bank and fee-based subsidiaries, management fees assessed to the Bank and the fee-based business lines, proceeds from the issuance of common stock, and other capital markets activity. The main use of this liquidity is the quarterly payment of dividends on our common stock, quarterly interest payments on the subordinated debentures and the Notes, payments for mergers and acquisitions activity, and payments for the salaries and benefits for the employees of the holding company. In June 2015, the Company completed the issuance of $60.0 million of Notes and redeemed all of the outstanding preferred shares issued to the U.S. Treasury under the SBLF program totaling $57.4 million in July 2015. The remaining net proceeds from the Notes, approximately $1.6 million, were used for general corporate purposes.

The Company maintains a revolving line of credit for an aggregate amount of up to $20.0 million, all of which was available at September 30, 2015. The line of credit has a one year term and matures in May 2016. Funds drawn will be used for general corporate purposes and backup liquidity.

The approval of the Colorado State Banking Board is required prior to the declaration of any dividend by the Bank if the total of all dividends declared by the Bank in any calendar year exceeds the total of its net profits for that year combined with the retained net profits for the preceding two years. In addition, the Federal Deposit Insurance Corporation Improvement Act of 1991 provides that the Bank cannot pay a dividend if it will cause the Bank to be "undercapitalized." The Bank was not otherwise restricted in its ability to pay dividends to the holding company. The Company's ability to pay dividends on its common stock depends upon the availability of dividends from the Bank, earnings from its fee-based lines, and upon the Company's compliance with the capital adequacy guidelines of the Federal Reserve Board of Governors. The holding company has a liquidity policy that requires the maintenance of at least 18 months of liquidity on the balance sheet based on projected cash usages, exclusive of dividends from the Bank. At September 30, 2015, the holding company had a liquidity position that exceeds the policy limit and the Company believes it has the ability to continue paying dividends.

Net loss from discontinued operations for the nine months ended September 30, 2015 was $(0.1) million and reasonably approximates the cash flows of those operations which are not separately stated in the Company's Condensed Consolidated Statements of Cash Flows. Discontinued operations are not expected impact the Company's ability to finance its continuing operations or meet its outstanding obligations. The Company believes overall liquidity will not be significantly impacted by discontinued operations.

At September 30, 2015, shareholders' equity totaled $270.0 million, a $38.8 million decrease from December 31, 2014, primarily related to the $57.4 million redemption of the SBLF preferred stock, offset by earnings of $21.7 million during the nine months ended September 30, 2015. Also increasing equity was a $4.3 million increase related to stock-based compensation, sales of stock under the employee stock purchase plan and stock option exercises. Other decreases to equity were common and preferred stock dividends of $5.4 million; a decrease of $0.8 million in AOCI; and common stock repurchases of $1.2 million.

We anticipate that our cash and cash equivalents, expected cash flows from operations together with alternative sources of funding are sufficient to meet our anticipated cash requirements for working capital, loan originations, capital expenditures and other obligations for at least the next 12 months. We continually monitor existing and alternative financing sources to support our capital and liquidity needs, including but not limited to, debt issuance, common stock issuance and deposit funding sources. Based on our current financial condition and our results of operations, we believe the Company will be able to sustain its ability to raise adequate capital through one or more of these financing sources.

We are subject to minimum risk-based capital limitations as set forth by federal banking regulations at both the consolidated Company level and the Bank level. Under the risk-based capital guidelines, different categories of assets, including certain off-balance sheet items, such as loan commitments in excess of one year and letters of credit, are assigned different risk weights, based generally on the perceived credit risk of the asset. These risk weights are multiplied by corresponding asset balances to determine a "risk-weighted" asset base. For purposes of the risk-based capital guidelines, total capital is defined as the sum of "Common Equity Tier 1", "Additional Tier 1" and "Tier 2" capital elements. Common Equity Tier 1 is comprised of common stock, related surplus and retained earnings. Additional Tier 1 capital includes, with certain restrictions, noncumulative perpetual preferred stock, certain grandfathered regulatory capital instruments and minority interests in consolidated subsidiaries. Tier 2 capital includes, with certain limitations, perpetual preferred stock not included in Tier 1 capital, subordinated debt, certain maturing capital instruments, and the allowance for loan and credit losses. At September 30, 2015, the Bank and Holding Company were well-capitalized with all capital ratios exceeding the well-capitalized requirement. During the third quarter of 2015, the Company redeemed all 57,366 shares of the preferred stock issued through the SBLF using proceeds from the issuance of the Notes and as a result, the Company's Tier 1 capital ratio and Total Capital ratio decreased during the third quarter of 2015.

