COBIZ FINANCIAL INC
Form 10-K
March 08, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark one)

x **Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**

For the fiscal year ended December 31, 2011.

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**

For the transition period from to

Commission file number 001-15955

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 St., Denver, CO	**80202**
(Address of principal executive offices)	(Zip Code)

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

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, $0.01 par value	The NASDAQ Stock Market LLC

Securities Registered Pursuant to Section 12(g) of the Act: **None**

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

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

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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 the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The aggregate market value of the voting common equity held by non-affiliates of the registrant at June 30, 2011, computed by reference to the closing price on the NASDAQ Global Select Market was $127,868,661. Shares of voting stock held by each officer and director and by each person who owns 5% or more of the outstanding voting stock (as publicly reported by such persons pursuant to Section 13 and Section 16 of the Securities Exchange Act of 1934) have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares outstanding of the registrant s sole class of common stock as of February 29, 2012, was 37,102,420.

Documents incorporated by reference: Portions of the registrant s proxy statement to be filed with the Securities and Exchange Commission in connection with the registrant s 2012 annual meeting of shareholders are incorporated by reference into Part III of this Form 10-K.

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A WARNING ABOUT FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements that describe CoBiz Financial 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 a would, should, could or may. Forward-looking statements speak only at the date they are made. Important factors that could cause actual results to differ materially from our expectations are disclosed under Risk Factors and elsewhere in this report, including, without limitation, in conjunction with the forward-looking statements included 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, except as required by law.

PART I

Item 1. Business

Overview

CoBiz Financial Inc. (CoBiz or the Company) is a diversified financial services company headquartered in Denver, CO. Through our subsidiary companies, we combine elements of personalized service found in community banks with sophisticated financial products and services traditionally offered by larger regional banks that we market to our targeted customer base of professionals, high-net-worth individuals and small to mid-sized businesses. At December 31, 2011, we had total assets of $2.4 billion, net loans of $1.6 billion and deposits of $1.9 billion. We were incorporated in Colorado on February 19, 1980, as Equitable Bancorporation, Inc.

Our wholly owned subsidiary CoBiz Bank (the Bank) is a full-service business banking institution serving two markets, Colorado and Arizona. In Colorado, the Bank operates under the name Colorado Business Bank and has 12 locations, including nine in the Denver metropolitan area, one in Boulder and two in the Vail area. In Arizona, the Bank operates under the name Arizona Business Bank and has six locations serving the Phoenix metropolitan area and the surrounding area of Maricopa County. Each of the Bank s locations is led by a local president with substantial decision-making authority. We focus on attracting and retaining high-quality personnel by maintaining an entrepreneurial culture and a decentralized business approach. We centrally support our bank and fee-based businesses with back-office services from our downtown Denver offices.

Our banking products are complemented by our fee-based business lines, which we first introduced in 1998 when we began offering trust and estate administration services. Through a combination of internal growth and acquisitions, our fee-based business lines have grown to include employee benefits brokerage and consulting, insurance brokerage, wealth transfer planning, investment banking and investment management services. We believe offering such complementary products allows us to both broaden our relationships with existing customers and attract new customers to our core business. In addition, we believe the fees generated by these services will increase our noninterest income and decrease our dependency on net interest income.

2007 Acquisition

On December 31, 2007, we acquired Wagner Investment Management, Inc. (Wagner), a Denver-based SEC-registered investment advisory firm providing investment management services for high-net-worth individuals and families, foundations and non-profit organizations. The acquisition was accounted for using the purchase method of accounting, and accordingly, the results of Wagner have been included in

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the consolidated financial statements since the date of purchase. In 2010, Wagner was merged into Alexander Capital Management Group, LLC. (ACMG), another wholly-owned subsidiary that is a SEC-registered investment advisory firm. ACMG was renamed CoBiz Investment Management, LLC. in conjunction with the merger of Wagner.

2008 Acquisition

On January 2, 2008, we acquired all the assets and employees of Bernard Dietrich & Associates (BDA), a Phoenix-based property & casualty (P&C) insurance broker, through our subsidiary, CoBiz Insurance, Inc. Founded in 1993, BDA (which is now part of CoBiz Insurance, Inc.) provides commercial and personal property and casualty insurance brokerage, as well risk management consulting services to individuals and businesses. The asset purchase was accounted for using the purchase method of accounting, and accordingly, the results of BDA have been included in the consolidated financial statements since the date of purchase.

We operate five distinct segments, as follows:

- Commercial Banking
- Investment Banking
- Wealth Management
- Insurance
- Corporate Support and Other

In conjunction with the strategic initiative to create a focused wealth management offering, the Company changed its operating segments in the third quarter of 2010 to reflect an internal realignment of its wealth management components. As part of this change, the Investment Advisory and Trust segment that was reported in periods prior to September 30, 2010 was renamed Wealth Management. In addition, a business line was moved from the Insurance segment into the new Wealth Management segment. All prior period disclosures have been adjusted to conform to the new presentation.

The Company s segments, excluding Corporate Support and Other, consist of various products and activities that are set forth in the following chart:

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Commercial Banking through: Colorado Business Bank Arizona Business Bank	• Commercial banking • Real estate banking • Private banking • Interest-rate hedging • Depository products • Treasury management
Investment Banking through: Green Manning & Bunch, Ltd.	• Merger and acquisition advisory services • Institutional private placements of debt and equity • Strategic financial advisory services
Wealth Management through: CoBiz Investment Management, LLC CoBiz Trust Financial Designs Ltd.	• Customized client investment policy • Proprietary bond and equity offerings • Tailored asset allocation strategies • Trust administration • Estate and business succession planning • Carefully vetted investment options utilizing external managers • Investment management • Estate settlements • Financial planning • Family office services
Insurance through: CoBiz Insurance, Inc. Financial Designs Ltd.	• Employee benefits and retirement planning • Executive compensation and benefits planning • Individual benefits • Commercial lines • Professional lines • Private client • Risk management services

For a complete discussion of the segments included in our principal activities and certain financial information for each segment, see Note 18 to the consolidated financial statements.

Mission Statement

Our mission is to serve the complete financial needs of successful businesses, business owners, professionals and high-net worth individuals. We create thoughtful, integrated, comprehensive solutions tailored to each customer s needs, thereby freeing them to succeed personally and professionally. Our long-term goal is to return economic value to our shareholders at a better risk-adjusted return than that of our competitors.

Our core values are:

- Focus on the customer

- Place people at the core
- Act with integrity
- Give back to the community
- Create sustained shareholder value
- Have fun and be well

Business Strategy

Our primary strategy is to differentiate ourselves from our competitors by providing our local presidents with substantial decision-making authority, and expanding our products and services to build long-term relationships that meet the needs of professionals, small to medium-sized businesses and high-net-worth individuals. In all areas of our operations, we focus on attracting and retaining the highest-quality personnel by maintaining an entrepreneurial culture and decentralized business approach. In order to realize our strategic objectives, we are pursuing the following strategies:

Organic Growth. We believe the Colorado and Arizona markets provide us with significant long-term opportunities for internal growth. These markets continue to be dominated by a number of large regional

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and national financial institutions that have acquired locally based banks. We believe this consolidation has created gaps in the banking industry s ability to serve certain customers in these market areas because small and medium-sized businesses often are not large enough to warrant significant marketing focus and customer service from large banks. In addition, we believe these banks often do not satisfy the needs of professionals and high-net-worth individuals who desire personal attention from experienced bankers. Similarly, we believe many of the remaining independent banks in the region do not provide the sophisticated banking products and services such customers require. Through our ability to combine personalized service, experienced personnel who are established in their community, sophisticated technology and a broad product line, we believe we will continue to achieve strong internal growth by attracting customers currently banking at both larger and smaller financial institutions and by expanding our business with existing customers.

The following table details the Company s market share of deposits in Arizona and Colorado, as well as other banks headquartered in our market areas and out-of-state banks as reported by the Federal Deposit Insurance Corporation (FDIC) and SNL Financial at June 30, 2011 and 2010.

	June 30, 2011		June 30, 2010	
(market share)	**Colorado %**	**Arizona %**	**Colorado %**	**Arizona %**
CoBiz Bank	1.49	0.46	1.63	0.43
Other in-state banks	37.17	11.07	44.88	12.58
Out-of-state banks	61.34	88.47	53.49	86.99
Total	100.00	100.00	100.00	100.00
Deposit market share rank	13th	17th	14th	18th

The following table details the Company s deposit market share by Metropolitan Statistical Area (MSA):

	June 30, 2011		June 30, 2010	
MSA	**Deposit Market Share Rank**	**Market Share %**	**Deposit Market Share Rank**	**Market Share %**
Denver-Aurora-Broomfield, CO	10th	2.09	9th	2.43
Boulder, CO	11th	2.90	10th	2.83
Edwards, CO	8th	2.45	10th	2.19
Phoenix-Mesa-Glendale, AZ	16th	0.63	17th	0.59

Fee-based business lines. We began offering trust and estate administration services in 1998; employee benefits brokerage and consulting in 2000; P&C insurance brokerage and investment banking services in 2001; and high-end life insurance, wealth transfer planning and investment management services in 2003.

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When evaluating complementary business lines, the Company considers:

- Businesses where the revenue potential can be enhanced by our core banking franchise.
- Businesses that provide financial services and related products to our target market.
- Businesses where clients value relationships, service and product quality over price.
- Businesses with sustainable operating margins.

Establish strong brand awareness. We have developed a cohesive and comprehensive approach to our internal and external communications efforts to leverage the power of each subsidiary as part of the larger company. Our brand platform has unified the look and feel of the CoBiz identity across the Company. With a target market that is similar across subsidiaries, our strong brand awareness helps generate cross-sell opportunities while strengthening client relationships.

Expanding existing banking relationships. We are normally not a transactional lender and typically require that borrowers enter into a multiple-product banking relationship with us, including deposits and treasury management services, in connection with the receipt of credit from the Bank. We believe such relationships provide us the opportunity to introduce our customers to a broader array of the products and services offered by us and generate additional noninterest income. In addition, we believe this philosophy aids in customer retention.

Emphasizing high-quality customer service. We believe our ability to offer high-quality customer service provides us with a competitive advantage over many regional banks that operate in our market areas. We emphasize customer service in all aspects of our operations and identify customer service as an integral component of our employee training programs. Moreover, we are constantly exploring methods to make banking an easier and more convenient process for our customers. For example, we offer a courier service to pick up deposits for customers who are not in close proximity to any of the Bank s 18 locations, are not using our remote deposit capture product or simply do not have the time to go to the Bank.

Maintaining asset quality. We seek to maintain asset quality through a program that includes regular reviews of loans and ongoing monitoring of the loan portfolio by a loan review department that reports to the Chief Operations Officer of the Company but submits reports directly to the audit committee of our Board of Directors. At December 31, 2011, our ratio of nonperforming loans to total loans was 1.66%, compared to 2.60% at December 31, 2010.

The slowdown in the overall economy during 2008 negatively impacted our asset quality. In response to the deteriorating economic conditions and the increase in our nonperforming assets, we created a Special Assets Group in 2009 to focus on resolving problem assets. This group is led by a senior banking officer who has been with the Bank for 15 years and previously served as the Bank s Chief Operations Officer. All loans in a default or workout status are assigned to the Special Assets Group. The Special Assets Group meets with representatives from each bank location on a monthly basis. In addition, to further strengthen our procedures over asset quality, we divided our loan review function into two separate departments during 2009: loan review and credit administration. We believe these actions have facilitated recovery strategies, reduced credit losses and directly contributed to the reduction in the level of nonperforming loans during 2010 and 2011. Due to the improvement in asset quality, the Company began redeploying bankers in the Special Asset Group into production roles toward the end of 2011.

Controlling interest rate risk. We seek to control our exposure to changing interest rates by attempting to maintain an interest rate profile within a narrow range around an earnings neutral position. An important element of this focus has been to emphasize variable-rate loans and investments funded by deposits that also mature or reprice over periods of 12 months or less. We have also incorporated interest rate floors in many of our variable rate loans in order to preserve our net interest income in the event of interest rate decreases. We actively monitor our interest rate profile in regular meetings of our Asset-Liability Management Committee.

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Acquisitions. We intend to continue to explore acquisitions of financial institutions or financial service entities within our market areas of Colorado and Arizona. Our approach to expansion is predicated on recruiting key personnel to lead new initiatives. While we normally consider an array of new locations and product lines as potential expansion initiatives, we will generally proceed only upon identifying quality management personnel with a loyal customer following in the community or experienced in the product line that is the target of the initiative. We believe focusing on individuals who are established in their communities and experienced in offering sophisticated financial products and services will enhance our market position and add growth opportunities.

Market Areas Served

We operate in two western markets in the United States Colorado and Arizona. These markets are currently dominated by a number of large regional and national financial institutions that have acquired locally based banks. The Company s success is dependent to a significant degree on the economic conditions of these two geographical markets. The current economic downturn has negatively impacted both markets. The Colorado market was slower to enter the recession than other areas of the country. Conversely, the Arizona market was one of the states that led the nation into the recession and has been significantly impacted by unemployment, job losses and foreclosure rates. However, the long-term prospects of both markets remain positive due to the diversity of industry sectors, educated workforces and reputation as high quality of life markets.

Our market areas include the Denver metropolitan area, which is comprised of the counties of Denver, Boulder, Adams, Arapahoe, Douglas, Broomfield and Jefferson; the Vail Valley, in Eagle County; and the Phoenix metropolitan area, which is located principally in Maricopa County.

Colorado. Denver s economy has diversified over the years with significant representation in various industries. The Denver metropolitan area is one of the fastest-growing regions in the nation, helping to make Colorado the seventh-fastest growing state in the United States in terms of percentage population growth from April 2000 to July 2009. We have two locations each in downtown Denver, Littleton and the Vail Valley, and one location each in Boulder, Commerce City, Cherry Creek, the Denver Technological Center (DTC), Golden and Louisville.

Arizona. Arizona consistently had one of the highest population growth rates in the nation during the latter half of the 20th century, including being the second fastest-growing state in terms of percentage population growth from April 2000 to July 2009. Our banks are located in Maricopa County, one of the nation s largest counties in terms of population size.

Market Snapshot. The following table contains selected data for the markets we serve.

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Colorado Snapshot

Population
- Colorado: 5.0 million
- Metropolitan Denver: 2.5 million
- Projected to increase 35% to 5.8 million from 2000 to 2030

Significant Industries
- Technology
- Communications
- Manufacturing
- Tourism
- Transportation
- Aerospace
- Biomedical/Healthcare
- Financial Services

Economic Outlook
- Preliminary unemployment rate at December 2011 was 7.9%, down from 8.9% in December 2010 (national average of 8.5%)
- Added 29,299 jobs, 1.1% increase, from December 2010 to October 2011

Arizona Snapshot

Population
- Arizona: 6.4 million
- Metropolitan Phoenix: 4.3 million
- Projected to increase 109% to 10.7 million from 2000 to 2030

Significant Industries
- Services
- Trade
- Manufacturing
- Mining
- Agriculture
- Construction
- Tourism

Economic Outlook
- Preliminary unemployment rate at December 2011 was 8.7%, down from 9.2% in December 2010 (national average of 8.5%)
- Lost 18,977 jobs, 0.6% decrease, from December 2010 to October 2011

Competition

CoBiz and its subsidiaries face competition in all of our principal business activities, not only from other financial holding companies and commercial banks, but also from savings and loan associations, credit unions, finance companies, mortgage companies, leasing companies, insurance companies, investment advisors, mutual funds, securities brokers and dealers, investment banks, other domestic and foreign financial institutions, and various nonfinancial institutions.

Please see Risk Factors below for additional information.

Employees

At December 31, 2011, we had 546 employees, including 540 full-time equivalent employees. Employees of the Company are entitled to participate in a variety of employee benefit programs, including: stock option plans; an employee stock purchase plan; a 401(k) plan; various comprehensive medical, accident and group life insurance plans; and paid vacations. No Company employee is covered by a collective bargaining agreement and we believe our relationship with our employees to be excellent.

Supervision and Regulation

CoBiz and the Bank are extensively regulated under federal, Colorado and Arizona law. These laws and regulations are primarily intended to protect depositors, borrowers and federal deposit insurance funds, not shareholders of CoBiz. The following information summarizes certain material statutes and regulations affecting CoBiz and the Bank, and is qualified in its entirety by reference to the particular statutory and regulatory provisions. Any change in applicable laws, regulations or regulatory policies may have a material adverse effect on the business, financial condition, results of operations and cash flows of CoBiz and the Bank. We are unable to predict the nature or extent of the effects that fiscal or monetary policies, economic controls, or new federal or state legislation may have on our business and earnings in the future.

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The Holding Company

General. CoBiz is a financial holding company registered under the Bank Holding Company Act of 1956, as amended (the BHCA), and is subject to regulation, supervision and examination by the Board of Governors of the Federal Reserve System (FRB). CoBiz is required to file an annual report with the FRB and such other reports as may be required pursuant to the BHCA.

Securities Exchange Act of 1934. CoBiz has a class of securities registered with the Securities Exchange Commission (SEC) under the Securities Exchange Act of 1934 (the Exchange Act). The Exchange Act requires the Company to file periodic reports with the SEC, governs the Company s disclosure in proxy solicitations and regulates insider trading transactions. The Company is listed on The NASDAQ Global Select Market (NASDAQ) and is subject to the rules of the NASDAQ.

Emergency Economic Stabilization Act of 2008 (EESA). Deteriorating market conditions in 2008 led to the issuance of the EESA that was signed into law on October 3, 2008. The EESA authorized the Troubled Asset Relief Plan (TARP) with an objective to ease the downturn in the credit cycle. The TARP provided up to $700 billion to the Department of the Treasury (Treasury) to buy mortgages and other troubled assets, to provide guarantees and to inject capital into financial institutions. As part of the $700 billion TARP, the Treasury established a Capital Purchase Program (CPP), which allows the Treasury to purchase up to $250 billion of senior preferred shares issued by U.S. financial institutions. The EESA also temporarily raised the basic limit on federal deposit insurance coverage from $100,000 to $250,000 per depositor until December 31, 2009, and accelerated the date on which the FRB will begin paying interest on required and excess reserve balances. On May 20, 2009, President Obama signed the Helping Families Save Their Homes Act, which extended the temporary increase in the limit on federal deposit insurance coverage to $250,000 per depositor to December 31, 2013. The limit was originally scheduled to decrease to $100,000 on January 1, 2014. However, on July 21, 2010, President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act which made permanent the current standard maximum deposit insurance account of $250,000.

On December 19, 2008, the Company entered into an agreement with the Treasury pursuant to the CPP to issue shares of the Company s Fixed Rate Cumulative Perpetual Preferred Stock, Series B, par value $0.01 per share, having a liquidation preference of $1,000 per share (the Series B Preferred Stock) for an aggregate purchase price of $64.5 million. The Company also issued a warrant with a 10-year term to acquire 895,968 shares of its common stock at an exercise price of $10.79. On September 8, 2011, the Company redeemed all $64.5 million of Series B Preferred Stock from the Treasury, concurrent with the issuance of preferred stock under the Small Business Lending Fund discussed below. On November 17, 2011 the Treasury sold the warrant issued by the Company to a third party in a private auction. The warrant will continue to be outstanding under the terms originally issued to the Treasury.

American Recovery and Reinvestment Act of 2009 (ARRA). To further stimulate the lagging economy, President Obama signed the ARRA into law on February 17, 2009. Title VII of the ARRA contains limits on executive compensation for senior executive officers of participants in the CPP for as long as any financial assistance provided under the TARP remain outstanding. The limitations include a prohibition on incentives that may encourage unsafe behavior; a provision for the recovery of bonuses in the event of materially inaccurate financial statements; a prohibition on the payment of golden parachutes; and the prohibition of the accrual or payment of any bonus, retention award or incentive compensation. The prohibition on retention awards does not include the issuance of restricted stock as long as the restricted stock does not fully vest during the period in which the Series B Preferred Stock is outstanding and the fair value of the award does not exceed 1/3 of the receiving officers annual compensation. On June 15, 2009, the Treasury issued an interim final rule, TARP Standards For Compensation and Corporate Governance, to provide guidance on the executive compensation and corporate governance provisions of the EESA as amended by the ARRA. These limitations applied to certain officers of the Company until September 8, 2011, the date the Company fully redeemed the Series B Preferred Stock.

Small Business Lending Fund (SBLF). Enacted as part of the Small Business Jobs Act, the SBLF was a $30 billion fund that encouraged lending to small businesses by providing Tier 1 capital to qualified community banks with assets of less than $10 billion. Qualifying institutions were eligible to sell Tier 1-

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qualifiying preferred stock to the Treasury. The dividend rate on the preferred stock was initially a maximum of 5%. The dividend rate decreases as the qualifying institution s small business lending increases, and can fall as low as 1%. However, if small business lending does not increase in the first two years, the rate will increase to 9%. After 4.5 years, the rate will increase to 9% if the bank has not repaid the SBLF funding. The maximum amount of available SBLF funding to a qualifying institution was limited to 5% of risk-weighted assets for institutions up to $1 billion in assets. For institutions with more than $1 billion and less than $10 billion in assets, the maximum was 3% of risk-weighted assets.

The SBLF was available to participants in the CPP as a method to refinance preferred stock issued through that program. On September 8, 2011, the Company entered into an agreement under the SBLF, pursuant to which the Company issued and sold to the Treasury, for an aggregate purchase price of $57,366,000, 57,366 shares of the Company s Senior Non-Cumulative Perpetual Preferred Stock, Series C (Series C Preferred Stock), par value $0.01 per share, having a liquidation value of $1,000 per share. The proceeds from the issuance of the Series C Preferred Stock, along with other available funds, were used to redeem the Series B Preferred Stock issued through the CPP. The Company files quarterly reports with the Treasury on its qualifying small business lending that may reduce the dividend rate on the Series C Preferred Stock.

Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). On July 21, 2010, President Obama signed into law the Dodd-Frank Act. The Dodd-Frank Act comprehensively reforms the regulation of financial institutions, products and services. Some of the provisions include, but are not limited to:

- The requirement for publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called golden parachute payments. The legislation also directs the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded.

- Bank holding companies with assets of less than $15 billion at December 31, 2009, will be permitted to include trust preferred securities that were issued before May 19, 2010, as Tier 1 capital. Trust preferred securities issued by a bank holding company (other than those with assets of less than $500 million) after May 19, 2010, will no longer count as Tier 1 capital. However, new issuances of trust preferred securities will be entitled to be treated as Tier 2 capital.

- Broadens the base for Federal Deposit Insurance Corporation insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act also permanently increases the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor, retroactive to January 1, 2008, and noninterest-bearing transaction accounts have unlimited deposit insurance through December 31, 2012.

- Creation of the Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of federal consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit unfair, deceptive or abusive acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets. Banks and savings institutions with $10 billion or less in assets such as the Bank will continue to be examined for compliance with the consumer laws by their primary bank regulators. The Dodd-Frank Act also weakens the federal preemption rules that have been applicable for national banks and federal savings associations, and gives state attorneys general the ability to enforce federal consumer protection laws.

- Effective July 21, 2011, the federal prohibitions on paying interest on demand deposits were eliminated, thus allowing businesses to have interest bearing checking accounts. The Company

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began offering interest-bearing demand deposits in the third quarter of 2011 in response to the change in regulation. Effective January 2012, the Company discontinued its Eurodollar demand deposit product and transitioned accounts in the Eurodollar into interest-bearing demand accounts. The Company had $97.7 million in Eurodollar deposits at December 31, 2011.

Many of the provisions of the Dodd-Frank Act have been the subject of proposed and final rules by the SEC, FDIC and Federal Reserve. However, the full impact of the Dodd-Frank Act on our business and operations will not be known for years until regulations implementing the statute are written and adopted. The Dodd-Frank Act may have a material impact on our operations, particularly through increased compliance costs resulting from possible future consumer and fair lending regulations.

Acquisitions. As a financial holding company, we are required to obtain the prior approval of the FRB before acquiring direct or indirect ownership or control of more than 5% of the voting shares of a bank or bank holding company. The FRB will not approve any acquisition, merger or consolidation that would result in substantial anti-competitive effects, unless the anti-competitive effects of the proposed transaction are outweighed by a greater public interest in meeting the needs and convenience of the public. In reviewing applications for such transactions, the FRB also considers managerial, financial, capital and other factors, including the record of performance of the applicant and the bank or banks to be acquired under the Community Reinvestment Act of 1977, as amended (the CRA). See   The Bank   Community Reinvestment Act below.

Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, as amended (the 1994 Act). The 1994 Act displaces state laws governing interstate bank acquisitions. Under the 1994 Act, a financial or bank holding company may, subject to some limitations, acquire a bank outside of its home state without regard to local law. Thus, an out-of-state holding company could acquire the Bank, and we can acquire banks outside of Colorado.

All acquisitions pursuant to the 1994 Act require regulatory approval. In reviewing applications under the 1994 Act, an applicant s record under the CRA must be considered, and a determination must be made that the transaction will not result in any violations of federal or state antitrust laws. In addition, there is a limit of 25% on the amount of deposits in insured depository institutions in both Colorado and Arizona that can be controlled by any bank or bank holding company.

The 1994 Act also permits bank subsidiaries of a financial or bank holding company to act as agents for affiliated institutions by receiving deposits, renewing time deposits, closing loans, servicing loans and receiving payments on loans. As a result, a relatively small Colorado or Arizona bank owned by an out-of-state holding company could make available to customers in Colorado and Arizona some of the services of a larger affiliated institution located in another state.

Gramm-Leach-Bliley Act of 1999 (the GLB Act). The GLB Act eliminates many of the restrictions placed on the activities of certain qualified financial or bank holding companies. A financial holding company such as CoBiz can expand into a wide variety of financial services, including securities activities, insurance and merchant banking without the prior approval of the FRB, provided that certain conditions are met, including a requirement that all subsidiary depository institutions be well capitalized.

Dividend Restrictions. Dividends on the Company s capital stock (common and preferred stock) are prohibited under the terms of the junior subordinated debenture agreements (see Note 8 to the consolidated financial statements) if the Company is in continuous default on its payment obligations to the capital trusts, has elected to defer interest payments on the debentures or extends the interest payment period. At December 31, 2011, the Company was not in default, had not elected to defer interest payments and had not extended the interest payment period on any of the subordinated debt issuances.

Pursuant to the terms of the agreement executed in the issuance of the Series C Preferred Stock, the ability of the Company to declare or pay dividends or distributions on, or purchase, redeem or otherwise acquire for consideration, shares of its common stock will be subject to restrictions in the event that the

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Company fails to declare and pay full dividends on the Series C Preferred Stock. In addition, the Company may declare and pay dividends on its common stock or any other stock junior to the Series C Preferred Stock, or repurchase shares of any such stock, only if after payment of such dividends or repurchase of such shares the Company s Tier 1 Capital would be at least 90% of the Signing Date Tier 1 Capital, as set forth in the Articles of Amendment establishing the Series C Preferred Stock.

Capital Adequacy. The FRB monitors, on a consolidated basis, the capital adequacy of financial or bank holding companies that have total assets in excess of $500 million by using a combination of risk-based and leverage ratios. Failure to meet the capital guidelines may result in the application by the FRB of supervisory or enforcement actions. 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 Tier 1 and Tier 2 capital elements, with Tier 2 capital being limited to 100% of Tier 1 capital. Tier 1 capital includes, with certain restrictions, common shareholders equity, perpetual preferred stock (no more than 25% of Tier 1 capital being comprised of cumulative preferred stock or trust preferred stock) and noncontrolling interests in consolidated subsidiaries. Tier 2 capital includes, with certain limitations, perpetual preferred stock not included in Tier 1 capital, certain maturing capital instruments and the allowance for loan losses (limited to 1.25% of risk-weighted assets). The regulatory guidelines require a minimum ratio of total capital to risk-weighted assets of 8% (of which at least 4% must be in the form of Tier 1 capital). The FRB has also implemented a leverage ratio, which is defined to be a company s Tier 1 capital divided by its average total consolidated assets. The FRB has established a minimum ratio of 3% for strong holding companies as defined by the FRB. For most other holding companies, the minimum required leverage ratio is 4%, but may be higher based on particular circumstances or risk profile.

For regulatory capital purposes, the Series B and Series C Preferred Stock are treated as an unrestricted core capital element included in Tier 1 Capital.

The table below sets forth the capital ratios of the Company:

	At December 31, 2011	
Ratio	**Actual %**	**Minimum Required %**
Total capital to risk-weighted assets	16.3	8.0
Tier I capital to risk-weighted assets	14.0	4.0
Tier I leverage ratio	11.3	4.0

In 2010, the G20 endorsed the Basel III capital and liquidity requirements proposed by the Basel Committee of Banking Supervision. While the Basel agreements apply to internationally active banks, U.S. banking regulators often apply the agreements to all banks. Currently, regulators are considering applying the definition of capital, new minimum capital ratios and liquidity ratios in Basel II to all U.S. banks. The new definition of capital would include a new minimum common equity tier 1 to risk-weighted assets requirement. Common equity is the highest quality equity and most loss absorbing form of capital and establishes the base of tier 1 common equity as adjusted for minority interests and various deductions. The minimum tier 1 common equity ratio under Basel III is 4.5%. Basel III also introduces minimum liquidity standards for a liquidity coverage ratio and a net stable funding ratio. It is expected that final rules will be issued in 2012 and Basel III may be effective in 2013.

Future rulemaking and regulatory changes on capital requirements may impact the Company as it continues to grow and evaluates M&A activity. For instance, on January 12, 2012, the FDIC approved a notice of proposed rulemaking that would require banks with more than $10 billion in assets to conduct an annual stress test to assist regulators in assessing capital adequacy.

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Support of Banks. As discussed below, the Bank is also subject to capital adequacy requirements. Under the Federal Deposit Insurance Corporation Improvement Act of 1991 (the FDICIA), CoBiz could be required to guarantee the capital restoration plan of the Bank, should the Bank become undercapitalized as defined in the FDICIA and the regulations thereunder. See The Bank Capital Adequacy. Our maximum liability under any such guarantee would be the lesser of 5% of the Bank s total assets at the time it became undercapitalized or the amount necessary to bring the Bank into compliance with the capital plan. The FRB also has stated that financial or bank holding companies are subject to the source of strength doctrine which requires such holding companies to serve as a source of financial and managerial strength to their subsidiary banks and to not conduct operations in an unsafe or unsound manner.

The FDICIA requires the federal banking regulators to take prompt corrective action with respect to capital-deficient institutions. In addition to requiring the submission of a capital restoration plan, the FDICIA contains broad restrictions on certain activities of undercapitalized institutions involving asset growth, acquisitions, branch establishment and expansion into new lines of business. With certain exceptions, an insured depository institution is prohibited from making capital distributions, including dividends, and is prohibited from paying management fees to control persons, if the institution would be undercapitalized after any such distribution or payment.

Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act). The Sarbanes-Oxley Act is intended to address systemic and structural weaknesses of the capital markets in the United States that were perceived to have contributed to corporate scandals. The Sarbanes-Oxley Act also attempts to enhance the responsibility of corporate management by, among other things, (i) requiring the chief executive officer and chief financial officer of public companies to provide certain certifications in their periodic reports regarding the accuracy of the periodic reports filed with the SEC, (ii) prohibiting officers and directors of public companies from fraudulently influencing an accountant engaged in the audit of the company s financial statements, (iii) requiring chief executive officers and chief financial officers to forfeit certain bonuses in the event of a restatement of financial results, (iv) prohibiting officers and directors found to be unfit from serving in a similar capacity with other public companies, (v) prohibiting officers and directors from trading in the company s equity securities during pension blackout periods, and (vi) requiring the SEC to issue standards of professional conduct for attorneys representing public companies. In addition, public companies whose securities are listed on a national securities exchange or association must satisfy the following additional requirements: (a) the company s audit committee must appoint and oversee the company s auditors; (b) each member of the company s audit committee must be independent; (c) the company s audit committee must establish procedures for receiving complaints regarding accounting, internal accounting controls and audit-related matters; (d) the company s audit committee must have the authority to engage independent advisors; and (e) the company must provide appropriate funding to its audit committee, as determined by the audit committee.

The Bank

General. The Bank is a state-chartered banking institution, the deposits of which are insured by the Deposit Insurance Fund (DIF) of the FDIC, and is subject to supervision, regulation and examination by the Colorado Division of Banking, the FRB and the FDIC. Prior to 2007, the Bank was a nationally chartered institution and also subject to the supervision of the Office of the Comptroller of the Currency (OCC). Pursuant to such regulations, the Bank is subject to special restrictions, supervisory requirements and potential enforcement actions. The FRB s supervisory authority over CoBiz can also affect the Bank.

Community Reinvestment Act. The CRA requires the Bank to adequately meet the credit needs of the communities in which it operates. The CRA allows regulators to reject an applicant seeking, among other things, to make an acquisition or establish a branch, unless it has performed satisfactorily under the CRA. Federal regulators regularly conduct examinations to assess the performance of financial institutions under the CRA. In its most recent CRA examination, the Bank received a satisfactory rating.

USA Patriot Act of 2001. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the USA Patriot Act) is intended to allow the

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federal government to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing and broadened anti-money-laundering requirements.

Among its provisions, the USA Patriot Act requires each financial institution to: (i) establish an anti-money-laundering program; (ii) establish due diligence policies, procedures and controls with respect to its private banking accounts and correspondent banking accounts involving foreign individuals and certain foreign banks; and (iii) avoid establishing, maintaining, administering or managing correspondent accounts in the United States for, or on behalf of, a foreign bank that does not have a physical presence in any country. In addition, the USA Patriot Act contains a provision encouraging cooperation among financial institutions, regulatory authorities and law enforcement authorities with respect to individuals, entities and organizations engaged in, or reasonably suspected of engaging in, terrorist acts or money laundering activities. Financial institutions must comply with Section 326 of the Act which provides minimum procedures for identification verification of new customers. On March 9, 2006, the USA Patriot Improvement and Reauthorization Act of 2005 (Reauthorization Act of 2005) was signed by the President to extend and modify the original Act. The Reauthorization Act of 2005 makes permanent 14 of the original provisions of the USA Patriot Act that had been set to expire.

Transactions with Affiliates. The Bank is subject to Section 23A of the Federal Reserve Act, which limits the amount of loans to, investments in and certain other transactions with affiliates of the Bank; requires certain levels of collateral for such loans or transactions; and limits the amount of advances to third parties that are collateralized by the securities or obligations of affiliates, unless the affiliate is a bank and is at least 80% owned by the Company. If the affiliate is a bank and is at least 80% owned by the Company, such transactions are generally exempted from these restrictions except as to   low quality   assets as defined under the Federal Reserve Act, and transactions not consistent with safe and sound banking practices. In addition, Section 23A generally limits transactions with a single affiliate of the Bank to 10% of the Bank s capital and surplus and generally limits all transactions with affiliates to 20% of the Bank s capital and surplus.

Section 23B of the Federal Reserve Act requires that certain transactions between the Bank and any affiliate must be on substantially the same terms, or at least as favorable to the Bank, as those prevailing at the time for comparable transactions with, or involving, non-affiliated companies or, in the absence of comparable transactions, on terms and under circumstances, including credit standards, that in good faith would be offered to, or would apply to, non-affiliated companies. The aggregate amount of the Bank s loans to its officers, directors and principal shareholders (or their affiliates) is limited to the amount of its unimpaired capital and surplus, unless the FDIC determines that a lesser amount is appropriate.

A violation of the restrictions of Section 23A or Section 23B of the Federal Reserve Act may result in the assessment of civil monetary penalties against the Bank or a person participating in the conduct of the affairs of the Bank or the imposition of an order to cease and desist such violation.

Regulation W of the Federal Reserve Act, which became effective on April 1, 2003, addresses the application of Sections 23A and 23B to credit exposure arising out of derivative transactions between an insured institution and its affiliates and intra-day extensions of credit by an insured depository institution to its affiliates. The rule requires institutions to adopt policies and procedures reasonably designed to monitor, manage and control credit exposures arising out of transactions and to clarify that the transactions are subject to Section 23B of the Federal Reserve Act.

Dividend Restrictions. Dividends paid by the Bank and management fees from the Bank and our fee-based business lines provide substantially all of our cash flow. The approval of the Colorado Division of Banking 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 of that year combined with the retained net profits for the preceding two years. In addition, the FDICIA provides that the Bank cannot pay a dividend if it will cause the Bank to be undercapitalized.

Capital Adequacy. Federal regulations establish minimum requirements for the capital adequacy of depository institutions that are generally the same as those established for bank holding companies. See

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The Holding Company Capital Adequacy. Banks with capital ratios below the required minimum are subject to certain administrative actions, including the termination of deposit insurance and the appointment of a receiver, and may also be subject to significant operating restrictions pursuant to regulations promulgated under the FDICIA. See The Holding Company Support of Banks.

The following table sets forth the capital ratios of the Bank:

	At December 31, 2011	
Ratio	**Actual %**	**Minimum Required%**
Total capital to risk-weighted assets	13.3	8.0
Tier I capital to risk-weighted assets	12.1	4.0
Tier I leverage ratio	9.7	4.0

Pursuant to the FDICIA, regulations have been adopted defining five capital levels: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Increasingly severe restrictions are placed on a depository institution as its capital level classification declines. An institution is critically undercapitalized if it has a tangible equity to total assets ratio less than or equal to 2%. An institution is adequately capitalized if it has a total risk-based capital ratio less than 10%, but greater than or equal to 8%; or a Tier 1 risk-based capital ratio less than 6%, but greater than or equal to 4%; or a leverage ratio less than 5%, but greater than or equal to 4% (3% in certain circumstances). An institution is well capitalized if it has a total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 6% or greater, and a leverage ratio of 5% or greater; and the institution is not subject to an order, written agreement, capital directive or prompt corrective action directive to meet and maintain a specific capital level for any capital measure. Under these regulations, at December 31, 2011, the Bank was well capitalized, which places no significant restrictions on the Bank s activities.

Examinations. The FRB and the Colorado Division of Banking periodically examines and evaluates banks. Based upon such an evaluation, the examining regulator may revalue the assets of an insured institution and require that it establish specific reserves to compensate for the difference between the value determined by the regulator and the book value of such assets.

Restrictions on Loans to One Borrower. Under state law, the aggregate amount of loans that may be made to one borrower by the Bank is generally limited to 15% of its unimpaired capital, surplus, undivided profits and allowance for loan losses. The Bank seeks participations to accommodate borrowers whose financing needs exceed the Bank s lending limits.

Brokered Deposits. Well-capitalized institutions are not subject to limitations on brokered deposits, while an adequately capitalized institution is able to accept, renew or roll over brokered deposits only with a waiver from the FDIC and subject to certain restrictions on the yield paid on such deposits. Undercapitalized institutions are generally not permitted to accept brokered deposits.

Real Estate Lending Evaluations. Federal regulators have adopted uniform standards for the evaluation of loans secured by real estate or made to finance improvements to real estate. The Bank is required to establish and maintain written internal real estate lending policies consistent with safe and sound banking practices. The Company has established loan-to-value ratio limitations on real estate loans, which are more stringent than the loan-to-value limitations established by regulatory guidelines.

Deposit Insurance Premiums. Under current regulations, FDIC-insured depository institutions that are members of the FDIC pay insurance premiums at rates based on their assessment risk classification, which is determined, in part, based on the institution s capital ratios and factors that the FDIC deems relevant to determine the risk of loss to the FDIC. In 2007, the annual assessment rates changed to a range of 5-43 basis points, an increase from the 0-27 basis point range that had been in effect since 1996. In 2009, the base assessment rate range for Risk Category I institutions increased to 7-24 basis

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points as part of the FDIC s Restoration Plan for the DIF. This increase was necessary to replenish the DIF due to the number of recent failures of FDIC-insured institutions. As part of the assessments that began April 1, 2009, the FDIC introduced three new adjustments that may impact the assessment base. These adjustments are for 1) a potential decrease for long-term unsecured debt, 2) a potential increase for secured liabilities above a threshold amount and 3) for non-risk category 1 institutions, a potential increase for brokered deposits above a threshold amount. The base assessment rates for Risk Categories II IV range from 17-78 basis points.

On February 7, 2011, the FDIC finalized new rules for an assessment calculation as required by the Dodd-Frank Act. The final rules change the assessment base from deposits to average daily consolidated assets less average monthly tangible equity (which is defined as Tier 1 Capital) and also changes the base assessment rates. The final rules took effect April 1, 2011. Under the new assessments, the base assessment rate for a Risk Category I institution is 5-9 basis points and the base assessment rates for Risk Categories II IV range from 14-35 basis points. The Company s assessments decreased in 2011 under the new calculation. The amount an institution is assessed is based upon statutory factors that includes the degree of risk the institution poses to the insurance fund and may be reviewed semi-annually. A change in our risk category would negatively impact our assessment rates.

Additionally, all institutions insured by the FDIC Bank Insurance Fund are assessed fees to cover the debt of the Financing Corporation, the successor of the insolvent Federal Savings and Loan Insurance Corporation. The current assessment rate effective for the first quarter of 2012 is 0.165 basis points (0.66 basis points annually). The assessment rate is adjusted quarterly.

On May 22, 2009, the FDIC voted to levy a special assessment on insured institutions as part of the FDIC s efforts to rebuild the DIF and help maintain public confidence in the banking system. The special assessment was 5 basis points on each FDIC-insured depository institution s assets, minus its Tier 1 capital, as of June 30, 2009. On September 30, 2009, the Company paid a special assessment of $1.2 million.

On November 12, 2009, the FDIC voted to require insured institutions to prepay slightly over three years of estimated insurance assessments. The pre-payment allows the FDIC to strengthen the cash position of the DIF immediately without immediately impacting earnings of the industry. At December 31, 2011, the Company had pre-paid assessments of $3.6 million to be applied to future assessments. For risk-based capital purposes, the pre-payment was assigned a zero percent risk weighting.

Federal Home Loan Bank Membership. The Bank is a member of the Federal Home Loan Bank of Topeka (FHLB). Each member of the FHLB is required to maintain a minimum investment in capital stock. The Board of Directors of the FHLB can increase the minimum investment requirements in the event it has concluded that additional capital is required to allow it to meet its own regulatory capital requirements. Any increase in the minimum investment requirements outside of specified ranges requires the approval of the Federal Housing Finance Board. Because the extent of any obligation to increase our investment in the FHLB depends entirely upon the occurrence of a future event, potential future payments to the FHLB are not determinable.

Fee-Based Business Lines

CoBiz Investment Management, LLC (CIM), formerly ACMG, is registered with the SEC under the Investment Advisers Act of 1940. The Investment Advisers Act of 1940 imposes numerous obligations on registered investment advisers, including fiduciary duties, recordkeeping requirements, operational requirements and disclosure obligations. Virtually all aspects of CIM s business are subject to various federal and state laws and regulations. These laws and regulations generally grant supervisory agencies and bodies broad administrative powers, including the power to limit or restrict CIM from carrying on its investment management business in the event that they fail to comply with such laws and regulations. In such event, the possible sanctions which may be imposed include the suspension of individual employees, business limitations on engaging in the investment management business for specified

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periods of time, the revocation of any such company s registration as an investment adviser, and other censures or fines.

Green Manning & Bunch, Ltd. (GMB), our investment banking subsidiary, is registered as a broker-dealer under the Exchange Act and is subject to regulation by the SEC and the Financial Industry Regulatory Authority (FINRA). GMB is subject to the SEC s net capital rule designed to enforce minimum standards regarding the general financial condition and liquidity of a broker-dealer. Under certain circumstances, this rule limits the ability of the Company to make withdrawals of capital and receive dividends from GMB. GMB s regulatory net capital consistently exceeded such minimum net capital requirements in fiscal 2011. The securities industry is one of the most highly regulated in the United States, and failure to comply with related laws and regulations can result in the revocation of broker-dealer licenses; the imposition of censures or fines; and the suspension or expulsion from the securities business of a firm, its officers or employees.

Financial Designs Ltd. (FDL) provides wealth transfer planning through the use of life insurance products. State governments extensively regulate our life insurance activities. We sell our insurance products throughout the United States and the District of Columbia through licensed insurance producers. Insurance laws vary from state to state. Each state has broad powers over licensing, payment of commissions, business practices, policy forms and premium rates. While the federal government does not directly regulate the marketing of most insurance products, securities, including variable life insurance, are subject to federal securities laws. We market these financial products through a third party registered broker-dealer that is a member of the FINRA and Securities Investor Protection Corporation.

CoBiz Insurance Inc., acting as an insurance producer, must obtain and keep in force an insurance producer s license with the State of Arizona and Colorado. In order to write insurance in other states, they are required to obtain non-resident insurance licenses. All premiums belonging to insurance carriers and all unearned premiums belonging to customers received by the agency must be treated in a fiduciary capacity.

Changing Regulatory Structure

Regulation of the activities of national and state banks and their holding companies imposes a heavy burden on the banking industry. The FRB, FDIC, OCC (national charters only) and State banking divisions all have extensive authority to police unsafe or unsound practices and violations of applicable laws and regulations by depository institutions and their holding companies. These agencies can assess civil monetary penalties, issue cease and desist or removal orders, seek injunctions, and publicly disclose such actions.

The laws and regulations affecting banks and financial or bank holding companies have changed significantly in recent years, and there is reason to expect changes will continue in the future, although it is difficult to predict the outcome of these changes. From time to time, various bills are introduced in the United States Congress with respect to the regulation of financial institutions. Certain of these proposals, if adopted, could significantly change the regulation of banks and the financial services industry.

Monetary Policy

The monetary policy of the FRB has a significant effect on the operating results of financial or bank holding companies and their subsidiaries. Among the means available to the FRB to affect the money supply are open market transactions in U.S. government securities, changes in the discount rate on member bank borrowings and changes in reserve requirements against member bank deposits. These means are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits, and their use may affect interest rates charged on loans or paid on deposits. FRB monetary policies have materially affected the operations of commercial banks in the past and are expected to continue to do so in the future. The nature of future monetary policies and the effect of such policies on the business and earnings of the Company and its subsidiaries cannot be predicted.

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Website Availability of Reports Filed with the SEC

The Company maintains an Internet website located at *www.cobizfinancial.com* on which, among other things, the Company makes available, free of charge, various reports that it files with or furnishes to the SEC, including its annual reports, quarterly reports, current reports and proxy statements. These reports are made available as soon as reasonably practicable after they are filed with or furnished to the SEC. The public may read and copy any materials we file with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549. Additional information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website at *www.sec.gov* that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The Company has also made available on its website its Audit, Compensation and Governance and Nominating Committee charters and corporate governance guidelines. The content on any website referred to in this filing is not incorporated by reference into this filing unless expressly noted otherwise.

Item 1A. Risk Factors

Recent legislative and regulatory initiatives to address difficult market and economic conditions may not stabilize the U.S. economy or the U.S. banking system.

On October 3, 2008, President Bush signed into law the Emergency Economic Stabilization Act of 2008, or EESA, which, among other measures, authorized Treasury to purchase from financial institutions and their holding companies up to $700 billion in mortgage loans, mortgage-related securities and certain other financial instruments, including debt and equity securities issued by financial institutions and their holding companies, under the Troubled Asset Relief Program, or TARP. The purpose of TARP was to restore confidence and stability to the U.S. banking system and to encourage financial institutions to increase their lending to customers and to each other. Treasury purchased equity securities from participating institutions under the Capital Purchase Program authorized by TARP (as well as the Capital Assistance Program announced on February 25, 2009).

The EESA followed, and has been followed by, numerous actions by the Federal Reserve Bank, or FRB, the U.S. Congress, Treasury, the Federal Deposit Insurance Corporation, or the FDIC, the SEC and others to address the liquidity and credit crisis that followed the sub-prime meltdown that commenced in 2007. These measures include homeowner relief that encourages loan restructuring and modification; the establishment of significant liquidity and credit facilities for financial institutions and investment banks; the lowering of the federal funds rate; emergency action against short selling practices; a temporary guaranty program for money market funds; the establishment of a commercial paper funding facility to provide back-stop liquidity to commercial paper issuers; and coordinated international efforts to address illiquidity and other weaknesses in the banking sector. On February 17, 2009, the ARRA, was signed into law. ARRA, more commonly known as the economic stimulus bill or economic recovery package, was intended to stimulate the economy and provide for broad infrastructure, education and health spending. Most recently, the Dodd-Frank Act, signed into law on July 21, 2010, significantly reforms banking regulation and oversight.

The purpose of these and certain other legislative and regulatory actions is to stabilize the U.S. banking system. The EESA, ARRA, Dodd-Frank Act and other regulatory initiatives may not have their desired effects. If the volatility in the markets returns and economic conditions fail to improve or worsen, our business, financial condition, results of operations and cash flows could be materially and adversely affected.

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Certain actions by the U.S. Federal Reserve could cause a flattening of the yield curve, which could adversely affect our business, financial condition and results of operations.

In September 2011, the U.S. Federal Reserve announced Operation Twist, which is a program under which it intends to purchase, by the end of June 2012, $400 billion of U.S. Treasury securities with remaining maturities between six and 30 years and sell an equal amount of U.S. Treasury securities with remaining maturities of three years or less. The effect of Operation Twist could be a flattening of the yield curve, which could result in increased prepayment rates on our investment portfolio and a lower yield on our loan portfolio due to lower long-term interest rates, both of which would lead to a narrowing of our net interest margin. Consequently, Operation Twist and any other future securities purchase programs of the U.S. Federal Reserve could materially adversely affect our business, financial condition, results of operations.

We are subject to restrictions on the ability to pay dividends to and repurchase shares of common stock because of our participation in the SBLF.

Under the terms of the securities purchase agreement between us and the Treasury in connection with the SBLF transaction, our ability to pay dividends on or repurchase our common stock is subject to a limit requiring us generally not to reduce our Tier 1 capital from the level on the SBLF closing date by more than 10%. If we fail to pay an SBLF dividend, there are further restrictions on our ability to pay dividends on or repurchase our common stock. In addition, if the Company s qualified small business lending does not increase over its initial baseline, the dividend rate on the Series C Preferred Stock may increase.

Difficult conditions in the financial services markets have adversely affected the business and results of operations of the Company.

Dramatic declines in the housing and commercial real estate market, with falling home prices and increasing foreclosures and unemployment, have resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. These write-downs, initially of mortgage-backed securities but spreading to credit default swaps and other derivative securities, have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail. Many lenders and institutional investors have reduced and, in some cases, ceased to provide funding to borrowers including other financial institutions. The Company has historically used federal funds purchased as a short-term liquidity source and, while the Company continues to actively use this source, further credit tightening in the market could reduce funding lines available to the Company. This market turmoil and tightening of credit have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of general business activity.

Weakness in the economy and in the real estate market, including specific weakness within the markets where our banks do business, has adversely affected us and may continue to adversely affect us.

In general, all of our business segments have been negatively impacted by current market conditions. There has been a downturn in the real estate market, a slow-down in construction and an oversupply of real estate for sale since the end of 2008. This downturn, and any additional softening, in our real estate markets could hurt our business because a majority of our loans are secured by real estate. Real estate values and real estate markets are generally affected by changes in national, regional or local economic conditions, fluctuations in interest rates and the availability of loans to potential purchasers, changes in tax laws and other governmental statutes, regulations and policies and acts of nature.

Substantially all of our real property collateral is located in Arizona and Colorado. Further declines in real estate prices would reduce the value of real estate collateral securing our loans. Our ability to recover on defaulted loans by foreclosing and selling the real estate collateral would then be further diminished, and we would be more likely to suffer losses on defaulted loans.

Our Insurance segment s revenues have been adversely affected by a continued soft premium market for property and casualty insurance; volatility in the broader equity market has negatively impacted Wealth

Management earnings; and Investment Banking transactions have been curtailed due to market uncertainty and valuation issues.

Continued weakness could have a material adverse effect on our business, financial condition, results of operations and cash flows and on the market for our common stock.

Our allowance for loan losses may not be adequate to cover actual loan losses.

As a lender, we are exposed to the risk that our customers will be unable to repay their loans according to their terms and that any collateral securing the payment of their loans may not be sufficient to assure repayment. Credit losses are inherent in the lending business and could have a material adverse effect on our operating results. We make various assumptions and judgments about the collectibility of our loan portfolio and provide an allowance for potential losses based on a number of factors. If our assumptions are wrong, our allowance for loan losses may not be sufficient to cover our losses, thereby having an adverse effect on our operating results, and may cause us to increase the allowance in the future. In addition, we intend to increase the number and amount of loans we originate, and we cannot guarantee that we will not experience an increase in delinquencies and losses as these loans continue to age, particularly if the economic conditions in Colorado and Arizona further deteriorate. The actual amount of future provisions for loan losses cannot be determined at any specific point in time and may exceed the amounts of past provisions. Additions to our allowance for loan losses would decrease our net income.

Our commercial real estate and construction loans are subject to various lending risks depending on the nature of the borrower s business, its cash flow and our collateral.

Our commercial real estate loans involve higher principal amounts than other loans, and repayment of these loans may be dependent on factors outside our control or the control of our borrowers. Repayment of commercial real estate loans is generally dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service. Rental income may not rise sufficiently over time to meet increases in the loan rate at repricing or increases in operating expenses, such as utilities and taxes. As a result, impaired loans may be more difficult to identify without some seasoning. Because payments on loans secured by commercial real estate often depend upon the successful operation and management of the properties, repayment of such loans may be affected by factors outside the borrower s control, such as adverse conditions in the real estate market or the economy or changes in government regulation. If the cash flow from the property is reduced, the borrower s ability to repay the loan and the value of the security for the loan may be impaired.

Repayment of our commercial loans is often dependent on cash flow of the borrower, which may be unpredictable, and collateral securing these loans may fluctuate in value. Generally, this collateral is accounts receivable, inventory, equipment or real estate. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. Other collateral securing loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business.

Our construction loans are based upon estimates of costs to construct and the value associated with the completed project. These estimates may be inaccurate due to the uncertainties inherent in estimating construction costs, as well as the market value of the completed project and the effects of governmental regulation of real property making it relatively difficult to accurately evaluate the total funds required to complete a project and the related loan-to-value ratio. As a result, construction loans often involve the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project and the ability of the borrower to sell or lease the property, rather than the ability of the borrower or guarantor to repay principal and interest. Delays in completing the project may arise from labor problems, material shortages and other unpredictable contingencies. If the estimate of construction costs is inaccurate, we may be required to advance additional funds to complete construction. If our appraisal of the value of the completed project proves to be overstated, we may have inadequate security for the repayment of the loan upon completion of construction of the project.

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Our consumer loans generally have a higher risk of default than our other loans.

Consumer loans entail greater risk than residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by rapidly depreciating assets. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of damage, loss or depreciation. The remaining deficiency often does not warrant further collection efforts against the borrower beyond obtaining a deficiency judgment. In addition, consumer loan collections are dependent on the borrower s continuing financial stability, and thus, are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans.

We may not realize our deferred income tax assets. In addition, our net operating loss carryforwards and built in losses could be substantially limited if we experience an ownership change as defined in the Internal Revenue Code.

The Company may experience negative or unforeseen tax consequences. We review the probability of the realization of our net deferred tax assets each period based on forecasts of taxable income. This review uses historical results, projected future operating results based upon approved business plans, eligible carryforward and carryback periods, tax-planning opportunities and other relevant considerations. Adverse changes in the profitability and financial outlook in the U.S. and our industry may require the creation of an additional valuation allowance to reduce our net deferred tax assets. Such changes could result in material non-cash expenses in the period in which the changes are made and could have a material adverse impact on the Company s results of operations and financial condition.

In addition, the benefit of our built-in losses would be reduced if we experience an ownership change, as determined under Internal Revenue Code Section 382 (Section 382). A Section 382 ownership change occurs if a stockholder or a group of stockholders who are deemed to own at least 5% of our common stock increase their ownership by more than 50 percentage points over their lowest ownership percentage within a rolling three-year period. If an ownership change occurs, Section 382 would impose an annual limit on the amount of built-in losses we can use to reduce our taxable income equal to the product of the total value of our outstanding equity immediately prior to the ownership change (reduced by certain items specified in Section 382) and the federal long-term tax-exempt interest rate in effect for the month of the ownership change. A number of complex rules apply to calculating this annual limit.