See Note 13 to the Condensed Consolidated Financial Statements for additional disclosure or capital components and ratios. In order to comply with the regulatory capital constraints, the Company and its Board of Directors constantly monitor the capital level and its anticipated needs based on the Company's growth. The Company has identified sources of additional capital that could be used if needed, and monitors the costs and benefits of these sources, which include both the public and private markets.

In March 2015, the Company implemented the Basel III capital rules that reformed the regulatory capital framework for banking institutions. The U.S. banking regulatory agencies have implemented the reforms which are designed to ensure that banks maintain strong capital positions even in the event of severe economic downturns or unforeseen losses. Basel III contains a provision that preserves the current capital treatment of TPS issued by bank holding companies with less than $15 billion in total assets. The Company has $70.0 million of TPS included in regulatory capital at September 30, 2015 that was grandfathered under Basel III. The rules increased both the quantity and quality of required capital which is being phased in beginning January 1, 2015, with full implementation by 2018.

The Company's Condensed Consolidated Financial Statements do not reflect various off-balance sheet commitments that are made in the normal course of business, which may involve some liquidity risk. Off-balance sheet arrangements are discussed in the Contractual Obligations and Commitments section. The Company has commitments to extend credit under lines of credit and stand-by letters of credit. The Company has also committed to investing in certain partnerships. See the Contractual Obligations and Commitments section of this report for additional discussion on these commitments.

Table of Contents

Effects of Inflation and Changing Prices

The primary impact of inflation on our operations is increased operating costs. Unlike most retail or manufacturing companies, virtually all of the assets and liabilities of a financial institution such as the Bank are monetary in nature. As a result, the impact of interest rates on a financial institution's performance is generally greater than the impact of inflation. Although interest rates do not necessarily move in the same direction, or to the same extent, as the prices of goods and services, increases in inflation generally have resulted in increased interest rates. Over short periods of time, interest rates may not move in the same direction, or at the same magnitude, as inflation.

Forward-Looking Statements

This report contains forward-looking statements that describe the Company's future plans, strategies and expectations. All forward-looking statements are based on assumptions and involve risks and uncertainties, many of which are beyond our control and which may cause our actual results, performance or achievements to differ materially from the results, performance or achievements contemplated by the forward-looking statements. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words such as "believe," "expect," "anticipate," "intend," "plan," "estimate" or words of similar meaning, or future or conditional verbs such as "would," "could" or "may." Forward-looking statements speak only as of the date they are made. Such risks and uncertainties include, among other things:

- Competitive pressures among depository and other financial institutions nationally and in our market areas may increase significantly.
- Adverse changes in the economy or business conditions, either nationally or in our market areas, could increase credit-related losses and expenses and/or limit growth.
- Increases in defaults by borrowers and other delinquencies could result in increases in our provision for losses on loans and related expenses.
- Our inability to manage growth effectively, including the successful expansion of our customer support, administrative infrastructure and internal management systems, could adversely affect our results of operations and prospects.
- Fluctuations in interest rates and market prices could reduce our net interest margin and asset valuations and increase our expenses.
- The consequences of continued bank acquisitions and mergers in our market areas, resulting in fewer but much larger and financially stronger competitors, could increase competition for financial services to our detriment.
- Changes in legislative or regulatory requirements applicable to us and our subsidiaries could increase costs, limit certain operations and adversely affect results of operations.

- Changes in tax requirements, including tax rate changes, new tax laws and revised tax law interpretations may increase our tax expense or adversely affect our customers' businesses.
- The risks identified under “Risk Factors” in Item 1A of our annual report on Form 10-K for the year ended December 31, 2014.

In light of these risks, uncertainties and assumptions, you should not place undue reliance on any forward-looking statements in this report. We undertake no obligation to publicly update or otherwise revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Asset/Liability Management

Asset/liability management is concerned with the timing and magnitude of repricing assets compared to liabilities. It is our objective to generate stable growth in net interest income and to attempt to control risks associated with interest rate movements. In general, our strategy is to reduce the impact of changes in interest rates on net interest income by maintaining a favorable match between the maturities or repricing dates of our interest-earning assets and interest-bearing liabilities. We adjust interest sensitivity during the

Table of Contents

year through changes in the mix of assets and liabilities. Our asset and liability management strategy is formulated and monitored by ALCO, in accordance with policies approved by the Board of Directors of the Bank. This committee meets regularly to review, among other things, the sensitivity of our assets and liabilities to interest rate changes, the book and market values of assets and liabilities, unrealized gains and losses, purchase and sale activity, and maturities of investments and borrowings. ALCO also approves and establishes pricing and funding decisions with respect to our overall asset and liability composition. The committee reviews our liquidity, cash flow flexibility, maturities of investments, deposits and borrowings, deposit activity, current market conditions, and general levels of interest rates. To effectively measure and manage interest rate risk, we use simulation analysis to determine the impact on net interest income of changes in interest rates under various interest rate scenarios. From these simulations, interest rate risk is quantified and appropriate strategies are developed and implemented.