While the complexity of Section 382 s provisions and the limited knowledge any public company has about the ownership of its publicly traded stock make it difficult to determine whether an ownership change has occurred, we currently believe that an ownership change has not occurred. However, if an ownership change were to occur, the annual limit Section 382 may impose could result in a limitation of the annual deductibility of our built-in losses.

The value of securities in our investment securities portfolio may be negatively affected by continued disruptions in securities markets.

The market for some of the investment securities held in our portfolio has been volatile. Market conditions may negatively affect the value of securities. There can be no assurance that the declines in market value associated with these disruptions will not result in other-than- temporary impairments of these assets, which would lead to accounting charges that could have a material adverse effect on our net income and capital levels.

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The Company may be adversely affected by the soundness of other financial institutions.

Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. The Company has exposure to many different industries and counterparties, and routinely executes transactions with counterparties in the financial services industry including commercial banks, brokers and dealers, investment banks, and other institutional clients. Many of these transactions expose the Company to credit risk in the event of a default by a counterparty or client. In addition, the Company s credit risk may be exacerbated when the collateral held by the Company cannot be realized or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due to the Company. Any such losses could have a material adverse affect on the Company s financial condition and results of operations.

Supervisory guidance on commercial real estate concentrations could restrict our activities and impose financial requirements or limitations on the conduct of our business.

The OCC, the FRB and the FDIC finalized joint supervisory guidance in 2006 on sound risk management practices for concentrations in commercial real estate lending. The guidance is intended to help ensure that institutions pursuing a significant commercial real estate lending strategy remain healthy and profitable while continuing to serve the credit needs of their communities. The agencies are concerned that rising commercial real estate loan concentrations may expose institutions to unanticipated earnings and capital volatility in the event of adverse changes in commercial real estate markets. The guidance reinforces and enhances existing regulations and guidelines for safe and sound real estate lending. The guidance provides supervisory criteria, including numerical indicators to assist in identifying institutions with potentially significant commercial real estate loan concentrations that may warrant greater supervisory scrutiny. The guidance does not limit banks commercial real estate lending, but rather guides institutions in developing risk management practices and levels of capital that are commensurate with the level and nature of their commercial real estate concentrations. Lending and risk management practices of the Company will be taken into account in supervisory evaluation of capital adequacy. Our commercial real estate portfolio at December 31, 2011, did not meet the definition of commercial real estate concentration as set forth in the final guidelines. If the Company is considered to have a concentration in the future and our risk management practices are found to be deficient, it could result in increased reserves and capital costs.

To the extent that any of the real estate securing our loans becomes subject to environmental liabilities, the value of our collateral will be diminished.

In certain situations, under various federal, state and local environmental laws, ordinances and regulations as well as the common law, a current or previous owner or operator of real property may be liable for the cost of removal or remediation of hazardous or toxic substances on such property or damage to property or personal injury. Such laws may impose liability whether or not the owner or operator was responsible for the presence of such hazardous or toxic substances. Environmental laws also may impose restrictions on the manner in which properties may be used or businesses may be operated, and these restrictions may require expenditures by one or more of our borrowers. Such laws may be amended so as to require compliance with stringent standards which could require one or more of our borrowers to make unexpected expenditures, some of which could be substantial. Environmental laws provide for sanctions in the event of noncompliance and may be enforced by governmental agencies or, in certain circumstances, by private parties. One or more of our borrowers may be responsible for such costs which would diminish the value of our collateral. The cost of defending against claims of liability, of compliance with environmental regulatory requirements or of remediating any contaminated property could be substantial and require a material portion of the cash flow of one or more of our borrowers, which would diminish the ability of any such borrowers to repay our loans.

Changes in interest rates may affect our profitability.

Our profitability is, in part, a function of the spread between the interest rates earned on investments and loans, and the interest rates paid on deposits and other interest-bearing liabilities. Our net interest spread and margin will be affected by general economic conditions and other factors, including fiscal and monetary policies of the federal government, that influence market interest rates and our ability to respond to changes in such rates. At any given time, our assets and liabilities structures are such that they are affected differently by a change in interest rates. As a result, an increase or decrease in interest rates, the length of loan terms or the mix of adjustable and fixed-rate loans in our portfolio could have a positive or negative effect on our net income, capital and liquidity. We have traditionally managed our assets and liabilities in such a way that we have a positive interest rate gap. 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 and are more likely to experience increases in net interest income in periods of rising interest rates. In addition, an increase in interest rates may adversely affect the ability of some borrowers to pay the interest on and principal of their loans.

Our fee-based businesses are subject to quarterly and annual volatility in their revenues and earnings.

Our fee-based businesses have historically experienced, and are likely to continue to experience, quarterly and annual volatility in revenues and earnings. With respect to our investment banking services segment, GMB, the delay in the initiation or the termination of a major new client engagement, or any changes in the anticipated closing date of client transactions can directly affect revenues and earnings for a particular quarter or year. With respect to our insurance segment, CoBiz Insurance Inc. and FDL-Employee Benefits division, our revenues and earnings also can experience quarterly and annual volatility, depending on the timing of the initiation or termination of a major new client engagement. With respect to our investment advisory business, our revenues and earnings are dependent on the value of our assets under management, which in turn are heavily dependent upon general conditions in debt and equity markets. Any significant volatility in debt or equity markets are likely to directly affect revenues and earnings of CIM. for a particular quarter or year. In addition, a substantial portion of the revenues and earnings of our wealth management segment are often generated during our fourth quarter as many of their clients seek to finalize their wealth transfer and estate plans by year end.

We rely heavily on our management, and the loss of any of our senior officers may adversely affect our operations.

Consistent with our policy of focusing growth initiatives on the recruitment of qualified personnel, we are highly dependent on the continued services of a small number of our executive officers and key employees. The loss of the services of any of these individuals could adversely affect our business, financial condition, results of operations and cash flows. The failure to recruit and retain key personnel could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our business and financial condition may be adversely affected by competition.

The banking business in the Denver and Phoenix metropolitan areas is highly competitive and is currently dominated by a number of large regional and national financial institutions. In addition to these regional and national banks, there are a number of smaller commercial banks that operate in these areas. We compete for loans and deposits with banks, savings and loan associations, finance companies, credit unions, and mortgage bankers. In addition to traditional financial institutions, we also compete for loans with brokerage and investment banking companies, and governmental agencies that make available low-cost or guaranteed loans to certain borrowers. Particularly in times of high interest rates, we also face significant competition for deposits from sellers of short-term money market securities and other corporate and government securities.

By virtue of their larger capital bases or affiliation with larger multibank holding companies, many of our competitors have substantially greater capital resources and lending limits than we have and perform other functions that we offer only through correspondents. Interstate banking and unlimited state-wide branch banking are permitted in Colorado and Arizona. As a result, we have experienced, and expect to continue to experience, greater competition in our primary service areas. Our business, financial condition, results of operations and cash flows may be adversely affected by competition, including any increase in competition. Moreover, recently enacted and proposed legislation has focused on expanding

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the ability of participants in the banking and thrift industries to engage in other lines of business. The enactment of such legislation could put us at a competitive disadvantage because we may not have the capital to participate in other lines of business to the same extent as more highly capitalized financial service holding companies.

We may be required to make capital contributions to the Bank if it becomes undercapitalized.

Under federal law, a bank holding company may be required to guarantee a capital plan filed by an undercapitalized bank subsidiary with its primary regulator. If the subsidiary defaults under the plan, the holding company may be required to contribute to the capital of the subsidiary bank in an amount equal to the lesser of 5% of the Bank s assets at the time it became undercapitalized or the amount necessary to bring the Bank into compliance with applicable capital standards. Therefore, it is possible that we will be required to contribute capital to our subsidiary bank or any other bank that we may acquire in the event that such bank becomes undercapitalized. If we are required to make such capital contribution at a time when we have other significant capital needs, our business, financial condition, results of operations and cash flows could be adversely affected.

We continually encounter technological change, and we may have fewer resources than our competitors to continue to invest in technological improvements.

The financial services industry is undergoing rapid technological changes, with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We cannot assure you that we will be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers.

An interruption in or breach in security of our information systems, including the occurrence of a cyber incident or a deficiency in our cybersecurity may result in a loss of customer business or damage to our brand image.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or cyber incident of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposits, and servicing or loan origination systems. A cyber incident is an intentional attack or an unintentional event that can include gaining unauthorized access to information systems to disrupt operations, corrupt data, or steal confidential information. The occurrence of any failures, interruptions or cyber incidents could result in a loss of customer business and have a material adverse effect on our business, financial condition, results of operations and cash flows.

We are subject to significant government regulation, and any regulatory changes may adversely affect us.

The banking industry is heavily regulated under both federal and state law. These regulations are primarily intended to protect customers, not our creditors or shareholders. As a financial holding company, we are also subject to extensive regulation by the FRB, in addition to other regulatory and self-regulatory organizations. Regulations affecting banks and financial services companies undergo continuous change, and we cannot predict the ultimate effect of such changes, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

At December 31, 2011, we had 12 bank locations, four fee-based locations and an operations center in Colorado and six bank locations and a fee-based location in Arizona. Our executive offices are located at 821 17th St., Denver, Colorado, 80202. We lease our executive offices and our Northeast office from entities partly owned or controlled by a director of the Company. See Certain Relationships and Related Transactions and Director Independence under Item 13 of Part III and Note 14 to the Consolidated financial statements. The terms of these leases expire between 2012 and 2020. The Company leases all of its facilities with the exception of the Prince bank in Littleton, Colorado which the Company purchased during 2010. The following table sets forth specific information on each location.

Bank Locations	**Address**	**Lease Expiration**
Colorado:		
Prince	2409 W. Main St., Littleton, CO 80120	Owned
Cherry Creek	301 University Blvd., Stes. 100 & 200, Denver, CO 80206	2012
Littleton	101 W. Mineral Ave., Littleton, CO 80120	2012
Eagle	212 Chambers Ave., Unit 3, Eagle, CO 81631	2013
Northeast	4695 Quebec St., Denver, CO 80216	2013
Boulder	2025 Pearl St., Boulder, CO 80302	2014
Northwest	400 Centennial Pkwy., Ste. 100, Louisville, CO 80027	2014
Tremont	1275 Tremont Pl., Denver, CO 80204	2014
Vail Valley	56 Edwards Village Blvd., Ste. 130, Edwards, CO 81632	2014
West Metro	15710 W. Colfax Ave., Golden, CO 80401	2015
Denver	821 17th St., Denver, CO 80202	2016
Denver Operations Center	717 17th St., Ste. 400, Denver, CO 80202	2020
DTC	4582 S. Ulster Street Parkway, Ste. 100, Denver, CO, 80237	2020
Arizona:		
Chandler	2727 W. Frye Rd., Ste. 100, Chandler, AZ 85224	2012
East Valley	1757 E. Baseline Rd., Ste. 101, Gilbert, AZ 85233	2017
Phoenix	2600 N. Central Ave., Ste. 2000, Phoenix, AZ 85004	2017
Scottsdale	6909 E. Greenway Pkwy., Ste. 150, Scottsdale, AZ 85254	2018
Scottsdale Fashion Square	7150 E. Camelback Rd., Ste. 100, Scottsdale, AZ 85251	2018
Tempe	1620 W. Fountainhead Pkwy., Ste. 119, Tempe, AZ 85282	2018

Fee-Based Locations	**Address**	**Lease Expiration**
CoBiz Insurance Inc.:		
Colorado	821 17th St., Denver, CO 80202	2016
Arizona	2600 N. Central Ave., Ste. 1950, Phoenix, AZ 85004	2017
Financial Designs Ltd.	1775 Sherman St., Ste. 1800, Denver, CO 80203	2013
CoBiz Investment Management, LLC	1099 18th St., Ste. 3000, Denver, CO 80202	2018

Green Manning & Bunch, Ltd.	1515 Wynkoop St., Ste. 800, Denver, CO 80202	2020

All locations are in good operating condition and are believed adequate for our present and foreseeable future operations. We do not anticipate any difficulty in leasing additional suitable space upon expiration of any present lease terms.

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Item 3. Legal Proceedings

Periodically and in the ordinary course of business, various claims and lawsuits which are incidental to our business are brought against or by us. We believe, based on the dollar amount of the claims outstanding at the end of the year, the ultimate liability, if any, resulting from such claims or lawsuits will not have a material adverse effect on the business, financial condition, results of operations or cash flows of the Company.

Item 4. Mine Safety Disclosures

None.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market for Registrant s Common Equity

The common stock of the Company is traded on the NASDAQ Global Select Market under the symbol COBZ.   At February 29, 2012, there were approximately 484 shareholders of record of CoBiz common stock.

The following table presents the range of high and low sale prices of our common stock for each quarter within the two most recent fiscal years as reported by the NASDAQ Global Select Market and the per-share dividends declared in each quarter during that period.

		High		Low		Cash Dividends Declared
2010:						
First Quarter	$	6.60	$	4.25	$	0.01
Second Quarter		8.29		5.99		0.01
Third Quarter		6.78		4.98		0.01
Fourth Quarter		6.20		4.71		0.01
2011:						
First Quarter	$	7.02	$	5.54	$	0.01
Second Quarter		7.00		5.93		0.01
Third Quarter		6.54		4.36		0.01
Fourth Quarter		5.84		4.22		0.01

The timing and amount of future dividends declared by the Board of Directors of the Company will depend upon the consolidated earnings, financial condition, liquidity and capital requirements of the Company and its subsidiaries, the amount of cash dividends paid to the Company by its subsidiaries, applicable government regulations and policies, and other factors considered relevant by the Board of Directors of the Company. The Company is subject to certain covenants pursuant to the issuance of its junior subordinated debentures as described in Note 8 to the consolidated financial statements that could limit our ability to pay dividends.

Pursuant to the terms of the securities purchase agreement executed in the issuance of the Series C Preferred Stock, the ability of the Company to declare or pay dividends or distributions on, or purchase, redeem or otherwise acquire for consideration, shares of its common stock will be subject to restrictions in the event that the Company fails to declare and pay full dividends on the Series C Preferred Stock. At December 31, 2011, the Company has paid all required dividends under the purchase agreement when due.

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Capital distributions, including dividends, by institutions such as the Bank are subject to restrictions tied to the institution s earnings. See Supervision and Regulation The Bank and The Holding Company Dividend Restrictions included under Item 1 of Part I.

The following table compares the cumulative total return on a hypothetical investment of $100 in CoBiz common stock on December 31, 2006 and the closing prices on each of the five years in the period ended December 31, 2011, with the hypothetical cumulative total return on the Russell 2000 Index and the NASDAQ Bank Index for the comparable period.

	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011
CoBiz Financial Inc.	$ 100.00	$ 68.46	$ 45.97	$ 22.88	$ 29.50	$ 28.18
NASDAQ Bank Index	$ 100.00	$ 80.10	$ 62.86	$ 52.62	$ 60.08	$ 53.76
Russell 2000 Index	$ 100.00	$ 98.44	$ 65.17	$ 82.87	$ 105.14	$ 100.73

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Item 6. Selected Financial Data

The following table sets forth selected financial data for the Company for the periods indicated. During the periods reported, the Company has completed two acquisitions of companies as described in Part I, Item 1.

At or for the year ended December 31, (in thousands, except per share data)	**2011**	**2010**	**2009**	**2008**	**2007**
Statement of income data:					
Interest income	$ 111,264	$ 115,979	$ 129,450	$ 144,908	$ 154,510
Interest expense	14,863	19,148	26,066	49,557	66,611
Net interest income before provision for loan losses	96,401	96,831	103,384	95,351	87,899
Provision for loan losses	4,002	35,127	105,815	39,796	3,936
Net interest income (loss) after provision for loan losses	92,399	61,704	(2,431)	55,555	83,963
Noninterest income	35,956	35,008	27,627	35,778	28,611
Noninterest expense	100,547	109,112	141,410	89,717	75,515
Income (loss) before taxes	27,808	(12,400)	(116,214)	1,616	37,059
Provision (benefit) for income taxes	(5,654)	10,028	(32,859)	(91)	13,713
Net income (loss) before noncontrolling interest	$ 33,462	$ (22,428)	$ (83,355)	$ 1,707	$ 23,346
Less: net (income) loss attributable to noncontrolling interest		(209)	314	(379)	(322)
Net income (loss)	$ 33,462	$ (22,637)	$ (83,041)	$ 1,328	$ 23,024
Earnings (loss) per common share - basic	$ 0.76	$ (0.72)	$ (2.98)	$ 0.05	$ 0.98
Earnings (loss) per common share - diluted	$ 0.76	$ (0.72)	$ (2.98)	$ 0.05	$ 0.96
Cash dividends declared per common share	$ 0.04	$ 0.04	$ 0.10	$ 0.28	$ 0.26
Dividend payout ratio	5.26%	NM	NM	560.00%	26.53%
Balance sheet data:					
Total assets	$ 2,423,504	$ 2,395,088	$ 2,466,015	$ 2,684,275	$ 2,391,012
Total investments	633,308	644,668	545,980	500,448	395,663
Loans	1,637,424	1,643,727	1,780,866	2,031,253	1,846,326
Allowance for loan losses	55,629	65,892	75,116	42,851	20,043
Loans held for sale			1,820		
Deposits	1,918,406	1,889,368	1,968,833	1,639,031	1,742,689
Junior subordinated debentures	72,166	72,166	72,166	72,166	72,166
Subordinated notes payable	20,984	20,984	20,984	20,984	
Shareholders equity	220,082	201,738	230,451	252,099	189,270
Key ratios:					
Return on average total assets	1.39%	(0.93)%	(3.25)%	0.05%	1.04%
Pre-tax, pre-provision return on assets (PTPP ROA) (1)	1.49%	1.27%	1.63%	1.79%	1.88%
Return on average shareholders equity	16.23%	(10.17)%	(35.23)%	0.67%	12.15%
Average shareholders equity to average total assets	8.58%	9.15%	9.22%	7.80%	8.54%
Net interest margin	4.35%	4.37%	4.38%	4.08%	4.28%
Efficiency ratio (2)	73.01%	76.49%	68.27%	65.10%	64.10%

Nonperforming assets to total assets	1.89%	2.83%	4.24%	1.75%	0.15%
Nonperforming loans to total loans	1.66%	2.60%	4.44%	2.02%	0.18%
Allowance for loan and credit losses to total loans	3.40%	4.01%	4.23%	2.12%	1.12%
Allowance for loan and credit losses to nonperforming loans	204.38%	154.33%	97.28%	104.95%	604.69%
Net charge-offs (recoveries) to average loans	0.86%	2.62%	3.78%	0.87%	0.11%

(1) Pre-tax pre-provision earnings (PTPP) is a non-GAAP measure and is calculated as total revenue less noninterest expense (excluding impairment and valuation losses). The Company believes that PTPP is a useful financial measure that enables investors and others to assess the Company s ability to generate capital to cover credit losses and is a reflection of earnings generated by the core business.

Net income - GAAP	$ 33,462	$ (22,637)	$ (83,041)	$ 1,328	$ 23,024
Adjusted for:					
Provision (benefit) for income taxes	(5,654)	10,028	(32,859)	(91)	13,713
Provision for loan and credit losses	3,976	35,033	105,711	39,479	3,936
Net other than temporary impairment losses on securities recognized in earnings	771	451	922		
Loss on securities, other assets and other real estate owned	3,145	7,977	4,677	4,592	1,039
Goodwill impairment			46,160		
Pre-tax, pre-provision earnings	$ 35,700	$ 30,852	$ 41,570	$ 45,308	$ 41,712
Average assets	$ 2,403,960	$ 2,434,002	$ 2,556,706	$ 2,529,901	$ 2,218,625
PTPP ROA	1.49%	1.27%	1.63%	1.79%	1.88%

(2) Efficiency ratio is computed by dividing noninterest expense by the sum of net interest income before provision for loan losses and noninterest income, excluding gains and losses on asset sales and valuation adjustments.

NM - Not Meaningful

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

The Company is a financial holding company that offers a broad array of financial service products to its target market of professionals, small and medium-sized businesses, and high-net-worth individuals. Our operating segments include: Commercial Banking, Investment Banking, Wealth Management, and Insurance.

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 (which is 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 our net interest margin by increasing our noninterest income.

During the economic and industry turmoil since 2008, we have continued to focus on developing an organization with personnel, management systems and products that will allow us to compete effectively and position us for growth. Many of our competitors have drastically cut costs by closing locations and reducing employee bases during this time. Although we have also focused on reducing costs that do not impact customer service, we have also continued to invest in systems and business production personnel to strengthen our future growth prospects. The economic downturn has also negatively impacted our customer base and our levels of nonperforming assets have increased as a result. The combination of the increased levels of nonperforming assets and continued investment in the business has caused relatively high levels of noninterest expense that has adversely affected our earnings over the past several years. Salaries and employee benefits, loan workout costs and losses on Other Real Estate Owned (OREO) have comprised most of this overhead category.

Industry Overview. The U.S. commercial banking industry has been significantly impacted between 2008 and 2011 by decreased values in real estate related assets, a downturn in the financial markets and a significant tightening in the credit market. The weakened U.S. housing market has caused the industry to realize significant losses on write-downs of investment securities securitized by real estate and higher credit costs for write-downs of loans issued for investment. The October 2011 S&P/Case-Shiller Home Price Indices data indicated that the real estate market is still struggling. Both the 10-City and 20-City Indices recorded annual returns of -3.0% and -3.4%, respectively. In the Company s markets, the Arizona index was at its lowest level since October 2002 and the Colorado market was only slightly above the lowest level since October 2002.

At the December 2011 meeting, the Federal Open Market Committee (FOMC) kept the target range for federal funds rate at 0-25 basis points in order to promote the ongoing economic recovery. The target federal funds rate has been at this level since December 2008. The FOMC currently anticipates that economic conditions are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014.

The national unemployment rate decreased from 9.4% in December 2010 to 8.5% at December 2011. The unemployment rate has decreased for four consecutive months and is at the lowest level since February 2009. While decreasing, the high unemployment rate is a driving factor that could prolong a weak economy. During 2008-2010, 322 banks failed and went into receivership with the FDIC, causing estimated losses of $79.1 billion to the Depository Insurance Fund. In 2011, 92 banks went into receivership. The FDIC has also taken possession of 3 banks in the first month of 2012. This compares to only 10 bank failures in the years 2003 to 2007. The FDIC s problem list stood at 844 at September 30, 2011, down from 884 at the end of 2009 and up from 252 at the end of 2008.

In the third quarter of 2011, FDIC-insured commercial banks reported a combined net income of $35.3 billion, the highest level since the second quarter of 2007. Industry earnings have increased year over year for nine consecutive quarters. Noncurrent loans decreased for the sixth consecutive quarter, helping drive a decrease in charge-offs and loan loss provisions.

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Company Overview. From December 31, 1995, the first complete fiscal year under the current management team, to December 31, 2011, our organization has grown from a bank holding company with two bank locations and total assets of $160.4 million to a diversified financial services holding company with 18 bank locations, four fee-based businesses and total assets of $2.4 billion. As discussed in Item 1. Business and Note 18 to the Consolidated financial statements, the Company changed its operating segments in 2010 to reflect an internal realignment of its wealth management components. The prior period disclosures in the following table have been adjusted to conform to the new presentation. Certain key metrics of our operating segments at or for the years ended December 31, 2011, 2010 and 2009 are as follows:

(in thousands, except per share data)	Commercial Banking	Investment Banking	Wealth Management	Insurance	Corporate Support and Other	Consolidated
			2011			
Operating revenue (1)	$ 111,907	$ 7,245	$ 9,396	$ 9,270	$ (5,461)	$ 132,357
Net income (loss)	$ 31,393	$ 686	$ (293)	$ (33)	$ 1,709	$ 33,462
Diluted income (loss) per common share (2)	$ 0.86	$ 0.02	$ (0.01)	$	$ (0.11)	$ 0.76
			2010			
Operating revenue (1)	$ 111,422	$ 5,658	$ 9,714	$ 8,692	$ (3,647)	$ 131,839
Net loss	$ (86)	$ (91)	$ (1,295)	$ (818)	$ (20,347)	$ (22,637)
Diluted income (loss) per common share (2)	$	$	$ (0.04)	$ (0.02)	$ (0.66)	$ (0.72)
			2009			
Operating revenue (1)	$ 116,768	$ 1,161	$ 8,036	$ 8,899	$ (3,853)	$ 131,011
Net loss	$ (47,698)	$ (4,585)	$ (22,243)	$ (2,632)	$ (5,883)	$ (83,041)
Diluted income (loss) per common share (2)	$ (1.64)	$ (0.16)	$ (0.76)	$ (0.09)	$ (0.33)	$ (2.98)

(1) Net interest income plus noninterest income

(2) The per share impact of preferred stock dividends and earnings allocated to participating securities are included in Corporate Support and Other.

Noted below are some of the significant financial performance measures and operational results for 2011 and 2010:

2011

• Commercial Banking earned $0.86 on a per share basis in 2011 compared to break-even in 2010. Earnings per share in 2011 have significantly improved from the $1.64 per share loss in 2009. The primary driver of the earnings increase was a reduction in the provision for loan losses, which totaled $0.6 million in 2011 and $30.2 million in 2010. Nonperforming assets decreased to $45.7 million at the end of 2011, from $67.8 million at the end of 2010. The Bank s ratio of allowance for loan and credit losses to total loans ended the year at 3.4% and the allowance exceeds 204% of nonperforming loans. During the fourth quarter of 2011, the segment benefited from the reversal of a deferred tax valuation allowance of $4.1 million that was originally recorded at the end of 2010.

- Investment Banking earned $0.02 on a per share basis in 2011 compared to break-even in 2010. Investment Banking revenue in 2011 was at the highest level for the segment since 2004.

- Wealth Management lost $0.01 per diluted share in 2011, an improvement over the loss of $0.04 in 2010. A reduction in operating expenses exceeded the loss in revenue for the segment. During the fourth quarter of 2011, the segment benefited from the reversal of a deferred tax valuation allowance of $0.2 million that was originally recorded at the end of 2010.

- Insurance broke even in 2011, an improvement over the $0.02 loss per diluted share in 2010. Revenue earned by the segment increased in 2011 due to a 27% increase in income from employee benefit brokerage. During the fourth quarter of 2011, the segment benefited from the reversal of a deferred tax valuation allowance of $0.3 million that was originally recorded at the end of 2010.

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- Corporate Support and Other lost $0.11 per diluted share in 2011, an improvement from a loss of $0.66 in 2010. During the fourth quarter of 2011, the segment benefited from the reversal of a deferred tax valuation allowance of $11.0 million that was originally recorded at the end of 2010.

- The Series B Preferred Stock issued under the CPP was redeemed in full during September 2011 for $64.5 million plus accrued dividends. Concurrent with the redemption, Series C Preferred Stock was issued to Treasury under the SBLF for $57.4 million with an initial dividend rate of 5%. Together, the transactions resulted in a $7.0 million decline in shareholder equity.

- During the fourth quarter of 2011, the Company reversed a deferred tax asset valuation allowance in the amount of $15.6 million that was originally recorded in the fourth quarter of 2010.

- The Company recognized losses of $3.9 million in 2011 on valuation adjustments of other real estate owned, other-than-temporary impairments on investments and the closure of a branch location.

- The net interest margin on a tax-equivalent basis declined slightly to 4.35% compared to 4.37% in 2010.

- Total noninterest-bearing demand accounts represented 37.6% of total deposits at December 31, 2011.

- The Company s total risk-based capital ratio was 16.3% at the end of 2011, up from 15.5% at the end of 2010.

2010

- Commercial Banking broke even on a per share basis in 2010 compared to a loss of $1.64 per diluted share in 2009. Our commercial banking franchise recognized provision for loan losses of $30.2 million in 2010, a significant reduction compared to $103.4 million in 2009. Nonperforming assets decreased to $67.8 million at the end of 2010, from $104.5 million at the end of 2009. The Bank s ratio of allowance for loan and credit losses to total loans ended the year at 4.01% and the allowance exceeded 154% of nonperforming loans. During the fourth quarter of 2010, the segment recorded a deferred tax valuation charge of $4.1 million. Also contributing to the improvement was the absence of a goodwill impairment that negatively impacted the 2009 results.

- Investment Banking broke even on a per share basis in 2010, compared to a loss of $0.16 per diluted share in 2009. After muted mergers and acquisition activity in 2009 due to the adverse impact of severe macro economic conditions, the segment significantly improved the number of successful deals closed in 2010. Also contributing to the improvement was the absence of a goodwill impairment that negatively impacted the 2009 results.

- Wealth Management lost $0.04 per diluted share in 2010, an improvement over the loss of $0.76 in 2009. The segment recorded a $0.2 million deferred tax valuation allowance during 2010. Most of the major market indices rose during 2010, contributing to higher revenue for the segment. However, the integration of the Company s investment advisory firms into one legal entity and the subsequent marketing campaign of Wealth Management increased operating expenses. Wealth transfer revenue increased in 2010 over 2009, as the economy improved. Also contributing to the improvement was the absence of a goodwill impairment that negatively impacted the 2009 results.

- Insurance lost $0.02 per diluted share in 2010, an improvement over the $0.09 loss in 2009. A deferred tax valuation allowance of $0.3 million impacted the segment s earnings during 2010. The Company s P&C revenues are generated as a percentage of its client s insurance premiums.

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As client payrolls, revenues and business assets have shrunk due to economic conditions, premiums have also decreased. The Company continues to realize lower revenues on a large part of its existing client base. The improvement in the 2010 net loss per share was primarily due to the absence of a goodwill impairment that negatively impacted the 2009 results.

• Corporate Support and Other lost $0.66 per diluted share in 2010, down from a loss of $0.33 in 2009. The increase in the net loss per share was primarily due to an $11.0 million deferred tax valuation charge recorded in the fourth quarter of 2010, a $2.5 million increase in provision for loan loss expense for non-performing assets held at the parent company and a $2.0 million increase in valuation losses on OREO also held at the parent company.

• During the fourth quarter of 2010, the Company established a deferred tax asset valuation allowance in the amount of $15.6 million based on its assessment of the amount of deferred tax assets that are more likely than not to be realized.

• The Company recognized losses of $8.4 million in 2010 on valuation adjustments of other real estate owned and other-than-temporary impairments on investments.

• The net interest margin on a tax-equivalent basis remained steady at 4.37% compared to 4.38% in 2009.

• Total noninterest-bearing demand accounts represented 36.1% of total deposits at December 31, 2010, the highest level in the Company s history.

• The Company s total risk-based capital ratio was to 15.5% at the end of 2010, down from 16.1% at the end of 2009.

Bank. The commercial bank segment, the cornerstone of our franchise, was adversely impacted by the slowdown in the economy and the tightening in the credit markets during 2008-2010. While the Company was still impacted in 2011, the Bank returned to profitability. Net charge-offs fell to $14.3 million in 2011, from $44.4 million in 2010 and $73.6 million in 2009 (all years include net charge-offs on loans that were transferred to the parent company). Nonperforming assets decreased significantly in 2011 to $45.7 million, from $67.8 million at the end of 2010, but remains elevated over historical amounts. The negative impact of asset quality has affected the both the level of provision for loan losses and net interest income as earning assets decreased. The Bank, and the industry as a whole, continue to be challenged by new loan generation. Average loans decreased to $1.65 billion in 2011, from $1.69 billion in 2010 and $1.95 billion in 2009. Muted loan growth in the future will negatively impact the Bank s earnings as net interest income is the largest driver of operating income.

Fee-Based Business Lines. The Company s fee-based business lines Investment Banking, Insurance, and Wealth Management generated net income of $0.4 million in 2011. The ratio of noninterest income to total operating revenues was 27% in both 2011 and 2010.

We believe that through the combination of our Commercial Banking franchise and our fee-based businesses, we are uniquely situated to service our commercial clients throughout their business lifecycle. We are able to help our customers grow by providing banking services from our bank franchise, capital planning from GMB, and employee and executive benefits packages from CoBiz Insurance and FDL. We can assist in planning for the future with wealth transfer and business succession planning from FDL. We are able to protect assets with P&C insurance from CoBiz Insurance. We can facilitate exit and retirement strategies with merger and acquisition services from GMB. We are also able to preserve our customers wealth with trust and fiduciary services from CoBiz Trust and investment management services from CIM.

This discussion should be read in conjunction with the consolidated financial statements and notes thereto included in this Form 10-K beginning on page F-1. For a discussion of the segments included in our principal activities and for certain financial information for each segment, see Segment Results discussed below and Note 18 to the consolidated financial statements.

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Critical Accounting Policies

The Company s discussion and analysis of its consolidated financial condition and results of operations are based upon the Company s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. 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 are 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 consolidated financial condition or consolidated results of operations.

Allowance for Loan Losses

The allowance for loan losses is a critical accounting policy that requires subjective estimates in the preparation of the consolidated financial statements. The allowance for loan losses is evaluated on a regular basis by management and is based upon management s periodic review of the collectability of 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 more information becomes available.

In determining the appropriate level of the allowance for loan losses, we analyze the various components of the loan portfolio, including all significant credits, on an individual basis. When analyzing the adequacy, we segment the loan portfolio into components with similar characteristics, such as risk classification, past due status, type of loan, industry or collateral. We have a systematic process to evaluate individual loans and pools of loans within our loan portfolio. We maintain 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 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. Loans that are graded 5 or lower are categorized as non-classified credits, while loans graded 6 and higher are categorized as classified credits that have a higher risk of loss. 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.

Differences between the actual credit outcome of a loan and the risk assessment made by the Company could negatively impact the Company s earnings by requiring additional provision for loan losses. As a hypothetical example, if $25.0 million of grade 3, non-classified loans were transferred into classified loans at the same percentage level of existing classified loans, an additional $1.6 million of provision for loan losses would be required.

See Note 3 to the consolidated financial statements for further discussion on management s methodology.

Other Real Estate Owned

Other Real Estate Owned (OREO) represents properties acquired through foreclosure or physical possession. Write-downs to fair value at the time of transfer to OREO are charged to the allowance for loan losses. Subsequent to foreclosure, we periodically evaluate the value of OREO held for sale and record a valuation allowance for any subsequent declines in fair value less selling costs. Subsequent declines in value are charged to operations. Fair value is based on our assessment of information available to us at the end of a reporting period and depends upon a number of factors, including our historical experience, economic conditions, and issues specific to individual properties. Our evaluation of these factors involves subjective estimates and judgments that may change.

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Deferred Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance may be established. We consider the determination of this valuation allowance to be a critical accounting policy because of the need to exercise significant judgment in evaluating the amount and timing of recognition of deferred tax liabilities and assets, including projections of future taxable income. These judgments and estimates are reviewed on a continual basis as regulatory and business factors change. At December 31, 2011, the Company reversed the valuation allowance of $15.6 million it established during the fourth quarter of 2010. See Note 10 to the consolidated financial statements for additional information. A valuation allowance for deferred tax assets may be required in the future if the amounts of taxes recoverable through loss carry backs decline, if we project lower levels of future taxable income, or we project lower levels of tax planning strategies. Such additional valuation allowance would be established through a charge to income tax expense that would adversely affect our operating results.

Share-based Payments

Under ASC Topic 718, *Compensation   Stock Compensation* (ASC 718), we use the Black-Scholes option valuation model to determine the fair value of our stock options as discussed in Note 13 to the consolidated financial statements. The Black-Scholes fair value model includes various assumptions, including the expected volatility, expected life and expected dividend rate of the options. In addition, the Company is required to estimate the amount of options issued that are expected to be forfeited. These assumptions reflect our best estimates, but they involve inherent uncertainties based on market conditions generally outside of our control. As a result, if other assumptions had been used, share-based compensation expense, as calculated and recorded under ASC 718, could have been materially impacted. Furthermore, if we use different assumptions in future periods, share-based compensation expense could be materially impacted in future periods.

ASC 718 requires that cash retained as a result of the tax deductibility of employee share-based awards be presented as a component of cash flows from financing activities in the consolidated statement of cash flows.

Fair Value

The Company has adopted ASC Topic 820, *Fair Value Measurements and Disclosures* (ASC 820), as it applies to financial assets and liabilities effective January 1, 2008. ASC 820 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under ASC 820 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

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). Fair value may be used on a recurring basis for certain assets and liabilities such as available for sale securities and derivatives in which fair value is the primary basis of accounting. Similarly, fair value may be used on a nonrecurring basis to evaluate certain assets or liabilities such as impaired loans. Depending on the nature of the asset or liability, the Company uses various valuation techniques and assumptions in accordance with ASC 820 to determine the instrument s fair value. At December 31, 2011, $631.4 million

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of total assets, consisting of $623.5 million in available for sale securities and $7.9 million in derivative instruments, represented assets recorded at fair value on a recurring basis. At December 31, 2010, $642.7 million of total assets, consisting of $637.4 million in available for sale securities and $5.3 million in derivative instruments, represented assets recorded at fair value on a recurring basis. Certain private-label MBS valued using broker-dealer quotes based on proprietary broker models, which are considered by the Company an unobservable input (Level 3), totaled $2.0 million and $2.4 million of total assets at December 31, 2011 and 2010, respectively. The Company recognized $0.8 million and $0.4 million in other-than-temporary impairments on the private-label MBS for the year-ended December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, $17.2 million and $6.8 million, respectively, of total liabilities represented derivative instruments recorded at fair value on a recurring basis. Assets recorded at fair value on a nonrecurring basis consisted of impaired loans totaling $50.9 million and $47.6 million at December 31, 2011 and 2010, respectively. For additional information on the fair value of certain financial assets and liabilities see Note 17 to the consolidated financial statements.

We also have other policies that we consider to be significant accounting policies; however, these policies, which are disclosed in Note 1 of Notes to Consolidated Financial Statements, do not meet the definition of critical accounting policies because they do not generally require us to make estimates or judgments that are difficult or subjective.

Recent Accounting Pronouncements

Effective July 2011, the Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2011-02, *A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring* (ASU 2011-02). ASU 2011-02 amends ASC Topic 310 *Receivables,* by clarifying guidance for creditors in determining whether a concession has been granted and whether a debtor is experiencing financial difficulties. ASU 2011-02 also makes disclosure requirements deferred under ASU 2011-01, *Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20,* effective for interim and annual periods beginning on or after June 15, 2011. The adoption of this update did not have a material impact on the consolidated financial statements.

In April 2011, the FASB issued ASU No. 2011-03, *Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements* (ASU 2011-03), intended to improve financial reporting of repurchase agreements and refocus the assessment of effective control on a transferor s contractual rights and obligations rather than practical ability to perform those rights and obligations. The guidance in ASU 2011-03 is effective for the first interim or annual period beginning on or after December 15, 2011. The Company is evaluating the effect, if any, the adoption of ASU 2011-03 will have on its consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04). ASU 2011-04 represents the converged guidance of the FASB and the International Accounting Standards Board (IASB) on fair value measurement. A variety of measures are included in the update intended to either clarify existing fair value measurement requirements, change particular principles requirements for measuring fair value or for disclosing information about fair value measurements. For many of the requirements, the FASB does not intend to change the application of existing requirements under Accounting Standards Codification (ASC) Topic 820, Fair Value Measurements. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011 and early application is not permitted. The Company is evaluating the effect, if any, the adoption of ASU 2011-04 will have on its consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income* (ASU 2011-05), intended to increase the prominence of items reported in other comprehensive income and to facilitate convergence of accounting guidance in this area with that of the IASB. The amendments require that all non-owner changes in stockholders equity be presented in a single continuous statement of comprehensive income or in two separate but consecutive statements. Amendments under ASU 2011-05 for public entities will be applied retrospectively for fiscal years, and interim periods within those years,

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beginning after December 15, 2011. The Company is evaluating the effect, if any, the adoption of ASU 2011-05 will have on its consolidated financial statements.

In December 2011, the FASB issued ASU No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities* (ASU 2011-11). The amendments in ASU 2011-11 require the disclosure of information on offsetting and related arrangements for financial and derivative instruments to enable users of its financial statements to understand the effect of those arrangements on its financial position. Amendments under ASU 2011-11 will be applied retrospectively for fiscal years, and interim periods within those years, beginning after January 1, 2013. The Company is evaluating the effect, if any, adoption of ASU 2011-11 will have on its consolidated financial statements.

In December 2011, the FASB issued ASU No. 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05* (ASU 2011-12). ASU 2011-12 defers the provisions of ASU 2011-05 that required the presentation of reclassification adjustments on the face of both the statement of income and statement of other comprehensive income. ASU 2011-05 is effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company is evaluating the effect, if any, the adoption of ASU 2011-05 will have on its consolidated financial statements.

Financial Condition

The Company had total assets of $2.4 billion and total liabilities of $2.2 billion at December 31, 2011 and 2010. The following sections address the specific components of the balance sheets and significant matters relating to those components at and for the years ended December 31, 2011 and 2010.

Lending Activities

General. We provide a broad range of lending services, including commercial loans, commercial and residential real estate construction loans, commercial and residential real estate mortgage loans, consumer loans, revolving lines of credit, and tax-exempt financing. Our primary lending focus is commercial and real estate lending to small and medium-sized businesses with annual sales of $5.0 million to $75.0 million, and businesses and individuals with borrowing requirements of $250,000 to $15.0 million. At December 31, 2011, substantially all of our outstanding loans were to customers within Colorado and Arizona. Interest rates charged on loans vary with the degree of risk, maturity, underwriting and servicing costs, principal amount, and extent of other banking relationships with the customer. Interest rates are further subject to competitive pressures, money market rates, availability of funds, and government regulations. See Net Interest Income for an analysis of the interest rates on our loans.

Credit Procedures and Review. We address credit risk through internal credit policies and procedures, including underwriting criteria, officer and customer lending limits, a multi-layered loan approval process for larger loans, periodic document examination, justification for any exceptions to credit policies, loan review and concentration monitoring. In response to current conditions and heightened default risk due to depressed real estate and collateral values, the Company expanded the resources of the credit and loan review departments to provide for a more proactive identification and management of problem credits. In addition, we provide ongoing loan officer training and review. We have a continuous loan review process designed to promote early identification of credit quality problems, assisted by a dedicated Senior Credit Officer in each geographic market. All loan officers are charged with the responsibility of reviewing, at least on a monthly basis, all past due loans in their respective portfolios. In addition, each of the loan officers establishes a watch list of loans to be reviewed by the board of directors of the Bank. The loan portfolio is also monitored regularly by a loan review department that reports to the Chief Operations Officer of the Company and submits reports directly to the audit committee of the board of directors and the credit administration department.

In order to effectively respond to the current credit cycle, declining asset quality and increasing foreclosures, the Company made a significant investment in 2009 to establish a Special Assets Group

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comprised of experienced professionals to efficiently manage nonperforming assets. Management believes having the specialized function will allow our bankers to focus on seeking new lending and deposit relationships while troubled asset levels are effectively managed. In the latter part of 2011, the Company began redeploying certain officers from the Special Assets Group into production roles due to the improvement in asset quality.

Composition of Loan Portfolio. The following table sets forth the composition of our loan portfolio at the dates indicated.

	At December 31,														
	2011			2010			2009			2008			2007		
(in thousands)		**Amount**	**%**		**Amount**	**%**		**Amount**	**%**		**Amount**	**%**		**Amount**	**%**
Commercial	$	568,962	36.0	$	565,145	35.8	$	559,612	32.8	$	648,968	32.6	$	576,959	31.6
Real estate - mortgage		784,491	49.5		783,675	49.7		832,509	48.8		870,262	43.8		728,076	39.9
Land acquisition & development		61,977	3.9		83,871	5.3		152,667	8.9		221,946	11.2		236,637	13.0
Real estate construction		63,141	4.0		86,862	5.5		144,069	8.4		192,164	9.7		219,081	12.0
Consumer		116,676	7.4		94,607	6.0		76,103	4.5		86,701	4.4		71,422	3.9
Other		42,177	2.7		29,567	1.9		15,906	0.9		11,212	0.6		14,151	0.8
Total loans	$	1,637,424	103.5	$	1,643,727	104.2	$	1,780,866	104.3	$	2,031,253	102.2	$	1,846,326	101.1
Less allowance for loan losses		(55,629)	(3.5)		(65,892)	(4.2)		(75,116)	(4.4)		(42,851)	(2.2)		(20,043)	(1.1)
Net loans held for investment	$	1,581,795	100.0	$	1,577,835	100.0	$	1,705,750	99.9	$	1,988,402	100.0	$	1,826,283	100.0
Loans held for sale								1,820	0.1						
Net loans	$	1,581,795	100.0	$	1,577,835	100.0	$	1,707,570	100.0	$	1,988,402	100.0	$	1,826,283	100.0

Gross loans decreased $6.3 million in 2011. Loan portfolio composition at December 31, 2011 did not change materially from the prior year. The Company experienced growth in its jumbo mortgage product leading to an increase in Consumer loans of $22.1 million or 23% to $116.7 million at December 31, 2011. Other loans also increased $12.6 million or 43% to $42.2 million at December 31, 2011 due to growth in tax-exempt financing. Increases in these two loan categories were offset by decreases in the land acquisition and development ($21.9 million) and real estate construction ($23.7 million) categories. The loan portfolio s downward trend in prior years is primarily attributable to a decrease in the land acquisition and development loan portfolio. Due to overall market illiquidity and the significant value declines on raw land during that time, the Company ceased lending activities for the acquisition and future development of land. The land acquisition and development loan portfolio contributed to 84% of the total decrease of $208.9 million in our loan portfolio since 2007. The recent adverse economic conditions have contributed to a challenging operating environment and a downward trend in loan demand. However, the shift in loan concentration is primarily attributed to successful efforts to further diversify the Company s loan portfolio. The Company has been successful in reducing high risk loan concentration levels and growing other loan categories mainly by exploring new niche lending opportunities such as tax exempt financing and jumbo mortgages.

Under state law, the aggregate amount of loans we can make to one borrower is generally limited to 15% of our unimpaired capital, surplus, undivided profits and allowance for loan losses. At December 31, 2011, our individual legal lending limit was $42.8 million. The Bank s Board of Directors has established an internal lending limit of $15.0 million for normal credit extensions and $20.0 million for the highest rated credit types. To accommodate customers whose financing needs exceed our internal lending limits and to address portfolio concentration concerns, we sell loan participations to outside participants. At December 31, 2011 and 2010, the outstanding balance of loan participations sold by us was $17.2 million and $18.4 million, respectively. At December 31, 2011 and 2010, we had loan participations purchased from other banks totaling $7.6 million and $43.3 million, respectively. We use the same analysis in deciding whether or not to purchase a participation in a loan as we would in deciding whether to originate the same loan.

Due to the nature of our business as a commercial banking institution, our lending relationships are typically larger than those of a retail bank. The following table describes the number of relationships and the percentage of the dollar value of the loan portfolio by the size of the credit relationship.

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	2011		2010		2009	
Credit Relationships	**Number of Relationships**	**% of Loan Portfolio**	**Number of Relationships**	**% of Loan Portfolio**	**Number of Relationships**	**% of Loan Portfolio**
Greater than $6.0 million	33	16.3	29	14.6	28	13.6
$3.0 million to $6.0 million	69	17.0	71	17.6	85	19.6
$1.0 million to $3.0 million	305	31.7	311	32.5	347	33.4
$0.5 million to $1.0 million	354	15.5	359	15.9	374	14.7
Less than $0.5 million	4,231	19.5	4,397	19.4	4,565	18.7
	4,992	100.0	5,167	100.0	5,399	100.0

The majority of the loan relationships exceeding $3.0 million are in our real estate and commercial portfolios. At December 31, 2011, 2010, and 2009, there were no concentrations of loans related to any single industry in excess of 10% of total loans. The Company may be subject to additional regulatory supervisory oversight if its concentration in commercial real estate lending exceeds regulatory parameters. Pursuant to interagency guidance issued by the Federal Reserve and other federal banking agencies, supervisory criteria were put in place to define commercial real estate concentrations as:

- Construction, land development and other land loans that represent 100% or more of total risk-based capital; or

- Commercial real estate loans (as defined in the guidance) that represent 300% or more of total risk-based capital and the real estate portfolio has increased more than 50% or more during the prior 36 months.

At December 31, 2011 and 2010, the Company s exposure to commercial real estate lending was below the parameters discussed above.

In the ordinary course of business, we enter into various types of transactions that include commitments to extend credit. We apply the same credit standards to these commitments as we apply to our other lending activities and have included these commitments in our lending risk evaluations. Our exposure to credit loss under commitments to extend credit is represented by the amount of these commitments. See Note 14 to the consolidated financial statements for additional discussion on our commitments.

Commercial Loans. Commercial loans increased $3.8 million, or 0.7%, from $565.1 million at December 31, 2010 to $569.0 million at December 31, 2011. Commercial lending consists of loans to small and medium-sized businesses in a wide variety of industries. We provide a broad range of commercial loans, including lines of credit for working capital purposes and term loans for the acquisition of equipment and other purposes. 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. However, where warranted by the overall financial condition of the borrower, loans may be unsecured and based on the cash flow of the business. Terms of commercial loans generally range from one to five years, and the majority of such loans have floating interest rates.

The following table summarizes the Company s commercial loan portfolio, segregated by the North American Industry Classification System (NAICS).

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	2011		2010		2009	
(in thousands)	Balance	% of Commercial Loan Portfolio	Balance	% of Commercial Loan Portfolio	Balance	% of Commercial Loan Portfolio
Manufacturing	$ 79,816	14.0	$ 86,692	15.3	$ 76,832	13.7
Finance and insurance	78,922	13.9	77,198	13.7	78,302	14.0
Health care	56,448	9.9	70,685	12.5	63,508	11.4
Real estate services	74,359	13.1	79,143	14.0	79,454	14.2
Construction	46,508	8.2	51,404	9.1	53,240	9.5
Retail trade	27,741	4.9	26,875	4.8	33,687	6.0
Wholesale trade	61,948	10.9	53,514	9.5	54,175	9.7
All other	143,220	25.1	119,634	21.2	120,414	21.5
	$ 568,962	100.0	$ 565,145	100.0	$ 559,612	100.0

Real Estate Mortgage Loans. Real estate mortgage loans of $784.5 million remained unchanged over 2010. Real estate mortgage loans include various types of loans for which we hold real property as collateral. We generally restrict commercial real estate lending activity to owner-occupied properties or to investor properties that are owned by customers with which we have a current banking relationship. We make commercial real estate loans at both fixed and floating interest rates, with maturities generally ranging from five to 20 years. The Bank s underwriting standards generally require that a commercial real estate loan not exceed 75% of the appraised value of the property securing the loan. In addition, we originate Small Business Administration 504 loans (SBA) on owner-occupied properties with maturities of up to 25 years in which the SBA allows for financing of up to 90% of the project cost and takes a security position that is subordinated to us, as well as U.S. Department of Agriculture (USDA) Rural Development loans.

The properties securing the Company s real estate mortgage loan portfolio are located primarily in the states of Colorado and Arizona. At December 31, 2011 and 2010, 61% and 59%, respectively, of the Company s outstanding real estate mortgage loans were in the Colorado market.

The following table summarizes the Company s real estate mortgage portfolio, segregated by property type.

	At December 31,					
	2011		2010		2009	
(in thousands)	Balance	%	Balance	%	Balance	%
Residential & commercial owner-occupied	$ 421,350	53.7	$ 431,935	55.1	$ 461,822	55.5
Residential & commercial investor	363,141	46.3	351,740	44.9	370,687	44.5
	$ 784,491	100.0	$ 783,675	100.0	$ 832,509	100.0

Land Acquisition and Development Loans. Land acquisition and development loans decreased $21.9 million, or 26%, from $83.9 million at December 31, 2010 to $62.0 million at December 31, 2011. We have a portfolio of loans for the acquisition and development of land for residential building projects. Due to overall market illiquidity and the significant value declines on raw land, the Company has ceased lending activities for the acquisition and future development of land. However, the Company may still pursue loans secured by finished lots that are prepared to enter the construction phase. Land acquisition and development loans may be more adversely affected by conditions in the real estate markets or in the general economy. The Company continues its focus on reducing its exposure to this portfolio, which has been continuously decreasing since 2006. The properties securing the land acquisition and development portfolio are generally located in the states of Colorado and Arizona. At December 31, 2011 and 2010, the majority (over 60%) of the loans were generated in the Colorado market.

Real Estate Construction Loans. Real estate construction loans decreased $23.7 million, or 27%, from $86.9 million at December 31, 2010 to $63.1 million at December 31, 2011. We originate loans to finance construction projects involving one- to four-family residences. We provide financing to residential developers that we believe have demonstrated a favorable record of accurately projecting completion dates and budgeting expenses. We provide loans for the construction of both pre-sold projects and projects built prior to the location of a specific buyer (Speculative loan), although Speculative loans are provided on a more selective basis. 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. In addition, these loans are generally secured by personal guarantees to provide an

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additional source of repayment. We generally require a permanent financing commitment or prequalification be in place before we make a residential construction loan. Moreover, we generally monitor construction draws monthly and inspect property to ensure that construction is progressing as projected. Our underwriting standards generally require that the principal amount of a speculative loan be no more than 75% of the appraised value of the completed construction project or 80% of pre-sold projects. Values are determined primarily by approved independent appraisers. With the deep valuation declines in the real estate markets during recent years, the Company has become very selective in the extension of credit for new construction projects.

We also originate loans to finance the construction of multi-family, office, industrial, retail and tax credit projects. These projects are predominantly owned by the user of the property, or are sponsored by financially strong developers who maintain an ongoing banking relationship with us. Our underwriting standards generally require that the principal amount of these loans be no more than 75% of the appraised value. Values are determined primarily by approved independent appraisers. The properties securing the Company s real estate loan portfolio are generally located in the states of Colorado and Arizona. At December 31, 2011 and 2010, the majority (66% and 63%, respectively) of the Company s real estate construction loans were generated in the Colorado market.

Consumer Loans. Consumer loans increased $22.1 million, or 23%, from $94.6 million at December 31, 2010 to $116.7 million at December 31, 2011. We provide a broad range of consumer loans to customers, including personal lines of credit, home equity loans and automobile loans. In order to improve customer service, continuity and customer retention, the same loan officer often services the banking relationships of both the business and business owners or management. In 2010, the Company introduced a new product line, jumbo mortgage loans. This residential mortgage financing program offers competitive pricing and terms for the purchase, refinance or permanent financing for non-conforming mortgage loans, which generally exceed $417,000. For primary residences, the maximum loan-to-value is 70% for loans up to $1.5 million. The loan-to-value decreases as the size of the loan increases, with a maximum loan-to-value of 50% on loans in excess of $3.0 million. In addition, we generally only finance 3/1, 5/1, and 7/1 adjustable-rate mortgage loans and broker 15- and 30-year fixed products. Jumbo mortgage loans at December 31, 2011 and 2010, totaled $55.3 million or 47% and $24.9 million or 26%, respectively, of the consumer loan portfolio.

Nonperforming Assets

Our nonperforming assets consist of nonaccrual loans, restructured loans, loans past due 90 days or more, OREO and other repossessed assets. Nonaccrual loans are those loans for which the accrual of interest has been discontinued. Impaired loans 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 (all of which were on a nonaccrual basis). The following table sets forth information with respect to these assets at the dates indicated.