The following table presents an analysis of the interest-rate sensitivity inherent in our net interest income for the next 12 months and market value of equity. The interest rate scenario presented in the table includes interest rates at September 30, 2015, as adjusted by rate changes upward of up to 200 basis points ramped over a 12-month period. Due to the current interest rate environment, the FOMC has a 0-25 basis point target federal funds rate at September 30, 2015, with prime set at 300 basis points above the FOMC target, the downward movement analysis was limited to a 100 basis point change. The market value sensitivity analysis presented includes assumptions that (i) the composition of our interest rate sensitive assets and liabilities existing at September 30, 2015, will remain constant; and (ii) that changes in market rates are parallel across the yield curve regardless of duration or repricing characteristics of specific assets or liabilities. Further, the analysis does not contemplate any actions that we might undertake in response to changes in market interest rates. Accordingly, this analysis is not intended to and does not provide a precise forecast of the effect actual changes in market rates will have on us.

	Change in interest rates in basis points			
	-200	-100	0	+100	+200
Impact on:					
Net interest income	n/a	(1.5) %	- %	1.3 %	3.4 %
Market value of equity	n/a	(34.1) %	- %	31.1 %	56.0 %

Our results of operations depend significantly on net interest income. Like most financial institutions, our interest income and cost of funds are affected by general economic conditions and by competition in the marketplace. Rising and falling interest rate environments can have various impacts on net interest income, depending on the interest rate profile (i.e., the difference between the repricing of interest-earning assets and interest-bearing liabilities), the relative changes in interest rates that occur when various assets and liabilities reprice, unscheduled repayments of loans and investments, early withdrawals of deposits, and other factors. As a general rule, banks with positive interest rate gaps are more likely to be susceptible to declines in net interest income in periods of falling interest rates, while banks with negative interest rate gaps are more likely to experience declines in net interest income in periods of rising interest rates. The Company is currently in a positive interest rate gap position, therefore, assuming no change in our gap position, a rise in interest rates is likely to result in increased net interest income, while a decline in interest rates is likely to result in decreased net interest income. This is a point-in-time position that is continually changing and is not indicative of our position at any other time. While the gap position is a useful tool in measuring interest rate risk and contributes toward effective asset and liability management, shortcomings are inherent in gap analysis since certain assets and liabilities may not move proportionally as interest rates change. Consequently, in addition to gap analysis, we use the simulation model discussed above to test the interest rate sensitivity of net interest income and the balance sheet.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures at September 30, 2015, the end of the period covered by this report ("Evaluation Date"), pursuant to Exchange Act Rule 13a-15(e). Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure

Table of Contents

controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic SEC filings.

Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (Exchange Act) is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control. During the quarter that ended on the Evaluation Date, there were no changes in internal control 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, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Pursuant to Item 703 of Regulation S-K, the following table summarizes shares acquired and amounts paid in net settlement of restricted stock awards during the period.

Period	Total number of shares	Average price paid per share
July 1 - July 31, 2015	422	$ 12.83
Total	422	$ 12.83

Table of Contents

Item 6. Exhibits

Incorporated by Reference

Exhibit Number	Exhibit Description	Filed Herewith	Form	File No.	Exhibit	Filing Date
31.1	Rule13a-14(a)/15d-14(a) Certification of the CEO	X				
31.2	Rule13a-14(a)/15d-14(a) Certification of the CFO	X				
32.1	Section 1350 Certification of the CEO	X				
32.2	Section 1350 Certification of the CFO	X				
101.INS	XBRL Instance Document	X				
101.SCH	XBRL Taxonomy Extension Schema Document	X				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	X				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	X				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	X				
101.PRE	XBRL Taxonomy Presentation Linkbase Document	X				

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COBIZ FINANCIAL INC.

Date: October 23, 2015 By: /s/ Steven Bangert

Steven Bangert
Chairman and Chief Executive Officer

Date:	October 23, 2015	By:	/s/ Lyne B. Andrich Lyne B. Andrich Executive Vice President and Chief Financial Officer