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(in thousands)	2011	2010	At December 31, 2009	2008	2007
Nonperforming loans:					
Loans 90 days or more past due and still accruing interest	$ 212	$ 202	$ 509	$ 1,292	$ 2,208
Nonaccrual loans:					
Commercial	3,105	8,722	12,696	9,312	758
Real estate - mortgage	9,295	8,446	18,832	3,481	84
Land acquisition & development	5,112	9,690	34,033	16,097	
Real estate - construction	6,985	12,614	9,632	9,595	360
Consumer and other	2,527	3,060	3,496	1,301	
Total nonaccrual loans	27,024	42,532	78,689	39,786	1,202
Total nonperforming loans	27,236	42,734	79,198	41,078	3,410
OREO and repossessed assets	18,502	25,095	25,318	5,941	90
Total nonperforming assets	$ 45,738	$ 67,829	$ 104,516	$ 47,019	$ 3,500
Allowance for loan losses	$ 55,629	$ 65,892	$ 75,116	$ 42,851	$ 20,043
Allowance for credit losses	35	61	155	259	576
Allowance for loan and credit losses	$ 55,664	$ 65,953	$ 75,271	$ 43,110	$ 20,619
Nonperforming assets to total assets	1.89%	2.83%	4.24%	1.75%	0.15%
Nonperforming loans to total loans	1.66%	2.60%	4.44%	2.02%	0.18%
Nonperforming loans and OREO to total loans and OREO	2.76%	4.06%	5.78%	2.31%	0.19%
Allowance for loan and credit losses to total loans (excluding loans held for sale)	3.40%	4.01%	4.23%	2.12%	1.12%
Allowance for loan and credit losses to nonperforming loans	204.38%	154.33%	97.28%	104.95%	604.69%

Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts, the borrower s financial condition is such that the collection of interest is doubtful. A delinquent loan is generally placed on nonaccrual status when it becomes 90 days past due. When a loan is placed on nonaccrual status, all accrued and unpaid interest on the loan is reversed and deducted from earnings as a reduction of reported interest income. No additional interest is accrued on the loan balance until the collection of both principal and interest becomes reasonably certain. When the issues relating to a nonaccrual loan are finally resolved, there may ultimately be an actual write-down or charge-off of the principal balance of the loan, which may necessitate additional charges to earnings. Restructured loans are those for which concessions, including the reduction of interest rates below a rate otherwise available to the borrower, or the reduction of interest or principal, have been granted due to the borrower s weakened financial condition. Interest on restructured loans is accrued at the restructured rates when it is anticipated that no loss of original principal will occur. Interest income that would have been recorded had nonaccrual loans performed in accordance with their original contract terms during 2011, 2010 and 2009, was $0.8 million, $1.6 million and $1.8 million, respectively. OREO represents real property taken by the Bank either through foreclosure or through a deed in lieu thereof from the borrower. Repossessed assets include vehicles and other commercial assets acquired under agreements with delinquent borrowers. Subsequent to acquisition at fair value, repossessed assets and OREO are carried at the lesser of cost or fair market value, less selling costs. See Note 17 to the consolidated financial statements for additional discussion on the valuation of OREO assets.

Nonperforming assets decreased $22.1 million to $45.7 million at December 31, 2011, from $67.8 million at December 31, 2010. The following table summarizes nonperforming assets by type and market.

	2011					2010				
(in thousands)	Colorado	Arizona	Total	Total in category	NPAs as a % of Loans	Colorado	Arizona	Total	Total in category	NPAs as a % of Loans
Commercial	$ 1,101	$ 2,004	$ 3,105	$ 568,962	0.55	$ 4,941	$ 3,848	$ 8,789	$ 565,145	1.56

Real estate - mortgage	1,412	7,883	9,295	784,491	1.18	1,768	6,678	8,446	783,675	1.08
Land acquisition & development	2,964	2,148	5,112	61,977	8.25	1,034	8,791	9,825	83,871	11.71
Real estate - construction	6,085	900	6,985	63,141	11.06	12,614		12,614	86,862	14.52
Consumer	345	2,394	2,739	116,676	2.35	686	2,374	3,060	94,607	3.23
Other loans				42,177	0.00				29,567	0.00
OREO and repossessed assets	10,887	7,615	18,502	18,502	NA	12,646	12,449	25,095	25,095	NA
Nonperforming assets	$ 22,794	$ 22,944	$ 45,738	$ 1,655,926	2.76	$ 33,689	$ 34,140	$ 67,829	$ 1,668,822	4.06

The $18.5 million OREO balance at December 31, 2011 is comprised of 27 properties, with the largest property located in Colorado with a fair value of $6.3 million. In addition to the nonperforming assets described above, the Company had 139 customer relationships considered by management to be potential problem loans with outstanding principal of approximately $74.4 million. A potential problem loan is one as to which management has concerns about the borrower s future performance under the terms of the loan contract. For our protection, management monitors these loans closely. These loans are current as to the principal and interest and, accordingly, are not included in the nonperforming asset categories. However, further deterioration may result in the loan being classified as nonperforming. The level of potential problem loans is factored into the determination of the adequacy of the allowance for loan losses.

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Analysis of Allowance for Loan and Credit Losses. 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 credit losses related to specifically identified loans and for losses inherent in the loan portfolio that have been incurred at 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 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 consolidated balance sheets, the allowance for credit losses is recorded in Accrued Interest and Other Liabilities in the accompanying consolidated balance sheets. Although the allowances are presented separately on the consolidated balance sheets, any losses incurred from credit losses would be reported as a charge-off in the allowance for loan losses, since any loss would be recorded after the off-balance sheet commitment had been funded. Due to the relationship of these allowances, as extensions of credit underwritten through a comprehensive risk analysis, information on both the allowance for loan and credit losses positions is presented in the following table.

	For the year ended December 31,				
(in thousands)	**2011**	**2010**	**2009**	**2008**	**2007**
Balance of allowance for loan losses at beginning of period	$ 65,892	$ 75,116	$ 42,851	$ 20,043	$ 17,871
Charge-offs:					
Commercial	(4,559)	(8,357)	(14,991)	(2,194)	(1,803)
Real estate mortgage	(7,064)	(11,490)	(8,118)		
Land acquisition & development	(1,635)	(23,077)	(44,569)	(11,726)	
Real estate construction	(5,118)	(6,181)	(6,732)	(2,823)	
Consumer	(309)	(1,079)	(2,081)	(364)	(30)
Other	(61)	(443)	(86)	(37)	(5)
Total charge-offs	(18,746)	(50,627)	(76,577)	(17,144)	(1,838)
Recoveries:					
Commercial	1,377	2,361	1,989	42	56
Real estate mortgage	1,472	451	75	7	
Land acquisition & development	1,216	2,662	776		
Real estate construction	132	655	131		
Consumer	281	134	36	103	18
Other	3	13	20	4	
Total recoveries	4,481	6,276	3,027	156	74
Net charge-offs	(14,265)	(44,351)	(73,550)	(16,988)	(1,764)
Provision for loan losses charged to operations	4,002	35,127	105,815	39,796	3,936
Balance of allowance for loan losses at end of period	$ 55,629	$ 65,892	$ 75,116	$ 42,851	$ 20,043
Balance of allowance for credit losses at beginning of period	$ 61	$ 155	$ 259	$ 576	$ 576
Provision for credit losses charged to operations	(26)	(94)	(104)	(317)	
Balance of allowance for credit losses at end of period	$ 35	$ 61	$ 155	$ 259	$ 576
Total provision for loan and credit losses charged to operations	$ 3,976	$ 35,033	$ 105,711	$ 39,479	$ 3,936

Ratio of net charge-offs to average loans		0.86%		2.62%		3.78%		0.87%		0.11%
Average loans outstanding during the period	$	1,651,247	$	1,693,546	$	1,948,120	$	1,944,728	$	1,665,379

Additions to the allowances for loan and credit losses, which are charged as expenses on our consolidated statements of operations, are made periodically to maintain the allowances at the appropriate level, based on our analysis of the potential risk in the loan and commitment portfolios. Loans charged off, net of amounts recovered from previously charged off loans, reduce the allowance for loan losses. The amount of the allowance is a function of the levels of loans outstanding, the level of nonperforming loans, historical loan loss experience, amount of loan losses charged against the reserve during a given period and current economic conditions. Federal regulatory agencies, as part of their examination process, review our loans and allowance for loan and credit losses. We believe that our allowance for loan and credit losses is adequate to cover anticipated loan and credit losses. However, management may determine a need to increase the allowances for loan and credit losses, or regulators, when reviewing the Bank s loan and commitment portfolio in the future, may request the Bank increase such allowances. Either of these events could adversely affect our earnings. Further, there can be no assurance that actual loan and credit losses will not exceed the allowances for loan and credit losses.

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The allowance for loan losses consists of three elements: (i) specific reserves determined in accordance with *ASC Topic 310 Receivables* based on probable losses on specific loans; (ii) general reserves determined in accordance with guidance in *ASC Topic 450 Contingencies*, based on historical loan loss experience adjusted for other qualitative risk factors both internal and external to the Company; and (iii) unallocated reserves.

The methodology used in the periodic review of reserve adequacy, which is performed at least quarterly, is designed to be dynamic and responsive to changes in actual and expected credit losses. These changes are reflected in both the general and unallocated reserves. The historical loss ratios and estimated risk factors related to segmenting our loan portfolio, which are key considerations in this analysis, are updated quarterly and are weighted more heavily for recent economic conditions. The review of reserve adequacy is performed by executive management and presented to the Audit Committee quarterly for its review and consideration. For additional information on the Company s methodology for estimated the allowance for loan and credit losses, see Note 3 to the consolidated financial statements.

The table below provides an allocation of the allowance for loan and credit losses by loan and commitment type; however, allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories:

	At December 31,									
	2011		2010		2009		2008		2007	
(in thousands)	Amount of allowance	Loans in category as a % of total gross loans	Amount of allowance	Loans in category as a % of total gross loans	Amount of allowance	Loans in category as a % of total gross loans	Amount of allowance	Loans in category as a % of total gross loans	Amount of allowance	Loans in category as a % of total gross loans
Commercial	$ 14,048	34.8	$ 17,169	34.4	$ 15,733	31.4	$ 13,190	31.9	$ 8,015	31.2
Real estate mortgage	19,889	47.9	17,677	47.7	14,535	46.7	11,209	42.8	3,406	39.4
Land acquisition & development	11,013	3.8	14,938	5.1	30,097	8.6	9,098	10.9	4,516	12.8
Real estate construction	2,746	3.9	6,296	5.3	5,700	8.1	6,714	9.5	2,792	11.9
Consumer	4,837	7.1	3,373	5.8	2,143	4.3	1,404	4.3	710	3.9
Other	551	2.5	354	1.7	419	0.9		0.6		0.8
Unallocated	2,545	0.0	6,085	0.0	6,489	0.0	1,236	0.0	604	0.0
Off-balance sheet commitments	35	0.0	61	0.0	155	0.0	259	0.0	576	0.0
Total	$ 55,664	100.0	$ 65,953	100.0	$ 75,271	100.0	$ 43,110	100.0	$ 20,619	100.0

We believe that any allocation of the allowance into categories creates an appearance of precision that does not exist. The allocation table should not be interpreted as an indication of the specific amounts, by loan classification, to be charged to the allowance. We believe that the table is a useful device for assessing the adequacy of the allowance as a whole. The allowance is utilized as a single unallocated allowance available for all loans.

The provision for loan and credit losses of the Company decreased $31.0 million to $4.0 million for the year ended December 31, 2011, compared to $35.0 million for the year ended December 31, 2010. In 2011 and 2010, net charge-offs exceeded provision for loan and credit losses by $10.3 million and $9.3 million, respectively. The decreasing provision levels during 2011 and 2010 are primarily the result of improved asset quality. The Company s allowance for loan and credit losses to total loans was 3.40% and 4.01% at December 31, 2011 and 2010, respectively. The allowance for loan and credit losses to nonperforming loans increased from 154.33% at December 31, 2010, to 204.38% at December 31, 2011. We believe that our allowance for loan and credit losses is adequate to cover anticipated loan and credit losses. However, due to changes in the factors considered by management in evaluating the adequacy of the allowance for loan and credit losses, it is possible management may determine a need to increase the allowance for loan and credit losses. Such determination could have an adverse effect in the level of future loan and credit loss provisions and the Company s earnings.

Investments

The investment portfolio is primarily comprised of MBS explicitly (GNMA) and implicitly (FNMA and FHLMC) backed by the U.S. Government, with the majority of the portfolio either maturing or repricing within one to five years. The portfolio does not include any securities exposed to sub-prime mortgage

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loans. The investment portfolio also includes single-issuer trust preferred securities and corporate debt securities. The corporate debt securities portfolio is mainly comprised of six issuers in the Fortune 100. Over eighty-five percent of the corporate debt securities portfolio is investment grade with a rating of A- or better. None of the issuing institutions are in default nor have interest payments on the trust preferred securities been deferred. Our investment strategies are reviewed in bi-monthly meetings of the Asset-Liability Management Committee.

Our mortgage-backed securities are typically classified as available for sale. Our goals with respect to the securities portfolio are to:

- Maximize safety and soundness;
- Provide adequate liquidity;
- Maximize rate of return within the constraints of applicable liquidity requirements; and
- Complement asset/liability management strategies.

The following table sets forth the book value of the securities in our investment portfolio by type at the dates indicated. See Note 2 to the consolidated financial statements for additional information.

	At December 31,			2011 vs 2010 Increase/(decrease)		2010 vs 2009 Increase/(decrease)	
(in thousands)	2011	2010	2009	Amount	%	Amount	%
Mortgage-backed securities	$ 420,784	$ 405,807	$ 400,842	$ 14,977	3.7	$ 4,965	1.2
U.S. government agencies	44,205	80,619	56,453	(36,414)	(45.2)	24,166	42.8
Trust preferred securities	99,018	88,308	34,781	10,710	12.1	53,527	153.9
Corporate debt securities	56,817	59,595	32,641	(2,778)	(4.7)	26,954	82.6
Private-label MBS	1,990	2,432	2,373	(442)	(18.2)	59	2.5
Municipal securities	940	945	2,417	(5)	(0.5)	(1,472)	(60.9)
Other investments	9,554	6,962	16,473	2,592	37.2	(9,511)	(57.7)
Total	$ 633,308	$ 644,668	$ 545,980	$ (11,360)	(1.8)	$ 98,688	18.1

At December 31, 2011, investments represented 26.13% of total assets compared to 26.92% in 2010. Available for sale securities had a net unrealized gain of $10.3 million at December 31, 2011, a $1.1 million decrease from the net unrealized gain of $11.4 million at December 31, 2010.

At December 31, 2011, the Company s securities in a temporary unrealized loss position consisted primarily of private-label mortgage-backed and trust preferred securities. The fair value of these securities is expected to recover as the securities approach their stated maturity or repricing date. The trust preferred securities are all single issuer securities that have been impacted by the overall decrease in the financial services market.

For the year ended December 31, 2011, the Company had other-than-temporary impairment (OTTI) on investment securities of $0.8 million compared to $0.6 million for the year ended December 31, 2010. The OTTI in 2011 related to three private-label MBS. The 2010 OTTI of $0.6 million was comprised of $0.4 million related to three private-label MBS and $0.2 million was on one single issuer trust preferred security intended to be sold. At December 31, 2011 and 2010, additional unrealized losses of $1.1 million and $1.9 million on private-label MBS were recognized in other comprehensive income. The Company may recognize additional losses on these securities if the underlying credit metrics were to worsen in the future.

During 2011, other investments increased $2.6 million primarily due to $3.3 million of FHLB stock purchases, offset by $0.7 million FHLB stock sale. The Company s investment in FHLB stock is primarily related to maintaining 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.

During 2010, other investments decreased $9.5 million primarily due to a $9.4 million FHLB stock sale and a FRB stock sale of $0.3 million, offset by FHLB stock dividends of $0.2 million. During 2010, the

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Company s liquidity position improved, decreasing the need for a large borrowing base and the excess stock was redeemed by the FHLB.

The following table sets forth the book value, maturity or repricing frequency and approximate yield of the securities in our investment portfolio at December 31, 2011. Other Investments include stock in the Federal Home Loan Bank and the Federal Reserve Bank, which have no maturity date. These investments have been included in the total column only.

	Maturity									
	Within 1 year		1 - 5 years		5 - 10 years		Over 10 years		Total book value	
(in thousands)	Amount	Yield (1)	Amount	Yield (1)	Amount	Yield (1)	Amount	Yield (1)	Amount	Yield (1)
Mortgage-backed securities	$		$ 64	4.6%	$ 5,687	5.3%	$ 415,033	3.6%	$ 420,784	3.7%
U.S. government agencies			44,205	1.5%					44,205	1.5%
Trust preferred securities							99,018	7.0%	99,018	7.0%
Corporate debt securities	12,647	5.9%	34,813	3.8%	9,357	4.0%			56,817	4.3%
Private-label MBS							1,990	2.8%	1,990	2.8%
Municipal securities			940	4.0%					940	4.0%
Other investments							2,172	2.7%	9,554	0.6%
Total	$ 12,647	5.9%	$ 80,022	2.5%	$ 15,044	4.5%	$ 518,213	4.3%	$ 633,308	4.0%

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

Excluding securities issued by government-sponsored entities, the investment portfolio at December 31, 2011, does not include any single issuer for which the aggregate carrying amount exceeds 10% of the Company s shareholders equity.

Other Assets

The following table sets forth the values of our other miscellaneous assets at the dates indicated.

	At December 31,			2011 vs 2010 Increase/(decrease)		2010 vs 2009 Increase/(decrease)	
(in thousands)	2011	2010	2009	Amount	%	Amount	%
Intangible assets, net	$ 3,399	$ 4,119	$ 4,910	$ (720)	(17.5)	$ (791)	(16.1)
Bank-owned life insurance	39,767	36,043	34,560	3,724	10.3	1,483	4.3
Premises and equipment, net	8,388	9,048	8,203	(660)	(7.3)	845	10.3
Accrued interest receivable	8,273	8,081	8,184	192	2.4	(103)	(1.3)
Deferred income taxes, net	33,018	16,449	29,654	16,569	100.7	(13,205)	(44.5)
Other real estate owned	18,502	25,095	25,182	(6,593)	(26.3)	(87)	(0.3)

Other		37,844		49,584		54,135		(11,740)	(23.7)		(4,551)	(8.4)
Total	$	149,191	$	148,419	$	164,828	$	772	0.5	$	(16,409)	(10.0)

Intangible Assets. Intangible assets at December 31, 2011, represent client relationship lists and employee non-compete agreements. During 2011, a small book of insurance business was sold and a related intangible asset of $0.1 million was removed from the books. During 2010, a $0.1 million charge was recorded in conjunction with the Wagner merger into ACMG to eliminate the remaining value of an obsolete tradename asset. During the years ended December 31, 2011 and 2010, $0.6 million of intangible asset amortization was recognized, exclusive of amounts relating to the 2011 divestiture and 2010 impairment charge items.

Bank-Owned Life Insurance (BOLI). BOLI increased $3.8 million to $39.8 million at December 31, 2011 compared to $36.0 million at the end of 2010. Increases during 2011 related to additional policy purchases of $2.5 million and growth in the cash surrender value of $1.2 million. BOLI increased $1.5 million to $36.0 million at December 31, 2010, compared to $34.6 million at the end of 2009, due to growth in the cash surrender value of the policies.

Deferred Income Taxes, net. The increase of $16.6 million in net deferred income tax assets at December 31, 2011 compared to 2010 was primarily the result of the reversal of a $15.6 million valuation allowance recorded in 2010. Excluding the valuation allowance in both years, deferred tax assets were relatively stable from 2010 to 2011. The allowance for loan losses is the most significant temporary difference driving the deferred tax asset. See Note 10 to the consolidated financial statements for additional discussion of the valuation allowance.

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Other Real Estate Owned. OREO decreased during the year ended December 31, 2011 to $18.5 million compared to $25.1 million a year earlier. During 2011 the Company foreclosed on $8.5 million in new properties, sold $12.3 million and recognized valuation adjustments and losses on sale of $2.8 million. At December 31, 2011, OREO was comprised of 27 properties with an average carrying value of $0.7 million. The largest property had a value of $6.3 million. Approximately 59% of the properties are located in Colorado and 41% in Arizona.

OREO of $25.1 million were relatively unchanged for the year ended December 31, 2010 compared 2009. During the year ended December 31, 2010, the Company foreclosed on $20.6 million of OREO, recognized valuation adjustments through current earnings of $7.4 million and sold properties with a carrying value of $13.3 million. At December 31, 2010, the value of OREO properties was evenly distributed between Arizona and Colorado.

Other Assets. Other assets decreased $11.7 million during the year ended December 31, 2011, primarily due to the release of restricted cash collateral held at correspondent banks relating to letters of credit issued on behalf of our customers ($11.3 million), amortization of prepaid FDIC insurance ($3.2 million) and distributions from private equity investments ($1.3 million). Declines were offset in part by increases in the fair value of customer interest rate swaps ($3.2 million), advisory fee receivables ($0.5 million) and income tax receivables ($0.4 million).

Other assets decreased $4.6 million during the year ended December 31, 2010, due primarily to amortization of prepaid FDIC insurance and receipt of income tax refunds offset by increases in restricted cash collateral placed with other banks on behalf of our customers.

Deposits

Our primary source of funds has historically been customer deposits. We offer a variety of accounts for depositors, which are designed to attract both short- and long-term deposits. These accounts include certificates of deposit (CDs), money market accounts, savings accounts, checking and NOW accounts, and individual retirement accounts. Average noninterest-bearing deposits increased $121.8 million to $712.8 million during 2011 and total $720.8 million at December 31, 2011. During 2010, average noninterest-bearing deposits increased $104.7 million and were $681.5 million at December 31, 2010. We believe we receive a large amount of noninterest-bearing deposits because we provide customers the option of paying for treasury management services in cash or by maintaining additional noninterest-bearing account balances. The Company s noninterest-bearing deposits represented more than 37% of total deposits at December 31, 2011, up significantly from 28% at the end of 2008. The Company began offering interest-bearing demand deposits in 2011 and eliminated its Eurodollar account product in 2012 in response to the Dodd-Frank Act repeal of the prohibition of paying interest on demand deposits. Interest-bearing accounts earn interest at rates based on competitive market factors and our desire to increase or decrease certain types of maturities or deposits.

The Company has not participated in the brokered deposit market in any meaningful way since before 2009 due to the strength of our core deposits. Brokered deposits are considered a wholesale financing source and can be used as an alternative to other short-term borrowings. The Company views its reciprocal Certificate of Deposit Account Registry Service ® (CDARS) accounts as customer-related deposits. The CDARS program is provided through a third party and designed to provide full FDIC insurance on deposit amounts larger than the stated maximum 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 CDs in amounts under $250,000, so the entire deposit is eligible for FDIC insurance. CDARS are technically brokered deposits; however, the Company considers the reciprocal deposits placed through the CDARS program 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 following tables present the average balances for each major category of deposits and the weighted average interest rates paid for interest-bearing deposits for the periods indicated.

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	For the year ended December 31,								
	2011			2010			2009		
(in thousands)		Average balance	Weighted average interest rate %		Average balance	Weighted average interest rate %		Average balance	Weighted average interest rate %
NOW and money market	$	721,151	0.61	$	708,936	0.69	$	567,363	1.06
Savings		9,997	0.17		9,683	0.32		9,711	0.48
Eurodollar		96,378	0.73		111,768	0.92		105,946	1.23
Interest-bearing demand		1,605	0.12						
Certificates of deposits		363,134	0.81		517,209	1.23		619,772	1.99
Total interest-bearing deposits		1,192,265	0.67		1,347,596	0.92		1,302,792	1.51
Noninterest-bearing demand accounts		712,830			591,074			486,335	
Total deposits	$	1,905,095	0.42	$	1,938,670	0.64	$	1,789,127	1.10

Maturities of CDs of $100,000 and more are as follows:

(in thousands)		Amount
Remaining maturity:		
Three months or less	$	116,478
Three months through six months		49,444
Six months through 12 months		75,020
After 12 months		24,667
Total	$	265,609

Deposits overall increased $29.0 million or 1.5% during 2011 to $1.92 billion following a decrease of $79.5 million or 4.0% in 2010 compared to 2009. CDs decreased $124.3 million or 29.0% to $305.0 million following a decline of $170.2 million or 28.4% during 2010. The Company has intentionally priced CDs out of its portfolio due to our excess liquidity and the high cost of these deposits. Declines in CDs since 2009 have been offset for the most part by the earlier mentioned increases in noninterest-bearing deposits.

Short-Term Borrowings

Our short-term borrowings include federal funds purchased, and term auction facility (TAF) funds offered through the FRB, securities sold under agreements to repurchase which generally mature within 90 days or less, advances from the FHLB with original maturities of one year or less, and advances under a revolving credit facility.

The following table sets forth information relating to our short-term borrowings during the years ended December 31, 2011, 2010 and 2009. See the Liquidity and Capital Resources section below and Note 7 to the Consolidated financial statements for further discussion.

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(in thousands)	2011	At or for the year ended December 31, 2010	2009
Federal funds purchased			
Balance at end of period	$	$ 12	$ 240
Average balance outstanding for the period	1,119	1,186	15,023
Maximum amount outstanding at any month end during the period	17,675	4,348	46,028
Weighted average interest rate for the period	0.38%	0.75%	0.44%
Weighted average interest rate at period end	0.00%	1.00%	1.00%
FHLB overnight advances			
Balance at end of period	$ 20,000	$ 14,000	$
Average balance outstanding for the period	13,023	6,323	32,052
Maximum amount outstanding at any month end during the period	71,839	72,000	90,000
Weighted average interest rate for the period	0.25%	0.21%	0.38%
Weighted average interest rate at period end	0.26%	0.26%	0.00%
FHLB term advances			
Balance at end of period	$	$	$
Average balance outstanding for the period			6,332
Maximum amount outstanding at any month end during the period			70,400
Weighted average interest rate for the period	0.00%	0.00%	0.58%
Weighted average interest rate at period end	0.00%	0.00%	0.00%
Securities sold under agreement to repurchase			
Balance at end of period	$ 127,948	$ 157,690	$ 139,794
Average balance outstanding for the period	156,745	148,454	125,053
Maximum amount outstanding at any month end during the period	166,498	165,560	162,308
Weighted average interest rate for the period	0.50%	0.74%	0.91%
Weighted average interest rate at period end	0.36%	0.53%	0.92%
Term investment option / Term auction facility funds			
Balance at end of period	$	$	$
Average balance outstanding for the period			240,362
Maximum amount outstanding at any month end during the period			475,000
Weighted average interest rate for the period	0.00%	0.00%	0.26%
Weighted average interest rate at period end	0.00%	0.00%	0.00%

The following tables contain supplemental information on securities sold under agreements to repurchase during the years ended December 31, 2011, 2010 and 2009. The Company sells securities under agreements to repurchase to our customers (Customer Repurchases) as a way to enhance our customers interest-earning ability. We do not consider Customer Repurchases to be a wholesale funding source but rather an additional treasury management service provided to our customer base. Customer Repurchases fluctuate on a daily basis as customer deposit balances fluctuate.

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(in thousands)		Average balance for quarter ended March 31,	June 30,	September 30,	December 31,
Year					
2011	$	156,799	$ 160,832	$ 160,807	$ 148,590
2010		132,258	139,383	158,954	162,771
2009		123,820	119,308	121,466	135,529

(in thousands)		Ending balance for quarter ended March 31,	June 30,	September 30,	December 31,
Year					
2011	$	157,674	$ 144,843	$ 131,877	$ 127,948
2010		142,944	151,623	165,560	157,690
2009		129,195	118,958	125,662	139,794

(in thousands)		Highest monthly balance for quarter ended March 31,	June 30,	September 30,	December 31,
Year					
2011	$	158,361	$ 166,498	$ 160,068	$ 151,938
2010		142,944	151,623	165,560	159,481
2009		129,195	123,007	130,155	162,308

Long-Term Debt

The following table sets forth information relating to our subordinated debentures and notes payable.

(in thousands)	At December 31, 2011	2010
Junior subordinated debentures:		
CoBiz Statutory Trust I	$ 20,619	$ 20,619
CoBiz Capital Trust II	30,928	30,928
CoBiz Capital Trust III	20,619	20,619
Total junior subordinated debentures	$ 72,166	$ 72,166
Other long-term debt:		
Subordinated notes payable	$ 20,984	$ 20,984

For a discussion of long-term debt and for certain financial information for each issuance, see Note 8 to the consolidated financial statements.

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Results of Operations

The following table presents, for the periods indicated, certain information related to our results of operations, followed by discussion of the major components of our revenues, expense and performance.

(in thousands, except per share data)	For the year ended December 31, 2011	2010	2009	2011 vs 2010 Increase/(decrease) Amount	%	2010 vs 2009 Increase/(decrease) Amount	%
INCOME STATEMENT DATA							
Interest income	$ 111,264	$ 115,979	$ 129,450	$ (4,715)	(4.1)	$ (13,471)	(10.4)
Interest expense	14,863	19,148	26,066	(4,285)	(22.4)	(6,918)	(26.5)
NET INTEREST INCOME BEFORE PROVISION	96,401	96,831	103,384	(430)	(0.4)	(6,553)	(6.3)
Provision for loan losses	4,002	35,127	105,815	(31,125)	(88.6)	(70,688)	(66.8)
NET INTEREST INCOME (LOSS) AFTER PROVISION	92,399	61,704	(2,431)	30,695	49.7	64,135	2,638.2
Noninterest income	35,956	35,008	27,627	948	2.7	7,381	26.7
Noninterest expense	100,547	109,112	95,250	(8,565)	(7.8)	13,862	14.6
Impairment of goodwill			46,160			(46,160)	(100.0)
INCOME (LOSS) BEFORE INCOME TAXES	27,808	(12,400)	(116,214)	40,208	324.3	103,814	89.3
Provision (benefit) for income taxes	(5,654)	10,028	(32,859)	(15,682)	(156.4)	42,887	130.5
NET INCOME (LOSS)	33,462	(22,428)	(83,355)	55,890	249.2	60,927	73.1
Net (income) loss attributable to noncontrolling interests		(209)	314	209	100.0	(523)	(166.6)
NET INCOME (LOSS) ATTRIBUTABLE TO COBIZ FINANCIAL	$ 33,462	$ (22,637)	$ (83,041)	$ 56,099	247.8	$ 60,404	72.7
Earnings (loss) per common share - basic	$ 0.76	$ (0.72)	$ (2.98)				
Earnings (loss) per common share - diluted	$ 0.76	$ (0.72)	$ (2.98)				
Cash dividends declared per common share	$ 0.04	$ 0.04	$ 0.10				

Earnings Performance. Net income for the year ended December 31, 2011 was $33.5 million, an increase over net losses of $22.6 million and $83.0 million for 2010 and 2009. Growth in net income for 2011 compared to 2010 was driven by lower provision for loan losses, lower noninterest expense and the reversal of a $15.6 million deferred income tax asset valuation allowance. The Company continues to make improvements in overall asset quality, reflected in the 2011 loan loss provision of $4.0 million compared to $35.1 million and $105.8 million in the prior two annual periods. Noninterest income growth of $0.9 million was driven by our Investment Banking segment while noninterest expense reductions of $8.6 million relate primarily to lower losses on securities, other assets and OREO and OREO and loan workout costs.

Net loss for 2010 decreased $60.4 million from the 2009 net loss and was driven by lower provision for loan losses and goodwill impairment charges and higher noninterest income. Noninterest income increased $7.4 million in 2010 compared to 2009 and was largely attributed to the our Investment Banking segment. 2010 improvements were offset by a non-cash deferred tax valuation charge of $15.6 million, declines in net interest income and higher noninterest expense. Noninterest expense increased $13.9 million in 2010 compared to 2009 and was attributed to salaries and employee benefits, losses on securities, OREO and other assets and loan workout expenses.

Earnings per common share on a diluted basis for the year ended December 31, 2011, was $0.76 compared to a losses per diluted common share of $(0.72) and $(2.98) for the years ended December 31, 2010 and 2009, respectively.

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.

The majority of our assets are interest-earning and our liabilities are interest-bearing. Accordingly, changes in interest rates may impact our net interest margin. The Federal Open Markets Committee (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 federal funds rate have a direct correlation to changes in the prime rate, the underlying index for most of the variable-rate loans issued by

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the Company. In September 2007, the FOMC began lowering its target for the federal funds rate and continued lowering the target through December 2008 by which time it had reduced the target rate by 500 basis points to a range of 0-25 basis points, a target range still in effect at December 31, 2011. In its January 2012 meeting, the FOMC indicated that current economic conditions would likely warrant exceptionally low levels for the federal funds rate at least through late 2014. As the Company is asset sensitive, continued low rates will negatively impact the Company s earnings and net interest margin.

The following table presents, for the periods indicated, certain information related to our average asset and liability structure and our average yields on assets and average costs of liabilities. Such yields are derived by dividing income or expense by the average balance of the corresponding assets or liabilities.

	For the year ended December 31,								
	2011			2010			2009		
(in thousands)	Average balance	Interest earned or paid	Average yield or cost (1)	Average balance	Interest earned or paid	Average yield or cost (1)	Average balance	Interest earned or paid	Average yield or cost (1)
ASSETS									
Federal funds sold and other	$ 32,183	$ 130	0.40%	$ 44,995	$ 182	0.40%	$ 13,011	$ 105	0.81%
Investment securities (2)	621,346	22,743	3.66%	557,673	22,235	3.99%	482,859	24,107	4.99%
Loans (2)(3)	1,651,247	89,575	5.42%	1,693,546	94,063	5.55%	1,948,120	105,965	5.44%
Allowance for loan losses	(62,381)			(70,516)			(67,862)		
Total interest-earning assets	2,242,395	112,448	4.86%	2,225,698	116,480	5.06%	2,376,128	130,177	5.32%
Noninterest-earning assets									
Cash and due from banks	35,382			37,882			37,473		
Other	126,183			170,422			143,105		
TOTAL ASSETS	$ 2,403,960			$ 2,434,002			$ 2,556,706		
LIABILITIES AND EQUITY									
Deposits									
NOW and money market	$ 721,151	$ 4,366	0.61%	$ 708,936	$ 4,910	0.69%	$ 567,363	$ 6,011	1.06%
Savings	9,997	17	0.17%	9,683	31	0.32%	9,711	47	0.48%
Eurodollar	96,378	701	0.73%	111,768	1,023	0.92%	105,946	1,305	1.23%
Interest-bearing demand	1,605	2	0.12%			0.00%			0.00%
Certificates of deposit									
Brokered	5		1.38%	1,762	38	2.16%	33,115	468	1.41%
Reciprocal CDARS	108,318	664	0.61%	167,038	1,616	0.97%	132,994	1,888	1.42%
Under $100,000	37,961	348	0.92%	46,863	664	1.42%	61,254	1,503	2.45%
$100,000 and over	216,850	1,923	0.89%	301,546	4,056	1.35%	392,409	8,458	2.16%
Total interest-bearing deposits	1,192,265	8,021	0.67%	1,347,596	12,338	0.92%	1,302,792	19,680	1.51%
Other borrowings									
Securities sold under agreements to repurchase	156,745	787	0.50%	148,454	1,096	0.74%	125,053	1,137	0.91%
Other short-term borrowings	14,142	37	0.26%	7,509	23	0.31%	293,768	885	0.30%
Long-term debt	93,150	6,018	6.46%	93,150	5,691	6.11%	93,150	4,365	4.69%
Total interest-bearing liabilities	1,456,302	14,863	1.02%	1,596,709	19,148	1.20%	1,814,763	26,067	1.44%
Noninterest-bearing demand accounts	712,830			591,074			486,335		
Total deposits and interest-bearing liabilities	2,169,132			2,187,783			2,301,098		
Other noninterest-bearing liabilities	28,635			22,980			18,841		

Total liabilities	2,197,767			2,210,763			2,319,939		
Total equity	206,193			223,239			236,767		
TOTAL LIABILITIES AND EQUITY	$ 2,403,960			$ 2,434,002			$ 2,556,706		
Net interest income - taxable equivalent		$ 97,585			$ 97,332			$ 104,110	
Net interest spread			3.84%			3.86%			3.88%
Net interest margin - taxable equivalent			4.35%			4.37%			4.38%
Ratio of average interest-earning assets to average interest-bearing liabilities	153.98%			139.39%			130.93%		

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

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

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

The following table illustrates, for the periods indicated, the changes in the levels of interest income and interest expense attributable to changes in volume or rate. Changes in net interest income due to both volume and rate have been included in the changes due to rate column.

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(in thousands)	2011 vs 2010 Increase (decrease) Volume	Rate	Total	2010 vs 2009 Increase (decrease) Volume	Rate	Total
Interest-earning assets						
Federal funds sold and other	$ (52)	$ (0)	$ (52)	$ 258	$ (181)	$ 77
Investment securities (1)	2,539	(2,031)	508	3,735	(5,607)	(1,872)
Loans (1), (2)	(2,349)	(2,139)	(4,488)	(13,847)	1,945	(11,902)
Total interest earning assets	$ 138	$ (4,170)	$ (4,032)	$ (9,854)	$ (3,843)	$ (13,697)
Interest-bearing liabilities						
NOW and money market deposits	$ 85	$ (629)	$ (544)	$ 1,500	$ (2,601)	$ (1,101)
Savings deposits	1	(15)	(14)		(16)	(16)
Eurodollar deposits	(141)	(181)	(322)	72	(354)	(282)
Interest-bearing demand		2	2			
Certificates of deposit	(1,871)	(1,568)	(3,439)	(2,271)	(3,672)	(5,943)
Other borrowings						
Securities sold under agreements to repurchase	61	(370)	(309)	213	(254)	(41)
Other short-term borrowings	20	(6)	14	(862)		(862)
Long-term debt		327	327		1,326	1,326
Total interest-bearing liabilities	$ (1,845)	$ (2,440)	$ (4,285)	$ (1,348)	$ (5,571)	$ (6,919)
Net increase (decrease) in net interest income	$ 1,983	$ (1,730)	$ 253	$ (8,506)	$ 1,728	$ (6,778)

(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 in average loans outstanding.

Average interest-earning assets increased for the year ended December 31, 2011, up $16.7 million to $2.24 billion from $2.23 billion in 2010. The primary drivers of the 2011 increase in average interest-earning assets was the investment security portfolio, up $63.7 million, offset in large part by average net loans, down $34.2 million. The average taxable-equivalent yield on average interest-earning assets for 2011 fell by 20 basis points to 4.86% compared to 5.06% for 2010. The yield on earning-assets decreased due to a fall in yields on both investments and loans, combined with an increase in the investment portfolio as a percentage of earning assets.

Average interest-bearing liabilities decreased for the year ended December 31, 2011, down $140.4 million to $1.46 billion compared to $1.60 billion in 2010. The driver of the 2011 liability decline was the $154.1 million decrease in CDs. The average cost of interest-bearing liabilities fell 18 basis points to 1.02% for 2011 compared to 2010 and was attributed to the reduction in CDs and the overall reduction in rates paid on the our deposit accounts.

For the year ended December 31, 2010, net interest income on a tax-equivalent basis decreased $6.8 million to $97.3 million from $104.1 million in 2009. Net interest margin for 2010 was stable, decreasing 1 basis point to 4.37% from 4.38% for 2009.

Average interest-earning assets decreased $150.4 million to $2.23 billion during the year ended December 31, 2010, compared to $2.38 billion in 2009. The primary driver of the 2010 decrease in average interest-earning assets was a decrease in the loan portfolio of $254.6 million, offset by a combined increase of $106.7 million in average investment securities, federal funds sold and other interest-earning assets. The average taxable-equivalent yield on average interest-earning assets for 2010 fell 26 basis points to 5.06% compared to 5.32% for 2009, primarily the result of lower investment yields. The Company ended 2010 with total loans down $139.0 million to $1.64 billion from $1.78 billion at December 31, 2009. While the overall loan portfolio decreased during 2010, the Company grew loans during the fourth quarter of 2010 for the first time since the fourth quarter of 2008.

Average interest-bearing liabilities decreased during the year ended December 31, 2010, down $218.1 million to $1.60 billion compared to $1.81 billion in 2009. The average cost of interest-bearing liabilities decreased 24 basis points to 1.20% for 2010 compared to 1.44% for 2009. A decrease in short-term borrowings of $286.3 million during 2010 was the largest driver of the decrease in interest-bearing liabilities. Short-term borrowings decreased due to increased liquidity from higher average deposit balances and customer securities sold under agreement to repurchase, which increased a combined $172.9 million. Overall, the most significant impact to interest expense in 2010 was a decrease in the volume and rate of the CDs portfolio. The Company has reduced its higher-cost CD portfolio due to excess liquidity from other deposit categories. Rate declines, and to a lesser degree volume declines, in

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the Company s interest-bearing liabilities were responsible for the cost improvement during 2010 compared to 2009.

In order to reduce our asset sensitivity, the Company executed an asset-liability strategy using interest-rate swaps to fix the interest rate on a portion of our variable-rate loans indexed to prime. The Company received a fixed rate and paid a variable rate based on the notional amount of the underlying contract. At December 31, 2011, all asset-liability interest-rate swaps had matured. The Company had $30.0 million and $130.0 million in notional values outstanding at December 31, 2010 and 2009, respectively. During 2011, 2010 and 2009, interest-rate swaps contributed 2, 6 and 11 basis points, respectively, to net interest margin.

In February 2009, the Company executed a series of interest-rate swap transactions designated as cash flow hedges that were effective for interest payments beginning in 2010. The intent of the transactions was to fix the effective interest rate for payments due on the 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. During 2011 and 2010, the weighted average interest rate paid (fixed rate) was 5.73% versus a weighted average interest rate received of 2.66%. Contractual maturities of the swaps are for varying lengths of time ranging from five to 14 years. Select critical terms of the cash flow hedges are as follows:

(in thousands)		**Notional Amount**	**Fixed rate**	**Termination Date**
Hedged item - Junior subordinated debentures issued by:				
CoBiz Statutory Trust I	$	20,000	6.04%	March 17, 2015
CoBiz Capital Trust II	$	30,000	5.99%	April 23, 2020
CoBiz Capital Trust III	$	20,000	5.02%	March 30, 2024

Provision and Allowance for Loan and Credit Losses. The following table presents provision for loan and credit losses for the years ended December 31, 2011, 2010 and 2009.

	For the year ended December 31,					
(in thousands)		**2011**		**2010**		**2009**
Provision for loan losses	$	4,002	$	35,127	$	105,815
Provision for credit losses (included in other expenses)		(26)		(94)		(104)
Total provision for loan and credit losses	$	3,976	$	35,033	$	105,711

The provision for loan and credit losses decreased $31.0 million to $4.0 million for the year ended December 31, 2011. This compares favorably to provision expense of $35.0 million and $105.7 million recorded in 2010 and 2009, respectively. The decline in loan and credit losses for 2011 and 2010 reflects the stabilization of the Company s overall asset quality and is an improvement over 2009 when property values in both Arizona and Colorado declined significantly.

Nonperforming loans to total loans was 1.66% and 2.60% at December 31, 2011 and 2010, respectively. This is a substantial improvement from 4.44% in 2009, when nonperforming loan levels reached its peak. Nonaccrual loans decreased $15.5 million from $42.5 million at December 31, 2010 to $27.0 million at December 31, 2011. The provision for loan and credit losses of $4.0 million in 2011 was primarily allocated to real estate mortgage loans due to high levels of charge-offs in that category ($7.1 million or 38% of total charge-offs in 2011). At December 31, 2011, the allowance for loan and credit losses was $55.7 million, or 204.38% of nonperforming loans compared to $66.0 million and 154.33% of nonperforming loans at December 31, 2010.

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Noninterest Income. The following table presents noninterest income for the years ended December 31, 2011, 2010, and 2009.

(in thousands)	For the year ended December 31, 2011	2010	2009	2011 vs 2010 Increase/(decrease) Amount	%	2010 vs 2009 Increase/(decrease) Amount	%
NONINTEREST INCOME							
Service charges	$ 4,960	$ 4,957	$ 4,919	$ 3	0.1	$ 38	0.8
Other loan fees	1,328	1,129	1,254	199	17.6	(125)	(10.0)
Investment advisory and trust income	5,558	5,439	5,186	119	2.2	253	4.9
Insurance income	13,134	13,014	11,778	120	0.9	1,236	10.5
Investment banking income	7,237	5,650	1,154	1,587	28.1	4,496	389.6
Other income	3,739	4,819	3,336	(1,080)	(22.4)	1,483	44.5
Total noninterest income	$ 35,956	$ 35,008	$ 27,627	$ 948	2.7	$ 7,381	26.7

Service Charges. Deposit 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. Fees earned from treasury management services will fluctuate based on the number of customers using the services and from changes in U.S. Treasury rates which are used as a benchmark for the earnings credit rate. Other miscellaneous deposit charges are transactional by nature and may not be consistent period-over-period. As the earnings credit rate decreases, the amount of cash fees paid for service charges increases. Deposit service charges remained consistent year-over-year.

Investment Advisory and Trust Income. Investment advisory and trust income increased $0.1 million or 2.2% to $5.6 million for the year ended December 31, 2011. Investment advisory and trust income increased $0.2 million or 4.9% to $5.4 million for the year ended December 31, 2010

Revenues from this source are generally a function of the value of assets under management (AUM). Discretionary assets under management at December 31, 2011 and 2010 were $721.6 million and $780.9 million, respectively. Total assets under management, custodial assets and assets under advisement at December 31, 2011 and 2010, were $1.48 billion and $1.55 billion, respectively.

Insurance Income. Insurance income is derived from three main areas: wealth transfer, benefits consulting and P&C. Insurance income on wealth transfer transactions is reported in the Wealth Management segment. The majority of fees earned on wealth transfer transactions are earned at the inception of the product offering in the form of commissions. As the fees on these products are transactional by nature, fee income can fluctuate from period to period based on the number of transactions that have been closed. Revenue from benefits consulting and P&C are more recurring revenue sources.

For the year ended December 31, 2011, 2010, and 2009, revenue earned from the insurance segment was composed of the following:

	2011	2010	2009
Wealth transfer and executive compensation	27.4%	31.2%	22.4%
Benefits consulting	30.2%	24.1%	28.2%

Property and casualty	40.4%	42.8%	46.9%
Fee income	2.0%	1.9%	2.5%
	100.0%	100.0%	100.0%

Insurance income increased $0.1 million to $13.1 million during the year ended December 31, 2011. In 2011, revenue earned from employee benefits consulting increased 27%, while revenue from wealth transfer fell 10% and revenue from P&C fell 5%.

Insurance income for 2010 increased $1.2 million or 10.5% to $13.0 million. For the year ended December 31, 2009, insurance income decreased $3.3 million or 22.1% to $11.8 million from $15.1 million in 2008. The increase in 2010 is primarily attributable to an increase in commissions on the

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placement of life insurance policies in wealth transfer cases offset by a decrease in revenue derived from benefits consulting.

Investment Banking Income. Investment banking income includes retainer fees which are recognized over the expected term of the engagement and success fees which are recognized when the transaction is completed and collectability of fees is reasonably assured. Investment banking income is transactional by nature and will fluctuate based on the number of clients engaged and transactions successfully closed.

Investment banking income increased $1.6 million during 2011 to $7.2 million. The increase is due to larger deals closing during 2011 versus 2010. In 2011, the segment closed nine deals generating $6.5 million in success fees versus ten deals closed in 2010 generating $4.8 million in success fees.

Investment banking income increased $4.5 million during the year ended December 31, 2010, to $5.7 million. The increase in investment banking income in 2010 is primarily due to a higher number of successfully closed deals and to an increase in the number of active engaged deals that pay retainer fees.

Other Income. Other income is comprised of changes in the cash surrender value of BOLI, earnings on equity method investments, merchant charges, bankcard fees, wire transfer fees, foreign exchange fees and safe deposit income.

Other income decreased $1.1 million to $3.7 million during the year ended December 31, 2011. The decrease is primarily attributed to a $0.6 million decrease in income from equity method investments and a $0.2 million decrease in revenue earned on the sale of interest-rate swaps to commercial banking clients.

Other income of $4.8 million for the year ended December 31, 2010, increased $1.5 million from 2009. The increase is primarily related to an increase of $0.7 million in income from equity method investments; $0.3 million in rental income; and $0.5 million in income on private equity investments.

Noninterest Expense. The following table presents noninterest expense for the years ended December 31, 2011, 2010, and 2009.

	For the year ended December 31,			2011 vs 2010 Increase/(decrease)		2010 vs 2009 Increase/(decrease)	
(in thousands)	**2011**	**2010**	**2009**	**Amount**	**%**	**Amount**	**%**
NONINTEREST EXPENSES							
Salaries and employee benefits	$ 62,714	$ 60,082	$ 53,316	$ 2,632	4.4	$ 6,766	12.7
Stock-based compensation expense	1,494	1,591	1,543	(97)	(6.1)	48	3.1
Occupancy expenses, premises and equipment	13,610	13,594	13,215	16	0.1	379	2.9
Amortization of intangibles	638	642	674	(4)	(0.6)	(32)	(4.8)

FDIC and other assessments	3,589	5,305	4,871	(1,716)	(32.4)	434	8.9
Other real estate owned and loan workout costs	3,153	6,388	4,660	(3,235)	(50.6)	1,728	37.1
Impairment of goodwill			46,160			(46,160)	(100.0)
Net other than temporary impairment losses on securities recognized in earnings	771	451	922	320	71.0	(471)	(51.1)
Loss on securities, other assets and other real estate owned	3,145	7,977	4,677	(4,832)	(60.6)	3,300	70.6
Other	11,433	13,082	11,372	(1,649)	(12.6)	1,710	15.0
Total noninterest expenses	$ 100,547	$ 109,112	$ 141,410	$ (8,565)	(7.9)	$ (32,298)	(22.8)

Our efficiency ratio was 73.0% for the year ended December 31, 2011, compared to 76.5% and 68.3% for 2010 and 2009, respectively. The efficiency ratio is a measure of the Company s overhead, measuring the percentage of each dollar of income that is paid in operating expenses. Our efficiency ratio had escalated since 2007 as growth in operating expenses outpaced growth in operating revenues. However, declines in FDIC and other assessments coupled with declines in OREO and loan workout costs in 2011 contributed to the improvement in our efficiency ratio over 2010. Despite the improvement in 2011, the Company maintains its goal of reducing the ratio over the next few years and is committed to exploring cost-reduction strategies.

Salaries and Employee Benefits. Salaries and employee benefits, excluding share-based compensation, increased $2.6 million or 4.4% and increased $6.8 million or 12.7% for the years ended December 31, 2011 and 2010, respectively.

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The increase in salaries and employee benefits during 2011 is primarily due to higher bonuses for commission-based employee resulting from higher revenue levels during the year and the reinstatement of administrative bonuses.

The increase in salaries and employee benefits during 2010 is the result of the following factors:

- The Company s successful efforts in attracting employees during the latter half of 2009 and during 2010.
- Increase in compensation to commission-based employees ($1.5 million) primarily due to the improvement in fee-based income.
- Increase in bonus expense ($1.9 million) as a result of banker s achieving production goals and higher revenue on the investment banking segment. For the most part, the Company did not pay executive or administrative bonuses in 2010 and 2009.
- Increase in the annual service cost contribution to the Company s Supplemental Executive Retirement Plan ($0.7 million).

The Company s full-time equivalent employee base at the end of 2011 was 540 compared to 542 in 2010.

Share-Based Compensation. ASC Topic 718 requires recognition of compensation costs associated with the grant-date fair value of awards issued after the adoption date and for the portion of awards for which the requisite service period had not previously been rendered. The Company uses share-based compensation to retain existing employees, recruit new employees and is considered an important part of overall compensation. The Company 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 in 2011 remained consistent with prior year costs. Occupancy costs increased $0.4 million during 2010 as a result of an increase in common area management fees and rent expense.

FDIC and Other Assessments. FDIC and other assessments consist of premiums paid by FDIC-insured institutions and by Colorado chartered banks. The assessments by the FDIC and the Colorado Division of Banking are based on statutory and risk classification factors. FDIC and other assessments decreased $1.7 million during 2011 to $3.6 million. The FDIC assessment calculation and base rates changed in the second quarter of 2011, reducing the Company s cost. FDIC cost reductions were also affected by the discontinuation of the Temporary Liquidity Guarantee Program (TLGP), which the Bank voluntarily participated in through the end of 2010. FDIC and other assessments increased $0.4 million for the year ended December 31, 2010. The Company s standard FDIC assessments had been escalating since late 2008 when higher deposit insurance levels were made available and the number of bank failures climbed (25 failures in 2008, 140 in 2009 and 157 in 2010).

Other Real Estate Owned and Loan Workout Costs. Carrying costs and workout expenses of nonperforming loans and OREO decreased $3.2 million and increased $1.7 million for the years ended December 31, 2011 and 2010, respectively. These costs are directly correlated to levels of nonperforming assets during these years. In 2011, OREO and overall nonperforming asset balances decreased significantly over prior years.

Impairment of Goodwill. During the first quarter of 2009, the Company concluded that the decline in its market capitalization and continued economic uncertainty were triggering events that would require a goodwill impairment test. The results of the impairment analysis indicated that goodwill was impaired by $33.7 million, which was included in the interim three month period ended on March 31, 2009. During the third quarter of 2009, the Company took an additional goodwill impairment of $12.5 million, entirely removing goodwill from the consolidated balance sheet.

Net Other Than Temporary Impairment Losses on Securities. Net other than temporary impairment losses on securities include credit losses recognized on available for sale securities. The $0.8 million and $0.4

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million OTTI recognized during 2011 and 2010,respectively, relates to three private-label MBS that are credit impaired.

Loss on Securities, Other Assets and Other Real Estate Owned. The Company recognized losses on securities, other assets and OREO of $3.1 million, $8.0 million and $4.7 million for the years ended December 31, 2011, 2010, and 2009. The loss on securities, other assets and real estate owned were comprised of the following:

	(Gain) or loss for the year ended December 31,			Increase / (decrease)	
(in thousands)	**2011**	**2010**	**2009**	**2011 vs 2010**	**2010 vs 2009**
Available for sale securities	$ (510)	$ 146	$ 1,140	$ (656)	$ (994)
Loans held for sale		359	139	(359)	220
OREO and repossessed assets	2,885	7,392	3,294	(4,507)	4,098
Other	770	80	104	690	(24)
	$3,145	$ 7,977	$ 4,677	$ (4,832)	$ 3,300

In 2011, the Company recognized a $0.5 million gain on the sale of available for sale securities. Losses recognized on OREO and repossessed assets decreased $4.5 million in 2011 compared to 2010, as the volume of new OREO was reduced and real estate values were more stable. In addition, a loss of $0.7 million was recognized on an Arizona branch closure during the fourth quarter of 2011.

During 2010, the majority of the losses related to OREO. The Company recognized total losses of $7.4 million, of which $1.6 million were recorded on OREO dispositions and $5.8 million on valuation adjustments on OREO. Of the total OREO losses recognized in 2010, 83% or $6.1 million were generated on the sale of Land A&D properties and 16% or $1.1 million on the sale of commercial properties. 59% of the total losses relate to properties located in Colorado and the remaining 41% to properties located in Arizona.

Other Operating Expenses. Other operating expenses for the year ended December 31, 2011 decreased $1.7 million to $11.4 million. During 2010, other operating expenses increased $1.7 million to $13.1 million. The decrease in 2011 is primarily attributable to lower levels of professional ($1.0 million) and legal expenses ($0.4 million). The increase in 2010 is primarily attributable to increases in professional services ($0.7 million), legal expenses ($0.4 million), marketing expenses ($0.2 million) and miscellaneous losses ($0.2 million). The decrease of $0.4 million in 2009 is attributed to a decrease in legal expenses of $0.4 million.

Federal Income Taxes. The income tax expense for the year ended December 31, 2011, decreased $15.7 million to a benefit of $5.7 million from an expense of $10.0 million for the year ended December 31, 2010. The 2011 income tax provision was reduced by the reversal of a $15.6 million deferred income tax valuation allowance. Pretax income during 2011 was $27.8 million, a $40.2 million improvement over prior year. Permanent differences, primarily arising from changes in the cash surrender value of BOLI and tax-exempt income, reduced taxable income by $2.0 million.

Pretax loss during the year ended December 31, 2010, was $12.4 million, which was an improvement of $103.8 million over 2009. Included in the provision for income taxes during 2010 is a non-cash deferred tax valuation charge of $15.6 million. Permanent tax differences, arising primarily due to income recognized on changes in the cash surrender value of BOLI, decreased taxable income by $1.4 million for the year ended December 31, 2010.

Segment Results

The Company reports five operating segments: Commercial Banking, Investment Banking, Wealth Management, Insurance and Corporate Support. In conjunction with the Company s strategic initiative to create a focused wealth management offering, the Company changed its operating segments in the third quarter of 2010 to reflect an internal realignment of its wealth management components. As part of this change, the Investment Advisory and Trust segment that was previously reported was renamed Wealth

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Management and a business line has been moved from Insurance into the new Wealth Management segment. All prior period disclosures have been adjusted to conform to the new presentation.

Internally, management measures the contribution of the fee-based business lines before parent company management fees and overhead allocations. The Company believes this to be a more useful measurement as centralized administration expenses and overhead is generally not impacted by the fee-based business lines, but is most affected by the operations of the Bank. While the Company allocates a portion of the costs related to shared resources to the fee-based segments, we measure their profitability based on a pre-allocation basis as it approximates the operating cash flow generated by the segment.

A description of each segment is provided in Note 18 of the accompanying notes to the consolidated financial statements. A valuation analysis of the Company s operating segments was performed in 2009 to evaluate impairment of goodwill and other intangible assets. The analyses indicated goodwill was impaired and noncash charges of $46.2 million were recorded during 2009. Certain financial metrics of each operating segment are presented below.

Commercial Banking.

	Commercial Banking Year ended December 31,			2011 - 2010 Increase/(decrease)		2010 - 2009 Increase/(decrease)	
(in thousands)	**2011**	**2010**	**2009**	**Amount**	**%**	**Amount**	**%**
Income Statement							
Net interest income	$ 101,922	$ 100,983	$ 107,213	$ 939	0.9	$ (6,230)	(5.8)
Provision for loan losses	570	30,224	103,427	(29,654)	(98.1)	(73,203)	(70.8)
Noninterest income	9,985	10,439	9,555	(454)	(4.3)	884	9.3
Noninterest expense	31,643	37,015	34,533	(5,372)	(14.5)	2,482	7.2
Impairment of goodwill			15,348			(15,348)	(100.0)
Provision (benefit) for income taxes	25,322	20,180	(19,829)	5,142	25.5	40,009	(201.8)
Net income (loss) before management fees and overhead	54,372	24,003	(16,711)	30,369	126.5	40,714	(243.6)
Management fees and overhead allocations, net of tax	22,979	24,089	30,987	(1,110)	(4.6)	(6,898)	(22.3)
Net income (loss)	$ 31,393	$ (86)	$ (47,698)	$ 31,479	NM	$ 47,612	(99.8)

The Commercial Banking segment reported net income $31.4 million during the year ended December 31, 2011, a significant improvement over the prior year. The improvement is primarily the result of a lower loan loss provision ($29.7 million decline) due to improved asset quality trends. Noninterest expenses also contributed $5.4 million to the overall improvement, primarily as a result of declines in OREO losses during 2011. A $4.1 million deferred income tax valuation reversal that reduced income taxes was muted by a significant increase in taxable income during 2011, resulting in an increase in income tax expense of $5.1 million for the segment.

The Commercial Banking segment reported net loss of $0.1 million during the year ended December 31, 2010, a significant improvement of $47.6 million over the prior year. The improvement was primarily the result of a lower loan loss provision ($73.2 million decline) due to improved asset quality trends. Offsetting the positive impact of lower loan loss provision levels was a non-cash deferred tax valuation allowance charge of $4.1 million, a decline in net interest income of $6.2 million primarily attributable to a decrease in the loan portfolio, and an increase of $2.5 million in noninterest expenses primarily related to salaries and benefits.

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Investment Banking.

(in thousands)	Investment Banking Year ended December 31, 2011	2010	2009	2011 - 2010 Increase/(decrease) Amount	%	2010 - 2009 Increase/(decrease) Amount	%
Income Statement							
Net interest income	$ 8	$ 8	$ 7	$		$ 1	14.3
Noninterest income	7,237	5,650	1,154	1,587	28.1	4,496	389.6
Noninterest expense	5,901	5,534	4,024	367	6.6	1,510	37.5
Impairment of goodwill			5,279			(5,279)	(100.0)
Provision (benefit) for income taxes	507	52	(3,768)	455	875.0	3,820	(101.4)
Net income (loss) before management fees and overhead	837	72	(4,374)	765	1,062.5	4,446	(101.6)
Management fees and overhead allocations, net of tax	151	163	211	(12)	(7.4)	(48)	(22.7)
Net income (loss)	$ 686	$ (91)	$ (4,585)	$ 777	(853.8)	$ 4,494	(98.0)

Net income of $0.7 million for the year ended December 31, 2011 reflects a significant improvement of $0.8 million over the prior year net loss of $0.1 million. The improvement in the segment s results is primarily attributed to higher levels of success fees earned during 2011. Offsetting higher revenue levels were increases in expenses of $0.4 million, primarily due to increases in employee bonuses.

Net losses for the years ended December 31, 2010 and 2009, were $0.1 million and $4.6 million, respectively. The improvement in the segment s results during 2010 was primarily attributable to success fees of $4.8 million during 2010.

Wealth Management.

(in thousands)	Wealth Management Year ended December 31, 2011	2010	2009	2011 - 2010 Increase/(decrease) Amount	%	2010 - 2009 Increase/(decrease) Amount	%
Income Statement							
Net interest income	$ (29)	$ (38)	$ (16)	$ 9	(23.7)	$ (22)	137.5
Noninterest income	9,425	9,752	8,052	(327)	(3.4)	1,700	21.1
Noninterest expense	9,154	10,366	9,903	(1,212)	(11.7)	463	4.7
Impairment of goodwill			21,384			(21,384)	(100.0)
Provision (benefit) for income taxes	(93)	(78)	(1,781)	(15)	19.2	1,703	(95.6)
Net income (loss) before management fees and overhead	335	(574)	(21,470)	909	(158.4)	20,896	(97.3)
Management fees and overhead allocations, net of tax	628	721	773	(93)	(12.9)	(52)	(6.7)
Net income (loss)	$ (293)	$ (1,295)	$ (22,243)	$ 1,002	(77.4)	$ 20,948	(94.2)

The Wealth Management net loss of $0.3 million for the year ended December 31, 2011, improved $1.0 million from the net loss of $1.3 million reported a year earlier. The segment s revenue was affected by a decline of 10% in wealth transfer revenue and the loss of a portfolio manager who took some customer accounts. Noninterest expense decreased in 2011, primarily due to a operational loss incurred in 2010 that was not repeated in 2011. The provision for income tax includes the benefit from a deferred income tax valuation reversal of $0.2 million.

The increase of $1.7 million in Wealth Management revenues during the year ended December 31, 2010, was primarily attributed to an increase of $0.3 million in investment advisory revenue and an increase of $1.4 million in commissions on the placement of life insurance policies in wealth transfer cases. Investment advisory revenues are generally a function of the value of AUM. Discretionary AUM at December 31, 2011 was $721.6 million, down from $780.9 million a year earlier. Total assets under management, custodial assets and assets under advisement at December 31, 2011 were $1.48 billion, compared to $1.55 billion a year earlier. Revenues generated by wealth transfer are transaction by nature, with the majority of revenues earned at the time of the sale.

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Insurance.

(in thousands)	Insurance Year ended December 31, 2011	2010	2009	2011 - 2010 Increase/(decrease) Amount	%	2010 - 2009 Increase/(decrease) Amount	%
Income Statement							
Net interest income	$ (2)	$ (9)	$ (13)	$ 7	(77.8)	$ 4	(30.8)
Noninterest income	9,272	8,701	8,912	571	6.6	(211)	(2.4)
Noninterest expense	9,149	9,005	8,498	144	1.6	507	6.0
Impairment of goodwill			4,149			(4,149)	(100.0)
Provision (benefit) for income taxes	(214)	162	(1,593)	(376)	(232.1)	1,755	(110.2)
Net income (loss) before management fees and overhead	335	(475)	(2,155)	810	(170.5)	1,680	(78.0)
Management fees and overhead allocations, net of tax	368	343	477	25	7.3	(134)	(28.1)
Net income (loss)	$ (33)	$ (818)	$ (2,632)	$ 785	(96.0)	$ 1,814	(68.9)

The nominal net loss reported by Insurance during the year ended December 31, 2011, improved significantly from the $0.8 million net loss reported a year earlier. Year-to-date revenue growth is primarily attributed to the employee benefit business. The employee benefit group upgraded its sales staff in 2010 and as a result is experiencing an increase in new business. The segment results also include a $0.3 million deferred income tax valuation reversal, which contributed to the $0.4 million increase in the benefit for income taxes for the year ended December 31, 2011.

The segment results in 2010 were impacted by a non-cash deferred tax valuation charge of $0.3 million. The improvement in 2010 over the prior year was primarily driven by a noncash goodwill impairment charge taken during 2009 and a decrease in the benefit for income taxes during 2010.

Corporate Support and Other

(in thousands)	Corporate Support and Other Year ended December 31, 2011	2010	2009	2011 - 2010 Increase/(decrease) Amount	%	2010 - 2009 Increase/(decrease) Amount	%
Net interest income	$ (5,498)	$ (4,113)	$ (3,807)	$ (1,385)	33.7	$ (306)	8.0
Provision for loan losses	3,432	4,903	2,388	(1,471)	(30.0)	2,515	105.3
Noninterest income	37	466	(46)	(429)	(92.1)	512	(1,113.0)
Noninterest expense	44,700	47,192	38,292	(2,492)	(5.3)	8,900	23.2
Provision (benefit) for income taxes	(31,176)	(10,288)	(5,888)	(20,888)	203.0	(4,400)	74.7
Net income (loss) before management fees and overhead	(22,417)	(45,454)	(38,645)	23,037	(50.7)	(6,809)	17.6
Management fees and overhead allocations, net of	(24,126)	(25,316)	(32,448)	1,190	(4.7)	7,132	(22.0)

tax										
Net income (loss)		1,709		(20,138)		(6,197)		21,847	(108.5)		(13,941)	225.0
Net (income) loss attributable to noncontrolling interest				(209)		314		209	(100.0)		(523)	(166.6)
Net income (loss) after noncontrolling interest	$	1,709	$	(20,347)	$	(5,883)	$	22,056	(108.4)	$	(14,464)	245.9

The Corporate Support and Other segment is comprised of activities of the parent company (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.

Net income for the Corporate Support and Other segment increased $22.1 million to $1.7 million during the year ended December 31, 2011. The primary component of net interest income (expense) for the segment is interest expense related to the Company s long-term debt (see Note 8 to the consolidated financial statements). In the first quarter of 2010, interest expense on a portion of variable-rate debt was fixed through the use of interest-rate swaps (see Note 9 to the consolidated financial statements). The decrease in net interest income is attributable to a decrease in interest income on the loan portfolio the Parent purchased from the Bank in 2009.

The provision for loan losses relates to a portfolio of loans purchased by the Parent from the Bank. This portfolio has steadily decreased since the 2009 purchase due to loan repayments and collateral sales. In

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addition, the declining balance of the portfolio has contributed to the decrease in the provision for loan losses.

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. Noninterest expense decreased $2.5 million to $44.7 million in 2011 from $47.2 million a year earlier, primarily as a result of a decrease in loan workout expenses and other legal and professional expenses incurred in conjunction with the loan portfolio owned by the Parent.

The 2011 provision for income tax includes the benefit from a deferred income tax valuation reversal of $11.0 million. The $11.0 million deferred income tax valuation was recorded in the fourth quarter of 2010.

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 mortgage-backed securities. 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 our 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, 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 $59.2 million at December 31, 2011, compared to $24.2 million at December 31, 2010. 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 decreased to 85.4% at December 31, 2011, from 87.0% at December 31, 2010, allowing the Company to maintain low levels of wholesale borrowings which

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historically bear a higher cost than core deposits. At December 31, 2011, the Company had $20.0 million in outstanding borrowings with the FHLB and no other federal fund borrowings. Average wholesale borrowings (short-term borrowing and brokered deposits) were $14.1 million during the year ended December 31, 2011. The Company has no brokered deposits at December 31, 2011 and core deposits represent 100% of the Company s deposit base.

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 December 31, 2011, the Bank has approved federal funds purchase lines with seven correspondent banks with an aggregate credit line of $165.0 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 December 31, 2011, totaled $489.4 million or 21.7% of the Company s earning assets. Available funding is comprised of $165.0 million through the unsecured federal fund lines and $324.4 million in secured FHLB borrowing capacity. The Company had $153.6 million in securities available to be pledged as collateral for additional FHLB borrowings at December 31, 2011. 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 one day rest 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 and preferred stock, quarterly interest payments on the subordinated debentures and notes payable, payments for mergers and acquisitions activity, and payments for the salaries and benefits for the employees of the holding company.

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. At December 31, 2011, the Bank was restricted in its ability to pay dividends to the holding company as its cumulative earnings during 2011 and the prior two years, net of dividends paid during those years, was negative. 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 businesses, and upon the Company s compliance with the capital adequacy guidelines of the Federal Reserve Board of Governors (see Note 15 to the consolidated financial statements). 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 December 31, 2011, the holding company had a liquidity position that exceeds the policy limit and we believe the Company has the ability to continue paying dividends.

At December 31, 2011, shareholders equity totaled $220.1 million, an $18.3 million increase from December 31, 2010. The increase was driven primarily by net income of $33.5 million offset by a net decline of $7.0 million relating to the redemption of the Series B Preferred Stock and the issuance of the Series C Preferred Stock (see Note 11 to the consolidated financial statements), additional net unrealized losses of $5.2 million relating to derivatives and available for sale securities, and common and preferred dividends of $4.6 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,

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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 Tier 1 and Tier 2 capital elements, with Tier 2 capital being limited to 100% of Tier 1 capital. Tier 1 capital includes, with certain restrictions, common shareholders equity, perpetual preferred stock and minority interests in consolidated subsidiaries. Tier 2 capital includes, with certain limitations, perpetual preferred stock not included in Tier 1 capital, certain maturing capital instruments, and the allowance for loan and credit losses. At December 31, 2011, the Bank was well-capitalized with a Tier 1 Capital ratio of 12.1%, and Total Capital ratio of 13.3%. The minimum ratios to be considered well-capitalized under the risk-based capital standards are 6% and 10%, respectively. At the holding company level, the Company s Tier 1 Capital ratio at December 31, 2011, was 14.0%, and its Total Capital ratio was 16.3%. 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.

The Company has issued a total of $70.0 million of trust preferred securities through statutory trusts that are not included in the Company s consolidated financial statements. Although the accounts of the Statutory Trust, Capital Trust II and Capital Trust III are not included in the Company s consolidated financial statements, $70.0 million in trust preferred securities issued by the trusts are included in Tier 1 capital for regulatory capital purposes as allowed by the Federal Reserve Board at December 31, 2011. Under rules that became effective March 31, 2011, the aggregate amount of trust preferred securities and certain other capital elements are limited to 25% of Tier 1 capital elements, net of goodwill that has been reduced by any associated deferred tax liability. The amount of trust preferred securities and certain other elements in excess of the limit can be included in Tier 2 capital, subject to certain restrictions. Upon adoption of this rule, the Company maintained its well capitalized status.

The Company s 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 following 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 following section of this report and Note 14 to the consolidated financial statements for additional discussion on these commitments.

Contractual Obligations and Commitments

Summarized below are the Company s contractual obligations (excluding deposit liabilities) to make future payments at December 31, 2011:

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(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)	$ 20,000	$	$	$	$ 20,000
Repurchase agreements (1)	127,948				127,948
Operating lease obligations	5,750	10,150	8,228	6,075	30,203
Long-term debt obligations (2)	6,028	30,425	7,333	116,372	160,158
Preferred Stock, Series C dividend (3)	2,868	5,737	60,234		68,839
Supplemental executive retirement plan				4,617	4,617
Total contractual obligations	$ 162,594	$ 46,312	$ 75,795	$ 127,064	$ 411,765

(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 while principal repayment of the subordinated notes payable is assumed to be its first call date (See Note 8 to the consolidated financial statements) . Interest on the junior subordinated debentures is calculated at the fixed rate associated with the applicable hedging instrument through the instrument maturity date (see Note 8 to the consolidated financial statements) and then at the current variable rate through contractual maturity and is reported in the due within categories during which the interest expense is expected to be incurred. Included in long-term debt obligations are estimated interest payments related to Subordinated Debt (junior and unsecured) of $6.0 million due Within one year , $9.4 million due After one but within three years , $7.3 million due After three but within five years and $44.2 million due After five years. Variable interest rate payments on junior subordinated debentures after maturity of the related fixed interest rate swap hedge and actual interest payments will differ based on actual LIBOR and actual amounts outstanding for the applicable periods.

(3) Preferred Stock, Series C (issued to the Secretary of the Treasury September 2011) includes dividends payable at 5% on $57.4 million. The preferred shares are shown in the table as being due in the After three but within five years category which assumes the $57.4 million in preferred stock will be redeemed in the year prior to the contractual dividend rate step up to 9% effective after December 2015.

The contractual amount of the Company s financial instruments with off-balance sheet risk, expiring by period at December 31, 2011, is presented below:

(in thousands)	Within one year	After one but within three years	After three but within five years	After five years	Total
Unfunded loan commitments	$ 393,652	$ 150,046	$ 16,295	$ 1,613	$ 561,606
Standby letters of credit	44,086	2,401	3,223		49,710
Commercial letters of credit	240				240
Unfunded commitments for unconsolidated investments	6,721				6,721
Company guarantees	1,262				1,262
Total commitments	$ 445,961	$ 152,447	$ 19,518	$ 1,613	$ 619,539

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 on the 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.

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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 creditworthiness 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.

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 $33.8 million of total commitments at December 31, 2011, 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 or pay cash to a counterparty depending on changes in interest rates. The interest-rate swaps are carried at their fair value on the consolidated balance sheet with the fair value representing the net present value of expected future cash receipts or payments based on market interest rates at the balance sheet date. Interest-rate swaps recorded on the consolidated balance sheet at December 31, 2011, do not represent amounts that will ultimately be received or paid under the contract and are therefore excluded from the table above.

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 Company 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.

Item 7A. 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 year through changes in the mix of assets and liabilities. Our asset and liability management strategy is formulated and monitored by the ALCO Committee, 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. The ALCO committee 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

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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 December 31, 2011, 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 December 31, 2011, 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 December 31, 2011, will remain constant; and (ii) that changes in market rates are parallel and instantaneous 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	(1.6)%	0.0%	2.1%	4.5%
Market value of equity	n/a	(31.1)%	0.0%	23.4%	42.1%

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. At December 31, 2011, our cumulative interest rate gap was a positive 35.4%. 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.

The following table sets forth the estimated maturity or repricing, and the resulting interest rate gap, of our interest-earning assets and interest-bearing liabilities at December 31, 2011. All amounts in the table are based on contractual repricing schedules. Actual prepayment and withdrawal experience may vary significantly from the assumptions reflected in the table. For information on the fair value of our interest-earning assets and interest-bearing liabilities see Note 17 to the consolidated financial statements.

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(in thousands)	Less than three months	Three months to less than one year	One to five years	Over five years	Total
	Estimated maturity or repricing at December 31, 2011				
Interest-earning assets:					
Interest bearing deposits and federal funds sold (1)	$ 22,003	$ 2,594	$	$	$ 24,597
Fixed rate loans, gross	37,629	80,628	325,011	95,649	538,917
Floating rate loans, gross	619,972	62,836	380,075	35,624	1,098,507
Investment securities held to maturity and available for sale	20,222	101,142	236,168	275,776	633,308
Total interest-earning assets	$ 699,826	$ 247,200	$ 941,254	$ 407,049	$ 2,295,329
Interest-bearing liabilities:					
NOW and money market	$ 50,956	$ 152,867	$ 361,409	$ 208,594	$ 773,826
Savings	384	1,152	2,993	6,102	10,631
Interest-bearing demand	419	1,256	3,441	5,269	10,385
Eurodollar	97,748				97,748
Time deposits under $100,000	47,241	52,022	10,009		109,272
Time deposits $100,000 and over	83,539	92,941	19,251		195,731
Securities sold under agreements to repurchase	127,948				127,948
Other short-term borrowings	20,000				20,000
Subordinated debentures				93,150	93,150
Total interest-bearing liabilities	$ 428,235	$ 300,238	$ 397,103	$ 313,115	$ 1,438,691
Interest rate gap	$ 271,591	$ (53,038)	$ 544,151	$ 93,934	$ 856,638
Cumulative interest rate gap	$ 271,591	$ 218,553	$ 762,704	$ 856,638	
Cumulative interest rate gap to total assets	11.21%	9.02%	31.47%	35.35%	

(1) includes restricted cash of $4.5 million, reported in the Consolidated Balance Sheets with Other assets.

To manage the relationship of our interest-earning assets and liabilities, we evaluate the following factors: liquidity, equity, debt/capital ratio, anticipated prepayment rates, portfolio maturities, maturing assets and maturing liabilities. Our Asset-Liability Management Committee is responsible for establishing procedures that enable us to achieve our goals while adhering to prudent banking practices and existing loan and investment policies.

We have focused on maintaining balance between interest-rate-sensitive assets and liabilities and repricing frequencies. An important element of this focus has been to emphasize variable-rate loans and investments funded by deposits that also mature or reprice over periods of 12 months or less.

The following table presents, at December 31, 2011, loans by maturity in each major category of our portfolio. Actual maturities may differ from the contractual maturities shown below as a result of renewals and prepayments. Loan renewals are evaluated in the same manner as new credit applications.

	At December 31, 2011			
(in thousands)	Less than one year	One to five years	Over five years	Total
Commercial	$ 360,886	$ 194,597	$ 13,479	$ 568,962
Real estate mortgage	269,375	451,004	64,112	784,491
Land acquisition & development	52,160	6,396	3,421	61,977
Real estate construction	58,366	4,775		63,141
Consumer	58,502	31,483	26,691	116,676
Other	1,776	16,831	23,570	42,177
Total loans	$ 801,065	$ 705,086	$ 131,273	$ 1,637,424

Of the $836.4 million of loans with maturities of one year or more, approximately $420.6 million were fixed-rate loans and $415.7 million were variable-rate loans at December 31, 2011.

To augment our asset and liability management strategy, we also began using interest-rate swaps on our loan portfolio in 2004, with the overall goal of minimizing the impact of interest rate fluctuations on our net interest margin. Interest-rate swaps involve the exchange of fixed-rate and variable-rate interest payment obligations without the exchange of the underlying notional amounts. Since we implemented the program in 2004, we have entered into 18 different interest-rate swap agreements, all of which had matured by the end of 2011.

Under the interest-rate swap agreements, we received a fixed rate and paid a variable rate based on the prime rate. The swaps qualified as cash flow hedges under ASC Topic 815, *Derivatives and Hedging* (ASC 815), and were designated as hedges of the variability of cash flows we received from certain of our prime-indexed loans. In accordance with ASC 815, these swap agreements were measured at fair value and reported as assets or liabilities on the consolidated statements of financial condition. The portion of the change in the fair value of the swaps that was deemed effective in hedging the cash flows of the designated assets were recorded in accumulated other comprehensive income (loss), net of tax effects (OCI) and reclassified into interest income when such cash flows occur in the future. Any ineffectiveness resulting from the hedges was recorded as a gain or loss in the consolidated statements of operations as a part of noninterest income.

During 2011, 2010 and 2009, net interest income was increased $0.5 million, $1.6 million and $2.6 million, respectively, from the settlement of the interest-rate swaps.

In February 2009, the Company initiated a new series of interest-rate swap transactions designated as cash flow hedges. The intent of the transactions was to fix the effective interest rate of 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 swap agreements have a total notional value of $70.0 million, will fix the interest rates between 5.0% and 6.0% and will mature over varying lengths of time from five and 14 years. These interest-rate swaps were effective for cash settlements beginning in February 2010 and net interest income decreased $2.2 million and $1.8 million during the years ended December 31, 2011 and 2010, respectively, from the settlement of payments on the swaps.

Item 8. Financial Statements and Supplementary Data

Reference is made to our consolidated financial statements, the reports thereon, and the notes thereto beginning at page F-1 of this Form 10-K, which financial statements, reports, notes and data are incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

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 CEO and the Company s CFO, of the effectiveness of the design and operation of the Company s disclosure controls and procedures at the end of the period covered by this report pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Company s CEO and CFO concluded the Company s disclosure controls and procedures are effective in ensuring that information relating to the Company, including its consolidated subsidiaries, required to be disclosed in reports that it files under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and (2) accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting. During the fourth quarter of 2011 no change in the Company s internal control over financial reporting was identified in connection with this evaluation that has materially affected or is reasonably likely to materially affect internal control over financial reporting.

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Management s Report on Internal Control over Financial Reporting and the Report of Independent Registered Public Accounting Firm are set forth in our consolidated financial statements and the reports thereon beginning at page F-1.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information concerning the Company s directors and officers called for by this item will be included in the Company s definitive Proxy Statement prepared in connection with the 2012 Annual Meeting of Shareholders (the 2012 Proxy Statement) and is incorporated herein by reference. Information regarding audit committee financial experts and the audit committee will be included in our 2012 Proxy Statement and is hereby incorporated by reference. Information regarding disclosure of compliance with Section 16(a) of the Exchange Act will also be included in our 2012 Proxy Statement and is hereby incorporated by reference.

The Company has adopted a Code of Conduct and Ethics (Code of Conduct) that applies to the Company s officers, directors and employees, including the Company s principal executive officer, principal financial officer, principal accounting officer or controller (collectively Company Associates), or persons performing similar functions. The Company has posted the Code of Conduct and will post any changes in or waivers of the Code of Conduct applicable to any Company Associate on its website at *www.cobizfinancial.com*.

Item 11. Executive Compensation

Information concerning the compensation of Company executives called for by this item will be included in the 2012 Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information concerning security ownership of certain beneficial owners and management called for by this item will be included in the Company s 2012 Proxy Statement and is incorporated herein by reference. Information regarding securities authorized for issuance under equity compensation plans will be included in our 2012 Proxy Statement and is hereby incorporated by reference.

Item 13. Certain Relationships and Related Transactions and Director Independence

Information concerning certain relationships and transactions between CoBiz and its affiliates called for by this item will be included in the Company s 2012 Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

Information required by this Item will be included in the Company s 2012 Proxy Statement and is incorporated herein by reference.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) The following documents are filed as part of this Annual Report on Form 10-K:

Management s Report on Internal Control Over Financial Reporting;

Reports of Independent Registered Public Accounting Firm;

Consolidated Balance Sheets at December 31, 2011 and 2010;

Consolidated Statements of Operations and Comprehensive Income (Loss) for the Years Ended December 31, 2011, 2010 and 2009;

Consolidated Statements of Equity for the Years Ended December 31, 2011, 2010 and 2009;

Consolidated Statements of Cash Flows for the Years Ended December 31, 2011, 2010 and 2009;

Notes to consolidated financial statements at and for the Years Ended December 31, 2011, 2010 and 2009.

(2) All financial statement schedules are omitted because they are not required or because the required information is included in the financial statements and/or related notes.

(3) Exhibits and Index of Exhibits:

(1)	2	Amended and Restated Agreement and Plan of Merger dated November 28, 2000.

(2)	3.1	Amended and Restated Articles of Incorporation of the Registrant.
(3)	3.2	Amendment to Articles of Incorporation.
(8)	3.3	Amendment to Articles of Incorporation.
(4)	3.4	Amendment to Articles of Incorporation.
(14)	3.5	Amended and Restated Bylaws of the Registrant.
(18)	3.6	Amendment to Articles of Incorporation.
(25)	3.7	Amendment to Articles of Incorporation.
(28)	3.8	Amendment to Articles of Incorporation.
(23)	4.1	Form of Subordinated Unsecured Promissory Notes due 2018.
(23)	4.2	Form of Note Holders Agreement, dated August 18, 2008, by and between CoBiz Financial Inc. and Holders of Promissory Notes Issued by CoBiz Financial Inc. in connection with a Private Placement Memorandum of CoBiz Financial Inc. dated as of July 25, 2008.
(25)	4.3	Form of Certificate for 64,450 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series B, issued to the United States Department of the Treasury, dated December 19, 2008.

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(28)	4.4	Form of Certificate for 57,366 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series C, issued to the United States Department of the Treasury, dated September 8, 2011.
	4.5	Form of the Warrant to Purchase 895,968 shares of Common Stock originally issued December 19, 2008 to the United States Department of the Treasury (original warrant holder) and subsequently transferred on November 18, 2011 to CSS LLC.
(2)	10.1	Employment Agreement, dated at March 1, 1995, by and between Equitable Bankshares of Colorado, Inc. and Jonathan C. Lorenz.
(2)	10.2	Employment Agreement, dated at January 3, 1998, by and between Colorado Business Bankshares, Inc. and Richard J. Dalton.
(5)	10.3	Lease Agreement between Kesef, LLC and Colorado Business Bankshares, Inc. dated May 1, 1998.
(6)	10.4	First Amendment to Lease Agreement between Kesef, LLC and Colorado Business Bankshares, Inc. dated August 1, 2000.
(7)	10.5	CoBiz Financial Inc. Employee Stock Purchase Plan.
(8)	10.6	2002 Equity Incentive Plan.
(9)	10.7	Employment Agreement, dated August 12, 2003, by and between CoBiz Inc. and Lyne B. Andrich.
(10)	10.8	Lease Agreement between Za hav and First Capital Bank of Arizona dated June 15, 2001.
(10)	10.9	Lease Agreement between Dorit, LLC and Colorado Business Bank, N.A. dated March 31, 2003.
(11)	10.10	Employment Agreement, dated November 19, 2004, by and between CoBiz Inc. and Steven Bangert.
(12)	10.11	Supplemental Executive Retirement Plan.
(4)	10.12	2005 Equity Incentive Plan.
(15)	10.13	Indemnification Agreements dated December 19, 2006 between CoBiz Inc. and each the following directors and executive officers of the Corporation: Lyne B. Andrich, Steven Bangert, Michael B. Burgamy, Jerry W. Chapman, Richard J. Dalton, Morgan Gust, Thomas M. Longust, Jonathan C. Lorenz, Evan Makovsky, Harold F. Mosanko, Robert B. Ostertag, Howard R. Ross, Noel N. Rothman, Timothy J. Travis, Mary Beth Vitale and Mary White.
(13)	10.14	Employment Agreement, dated August 7, 2006, by and between CoBiz Inc. and Troy R. Dumlao.
(16)	10.15	Amendments dated March 16, 2006 to the Employment Agreements between CoBiz Inc. and each of Steven Bangert, Jonathan C. Lorenz, Richard J. Dalton, Lyne B. Andrich and Robert B. Ostertag.
(17)	10.16	Indemnification Agreement dated March 5, 2007 between CoBiz Inc. and

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		Troy R. Dumlao.
(21)	10.17	Form of Indemnification Agreement dated January 16, 2009 between CoBiz Financial Inc. and Directors Douglas L. Polson and Mary Rhinehart.
(19)	10.18	Form of Amended and Restated Executive Split Dollar Life Insurance Plan and Agreements, dated December 31, 2007 between CoBiz Financial Inc and each of Steven Bangert, Richard J. Dalton, Lyne B. Andrich and Robert B. Ostertag.
(20)	10.19	Second and Third Amendments to Lease Agreement between Kesef, LLC and Colorado Business Bankshares, Inc. dated August 1, 2000.
(22)	10.20	Amended and Restated 2005 Equity Incentive Plan.
(25)	10.21	Securities Purchase Agreement, dated December 19, 2008, by and between CoBiz Financial Inc. and the United States Department of the Treasury.
(25)	10.22	Form of Waiver of Claims Against the United States for changes in compensation or benefits resulting from participation in the United States Department of the Treasury s TARP Capital Purchase Program.
(25)	10.23	Form of Letter Agreement to Amend the executive employment contracts to conform to requirements and limitations promulgated by participation in the United States Department of the Treasury s TARP Capital Purchase Program and other regulations under Section 409A of the Internal Revenue Code of 1986 (as amended) between CoBiz Financial Inc. and each of Steven Bangert, Jonathan C. Lorenz, Richard J. Dalton, Lyne B. Andrich and Robert B. Ostertag.
(24)	10.24	Incentive compensation guidelines for named executive officers.
(27)	10.25	Employment agreement, dated August 3, 2010 by and between CoBiz Financial Inc. and N.Bruce Callow.
(28)	10.26	Securities Purchase Agreement, dated September 8, 2011, by and between CoBiz Financial Inc. and the Secretary of the United States Department of the Treasury (Small Business Lending Fund Preferred Stock issuance/Series C Preferred Stock).
(28)	10.27	Repurchase Agreement dated September 8, 2011, between CoBiz Financial Inc. and the United States Department of the Treasury (TARP Preferred Stock redemption/Series B Preferred Stock).
(29)	10.28	Employment agreement, dated April 22, 2002, by and between CoBiz Inc. and David Pass.
	10.29	Employment agreement, dated June 23, 2009, by and between CoBiz Bank and Scott Page.
(26)	14	Code of Conduct and Ethics.
	21	List of subsidiaries.
	23	Consent of Independent Registered Public Accounting firm.

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31.1	Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer.
32.1	Section 1350 Certification of the Chief Executive Officer.
32.2	Section 1350 Certification of the Chief Financial Officer.
99.1	Certification of Chief Executive Officer pursuant to Section 111(b)(4) of the Emergency Economic Stabilization Act of 2008.
99.2	Certification of Chief Financial Officer pursuant to Section 111(b)(4) of the Emergency Economic Stabilization Act of 2008.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document

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(1) Incorporated herein by reference from the Registrant s Registration Statement on Form S-4 (File No. 333-51866).

(2) Incorporated herein by reference from the Registrant s Registration Statement on Form SB-2 (File No. 333-50037).

(3) Incorporated herein by reference from the Registrant s Current Report on Form 8-K, as filed on March 23, 2001.

(4) Incorporated herein by reference from the Registrant s Definitive Proxy Statement on Schedule 14A as filed on April 14, 2005.

(5) Incorporated herein by reference from the Registrant s Quarterly Report on Form 10QSB for the quarter ended September 30, 1998, as filed on November 13, 1998.

(6) Incorporated herein by reference from the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2000, as filed on November 14, 2000.

(7) Incorporated herein by reference from the Registrant s Proxy Statement filed in connection with its 2009 annual meeting of shareholders, as filed on April 7, 2009.

(8) Incorporated herein by reference from the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, as filed on August 14, 2002.

(9) Incorporated herein by reference from the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, as filed on November 13, 2003.

(10) Incorporated herein by reference from the Registrant s Annual Report on Form 10-K for the year ended December 31, 2003, as filed on March 12, 2004.

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(11) Incorporated herein by reference from the Registrant s Current Report on Form 8-K, as filed on November 24, 2004.

(12) Incorporated herein by reference from the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2007, as filed on November 9, 2007.

(13) Incorporated herein by reference from the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2006, as filed on August 9, 2006.

(14) Incorporated herein by reference from the Registrant s Current Report on Form 8-K, as filed on December 18, 2006.

(15) Incorporated herein by reference from the Registrant s Current Report on Form 8-K, as filed on December 20, 2006.

(16) Incorporated herein by reference from the Registrant s Current Report on Form 8-K, as filed on March 20, 2006.

(17) Incorporated herein by reference from the Registrant s Annual Report on Form 10-K, as filed on March 15, 2007.

(18) Incorporated herein by reference from the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, as filed on August 9, 2007.

(19) Incorporated herein by reference from the Registrant s Annual Report on Form 10-K, as filed on March 17, 2008.

(20) Incorporated herein by reference from the Registrant s Current Report on Form 8-K, as filed April 4, 2008.

(21) Incorporated herein by reference from the Registrant s Current Report on Form 8-K, as filed on January 20, 2009.

(22) Incorporated herein by reference from the Registrant s Proxy Statement filed in connection with its 2008 annual meeting of shareholders, as filed on April 15, 2008.

(23) Incorporated herein by reference from the Registrant s Current Report on Form 8-K, as filed August 22, 2008.

(24) Incorporated herein by reference from the Registrant s Current Report on Form 8-K, as filed January 26, 2010.

(25) Incorporated herein by reference from the Registrant s Current Report on Form 8-K, as filed December 23, 2008.

(26) Incorporated herein by reference from the Registrant s Annual Report on Form 10-K, as filed February 19, 2010.

(27) Incorporated herein by reference from the Registrant s Current Report on Form 8-K, as filed August 4, 2010.

(28) Incorporated herein by reference from the Registrant s Current Report on Form 8-K, as filed September 9, 2011.

(29) Incorporated herein by reference from the Registrant s Quarterly Report on Form 10-Q for the

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quarter ended June 30, 2011, as filed on July 29, 2011.

(b) Exhibits - See exhibit index included in Item 15(a)(3) of this Annual Report on Form 10-K.
(c) Financial Statement Schedules - See Item 15(a)(2) of this Annual Report on Form 10-K.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 8, 2012

CoBiz Financial Inc.

By: /s/ Steven Bangert
Steven Bangert
Chief Executive Officer and Chairman of the Board of Directors

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature:	Title:	Date:
/s/ Steven Bangert Steven Bangert	Chairman of the Board and Chief Executive Officer	March 8, 2012
/s/ Lyne B. Andrich Lyne B. Andrich	Executive Vice President and Chief Financial Officer	March 8, 2012
/s/ Troy R. Dumlao Troy R. Dumlao	Chief Accounting Officer	March 8, 2012
/s/ Michael B. Burgamy Michael B. Burgamy	Director	March 8, 2012
/s/ Morgan Gust Morgan Gust	Director	March 8, 2012
/s/ Evan Makovsky Evan Makovsky	Director	March 8, 2012
/s/ Douglas Polson Douglas Polson	Director	March 8, 2012
/s/ Mary Rhinehart Mary Rhinehart	Director	March 8, 2012
/s/ Noel N. Rothman Noel N. Rothman	Director	March 8, 2012
/s/ Bruce Schroffel Bruce Schroffel	Director	March 8, 2012
/s/ Timothy J. Travis	Director	

Timothy J. Travis		March 8, 2012
/s/ Mary Beth Vitale	Director	
Mary Beth Vitale		March 8, 2012
/s/ Mary M. White	Director	
Mary M. White		March 8, 2012

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MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE WITH DESIGNATED LAWS AND REGULATIONS

Management s Report on Internal Control over Financial Reporting

Management of CoBiz Financial Inc., together with its consolidated subsidiaries (the Company), is responsible for establishing and maintaining adequate internal control over financial reporting. The Company s internal control over financial reporting is a process designed under the supervision of the Company s Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company s financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

As of December 31, 2011, management assessed the effectiveness of the Company s internal control over financial reporting based on the framework established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This assessment included controls over the preparation of the schedules equivalent to the basic financial statements in accordance with the instructions for the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9C) to meet the reporting requirements of section 112 of the Federal Deposit Insurance Corporation Improvement Act. Based on this assessment, management has determined that the Company s internal control over financial reporting as of December 31, 2011, is effective.

Deloitte & Touche LLP, the independent registered public accounting firm that audited the consolidated financial statements included in this annual report on Form 10-K, has issued an attestation report on the effectiveness of the Company s internal control over financial reporting at December 31, 2011. The report is included under the heading Report of Independent Registered Public Accounting Firm .

Compliance with Designated Laws and Regulations

Management is also responsible for ensuring compliance with federal and state laws and regulations concerning loans to insiders and dividend restrictions and which are designated by the Federal Deposit Insurance Corporation (FDIC), the Federal Reserve Bank and the Colorado Division of Banking as safety and soundness laws and regulations.

Management assessed its compliance with the designated safety and soundness laws and regulations and has maintained records of its determinations and assessments as required by the FDIC. Based on this assessment, management believes that the Company has complied, in all material respects, with the designated safety and soundness laws and regulations for the year ended December 31, 2011.

March 8, 2012

By:	/s/ Steven Bangert	By:	/s/ Lyne B. Andrich
Steven Bangert		Lyne B. Andrich	
Chairman of the Board and		Executive Vice President and	
Chief Executive Officer		Chief Financial Officer	

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

CoBiz Financial Inc.

Denver, Colorado

We have audited the internal control over financial reporting of CoBiz Financial Inc. and Subsidiaries (the Company) as of December 31, 2011, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Because management s assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), management s assessment and our audit of the Company s internal control over financial reporting included controls over the preparation of the schedules equivalent to the basic financial statements in accordance with the instructions for the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9C). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control   Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have not examined and, accordingly, we do not express an opinion or any other form of assurance on management s statement referring to compliance with laws and regulations.

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We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2011, of the Company and our report dated March 8, 2012, expressed an unqualified opinion on those financial statements.

/s/ DELOITTE & TOUCHE LLP

Denver, Colorado

March 8, 2012

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

CoBiz Financial Inc.

Denver, Colorado

We have audited the accompanying consolidated balance sheets of CoBiz Financial Inc. and Subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of operations and comprehensive income (loss), equity, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of CoBiz Financial Inc. and Subsidiaries as of December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 8, 2012 expressed an unqualified opinion on the Company s internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Denver, Colorado

March 8, 2012

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COBIZ FINANCIAL INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AT DECEMBER 31, 2011 AND 2010

(in thousands, except share amounts)		**2011**		**2010**
Assets				
Cash and due from banks	$	39,148	$	15,929
Interest-bearing deposits and federal funds sold		20,062		8,237
Total cash and cash equivalents		59,210		24,166
Investment securities available for sale (cost of $613,264 and $626,023, respectively)		623,522		637,444
Investment securities held to maturity (fair value of $238 and $270, respectively)		232		262
Other investments		9,554		6,962
Total investments		633,308		644,668
Loans - net of allowance for loan losses of $55,629 and $65,892, respectively		1,581,795		1,577,835
Intangible assets - net of amortization of $5,189 and $4,551, respectively		3,399		4,119
Bank-owned life insurance		39,767		36,043
Premises and equipment - net of depreciation of $32,320 and $29,433, respectively		8,388		9,048
Accrued interest receivable		8,273		8,081
Deferred income taxes, net		33,018		16,449
Other real estate owned - net of valuation allowance of $7,668 and $5,879, respectively		18,502		25,095
Other		37,844		49,584
TOTAL ASSETS	$	2,423,504	$	2,395,088
Liabilities				
Deposits				
Noninterest-bearing demand	$	720,813	$	681,534
Interest-bearing demand		10,385		
NOW and money market		773,826		663,572
Savings		10,631		9,144
Eurodollar		97,748		105,793
Certificates of deposits		305,003		429,325
Total deposits		1,918,406		1,889,368
Securities sold under agreements to repurchase		127,948		157,690
Other short-term borrowings		20,000		14,012
Accrued interest and other liabilities		43,918		38,930
Junior subordinated debentures		72,166		72,166
Subordinated notes payable		20,984		20,984
TOTAL LIABILITIES		2,203,422		2,193,150
Commitments and contingencies (Note 14)				
Shareholders Equity				
Preferred, $.01 par value; 2,000,000 shares authorized; 57,366 and 64,450 issued and outstanding ($57,366 and $64,450 liquidation value), respectively		1		1
Common, $.01 par value; 50,000,000 shares authorized; and 37,089,753 and 36,876,658 issued and outstanding, respectively		368		366
Additional paid-in capital		222,200		225,454

Accumulated deficit		(3,571)		(30,414)
Accumulated other comprehensive income, net of income tax of $666 and $3,882, respectively		1,084		6,331
TOTAL SHAREHOLDERS EQUITY		220,082		201,738
Noncontrolling interest				200
TOTAL EQUITY		220,082		201,938
TOTAL LIABILITIES AND EQUITY	$	2,423,504	$	2,395,088

See Notes to Consolidated Financial Statements

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COBIZ FINANCIAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

FOR THE YEARS ENDED DECEMBER 31, 2011, 2010, AND 2009

(in thousands, except per share amounts)	**2011**	**2010**	**2009**
INTEREST INCOME:			
Interest and fees on loans	$ 88,451	$ 93,675	$ 105,310
Interest and dividends on investment securities:			
Taxable securities	22,426	21,659	23,470
Nontaxable securities	13	44	98
Dividends on securities	244	419	467
Interest on federal funds sold and other	130	182	105
Total interest income	111,264	115,979	129,450
INTEREST EXPENSE:			
Interest on deposits	8,021	12,338	19,680
Interest on short-term borrowings and securities sold under agreements to repurchase	824	1,119	2,019
Interest on subordinated debentures	6,018	5,691	4,367
Total interest expense	14,863	19,148	26,066
NET INTEREST INCOME BEFORE PROVISION	96,401	96,831	103,384
Provision for loan losses	4,002	35,127	105,815
NET INTEREST INCOME (LOSS) AFTER PROVISION FOR LOAN LOSSES	92,399	61,704	(2,431)
NONINTEREST INCOME:			
Service charges	4,960	4,957	4,919
Investment advisory and trust income	5,558	5,439	5,186
Insurance income	13,134	13,014	11,778
Investment banking income	7,237	5,650	1,154
Other income	5,067	5,948	4,590
Total noninterest income	35,956	35,008	27,627
NONINTEREST EXPENSE:			
Salaries and employee benefits	64,208	61,673	54,859
Occupancy expenses, premises and equipment	13,610	13,594	13,215
Amortization of intangibles	638	642	674
FDIC and other assessments	3,589	5,305	4,871
Other real estate owned and loan workout costs	3,153	6,388	4,660
Impairment of goodwill			46,160
Net other than temporary impairment losses on securities recognized in earnings	771	451	922
Loss on securities, other assets and other real estate owned	3,145	7,977	4,677
Other	11,433	13,082	11,372
Total noninterest expense	100,547	109,112	141,410
INCOME (LOSS) BEFORE INCOME TAXES	27,808	(12,400)	(116,214)
Provision (benefit) for income taxes	(5,654)	10,028	(32,859)
NET INCOME (LOSS) BEFORE NONCONTROLLING INTEREST	33,462	(22,428)	(83,355)
LESS: NET (INCOME) LOSS ATTRIBUTABLE TO NONCONTROLLING INTEREST		(209)	314
NET INCOME (LOSS)	$ 33,462	$ (22,637)	$ (83,041)

UNREALIZED APPRECIATION (DEPRECIATION) ON SECURITIES AVAILABLE FOR SALE AND DERIVATIVE INSTRUMENTS, net of income tax		(5,247)		(3,688)		9,464
COMPREHENSIVE INCOME (LOSS)	$	28,215	$	(26,325)	$	(73,577)
NET INCOME (LOSS) APPLICABLE TO COMMON SHAREHOLDERS	$	28,315	$	(26,401)	$	(86,773)
EARNINGS (LOSS) PER COMMON SHARE:						
Basic	$	0.76	$	(0.72)	$	(2.98)
Diluted	$	0.76	$	(0.72)	$	(2.98)

See Notes to Consolidated Financial Statements

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COBIZ FINANCIAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

		CoBiz Financial Inc. Shareholders							
		Preferred Stock		Common Stock					
(in thousands, except per share amounts)	Total	Shares Issued (Redeemed)	Amount	Shares Issued	Amount	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Comprehensive Income (Loss)	Noncontrolling Interest
BALANCE January 1, 2009	$ 254,084	64,450	$ 1	23,374,762	$ 232	$ 164,484	$ 86,827	$ 555	$ 1,985
Options exercised	153			23,479		153			
Employee stock purchase plan	371			79,662	1	370			
Proceeds from the issuance of common stock, net of offering costs ($3,609)	55,816			13,205,600	132	55,684			
Restricted stock awards, net of forfeitures				40,350					
Stock-based compensation expense	1,543					1,543			
Tax benefit from stock-based compensation	5					5			
Dividends paid-common ($0.10 per share)	(2,597)						(2,597)		
Dividends paid/accumulated-preferred stock (5% on $64,450 liquidation value)	(3,222)					510	(3,732)		
Net change in unrealized gain on available for sale securities and derivatives, net of income taxes of $(4,844)	9,464							9,464	
Net loss	(83,355)						(83,041)		(314)
Distribution to noncontrolling interest	(542)								(542)
Other	(140)					(140)			
BALANCE December 31, 2009	231,580	64,450	1	36,723,853	365	222,609	(2,543)	10,019	1,129
Options exercised	239			43,912		239			
Employee stock purchase plan	496			90,569	1	495			
Restricted stock awards, net of forfeitures				18,324					
Stock-based compensation expense	1,591					1,591			
Tax deficit from stock-based compensation	(22)					(22)			
Dividends paid-common ($0.04 per share)	(1,470)						(1,470)		
Dividends paid/accumulated-preferred stock (5% on $64,450 liquidation value)	(3,222)					542	(3,764)		
Net change in unrealized gain on available for sale securities and derivatives, net of income taxes of $2,260	(3,688)							(3,688)	
Net loss	(22,428)						(22,637)		209
Net distribution to noncontrolling interest	(1,138)								(1,138)
BALANCE December 31, 2010	201,938	64,450	1	36,876,658	366	225,454	(30,414)	6,331	200
Series B Preferred stock redemption	(64,450)	(64,450)	(1)			(64,449)			
Series C Preferred stock, net of issuance costs	57,337	57,366	1			57,336			
Options exercised	14			2,750	1	13			
Employee stock purchase plan	454			86,429	1	453			
Restricted stock awards, net of forfeitures				123,916					

Stock-based compensation expense	1,494					1,494			
Tax deficit from stock-based compensation	(137)					(137)			
Dividends paid-common ($0.04 per share)	(1,472)						(1,472)		
Dividends paid/accumulated-preferred stock (5% on $1,000 per share liquidation value)	(3,111)					2,036	(5,147)		
Net change in unrealized gain on available for sale securities and derivatives, net of income taxes of $3,216	(5,247)							(5,247)	
Net income	33,462						33,462		
Net distribution to noncontrolling interest	(200)								(200)
BALANCE December 31, 2011	$ 220,082	57,366	$ 1	37,089,753	$ 368	$ 222,200	$ (3,571)	$ 1,084	$

See Notes to Consolidated Financial Statements

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COBIZ FINANCIAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

	For the Year Ended December 31,		
(in thousands)	**2011**	**2010**	**2009**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 33,462	$ (22,428)	$ (83,355)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Net amortization on investment securities	2,602	1,716	559
Depreciation and amortization	3,748	3,862	4,386
Amortization of net loan fees	(464)	11	(924)
Provision for loan and credit losses	3,976	35,033	105,711
Stock-based compensation	1,494	1,591	1,543
Federal Home Loan Bank stock dividend	(19)	(189)	(245)
Deferred income taxes	(12,507)	15,050	(18,493)
Excess tax benefit from stock-based compensation		(9)	(5)
Increase in cash surrender value of bank-owned life insurance	(1,237)	(1,262)	(1,184)
Supplemental executive retirement plan	890	807	85
Impairment of goodwill			46,160
Loss on securities, other assets and other real estate owned	3,916	8,428	5,599
Other operating activities, net	(378)	(1,311)	(1,258)
Changes in operating assets and liabilities:			
Prepaid FDIC insurance	3,226	4,205	(10,262)
Restricted cash			(7,358)
Accrued interest and other liabilities	1,915	3,218	(2,390)
Accrued interest receivable	(192)	103	433
Other assets	(937)	8,781	(11,077)
Net cash provided by operating activities	39,495	57,606	27,925
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of other investments	(3,323)	(1,564)	(542)
Proceeds from other investments	2,987	12,348	8,705
Purchases of investment securities available for sale	(222,503)	(405,063)	(136,436)
Proceeds from sale of investment securities available for sale	8,916	431	2,158
Maturities of investment securities available for sale	212,089	290,003	109,275
Maturities of investment securities held to maturity	30	38	77
Restricted cash	11,337	(8,514)	
Deferred payments and cash paid in earn-outs, net			(375)
Purchase of bank-owned life insurance	(2,486)		(2,658)
Net proceeds from sale of loans, OREO and repossessed assets	16,043	38,147	16,873
Loan originations and repayments, net	(19,712)	49,026	136,985
Purchase of premises and equipment	(2,600)	(3,046)	(2,784)
Other investing activities, net	10	1	(567)
Net cash provided by (used in) investing activities	788	(28,193)	130,711
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in demand, NOW, money market, Eurodollar and savings accounts	153,360	90,778	252,287

Net increase (decrease) in certificates of deposits		(124,322)		(170,243)		77,496
Net increase (decrease) in short-term borrowings		5,988		13,771		(542,823)
Net increase (decrease) in securities sold under agreements to repurchase		(29,742)		17,896		6,316
Proceeds from issuance of common stock, net		468		735		56,340
Proceeds from issuance of preferred stock, net		57,337				
Redemption of preferred stock		(64,450)				
Dividends paid on common stock		(1,472)		(1,470)		(2,597)
Dividends paid on preferred stock		(2,394)		(3,222)		(2,919)
Excess tax benefit from stock-based compensation				9		5
Net distribution to noncontrolling interests				(1,138)		(542)
Other financing activities, net		(12)				(51)
Net cash used in financing activities		(5,239)		(52,884)		(156,488)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		35,044		(23,471)		2,148
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		24,166		47,637		45,489
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	59,210	$	24,166	$	47,637

See Notes to Consolidated Financial Statements

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COBIZ FINANCIAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AT AND FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting practices of CoBiz Financial Inc. (Parent) and its wholly owned subsidiaries: CoBiz Bank (the Bank); Financial Designs Ltd. (FDL); CoBiz Insurance Inc.; CoBiz GMB, Inc.; and CoBiz IM, Inc. (CoBiz IM), collectively referred to as the Company or CoBiz, conform to accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. The operations of the Company are comprised predominately of the Bank, which 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).

Organization The Bank is a commercial banking institution with nine locations in the Denver metropolitan area; one in Boulder; two near Vail; 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, the 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 IM provides wealth planning and investment management to institutions and individuals through its SEC-registered investment advisor subsidiary, CoBiz Investment Management, LLC (CIM). FDL provides wealth transfer, employee benefits consulting, insurance brokerage and related administrative support to individuals, families and employers. CoBiz Insurance, Inc. provides commercial and personal property and casualty insurance brokerage, as well as risk management consulting services to small and medium-sized businesses and individuals. CoBiz GMB, Inc. provides investment banking services to middle-market companies through its wholly owned subsidiary, Green Manning & Bunch, Ltd. (GMB).

Use of Estimates In preparing its financial statements, the Company is required to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant changes in the near-term relate to the determination of the allowance for loan losses; valuation of other real estate owned; fair value; recoverability of deferred taxes; and share-based compensation.

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

Basis of Presentation The consolidated financial statements include entities in which the Parent has a controlling financial interest. These entities include; the Bank; FDL; 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).

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 controlling financial interest in a VIE if it has both the power to direct

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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 s wholly owned trusts, CoBiz Statutory Trust I, CoBiz Capital Trust II and CoBiz Capital Trust III are not VIEs. In making this determination, the Company considered its role and economic interest in the trusts, as well as the trusts business purpose and capital structure. Based on the capitalization structure of the Trusts, the Company s investment is not considered equity at risk and the Company is not exposed to the variability of the Trusts net assets. See Note 8 Long-Term Debt.

The Company also has investments in four limited partnerships that are each considered a VIE. The Company has determined that it is not the primary beneficiary of these partnerships. Where the Company is not a primary beneficiary of a VIE, but can exert significant influence over the investee, the Company uses the equity method of accounting. The Company considered all facts and circumstances in its assessment of the activities that most significantly impact the VIE s economic performance, including its rights and responsibilities and related party interests. In addition, the Company considered all economic interests in its assessment of the obligation to absorb losses or the right to receive benefits from the VIE. The maximum exposure to loss with these VIEs is the Company s current investment in addition to its commitments to make future capital contributions. The primary source of loss exposure on these VIEs is credit risk on the underlying investments of the partnerships. See Other Assets within this Note 1 for additional information on these investments and Note 14 Commitments and Contingencies, for additional information on the future commitments.

The following table summarizes the Company s assets, liabilities, commitments and loss exposure on VIEs at December 31, 2011:

	At December 31, 2011		
(in thousands)		**Balance**	**Balance Sheet Classification**
Investments in limited partnerships:			
Assets	$	7,534	Other assets
Commitments		6,721	Commitments and contingencies
Maximum exposure to loss		14,255	

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. At December 31, 2011 and 2010, the Company was required to maintain reserve balances of $0.7 million and $2.8 million, respectively. The following table shows supplemental disclosures of certain cash and noncash items:

	For the Year Ended December 31,					
(in thousands)		**2011**		**2010**		**2009**
Cash paid (received) during the period for:						
Interest	$	15,262	$	19,717	$	26,181
Income taxes		7,238		(14,814)		(1,933)
Other noncash activities:						
Trade date accounting for investment securities purchases		738		12,132		15,614
Loans transferred to held for sale		4,278		24,427		5,600
Loans transferred to OREO and repossessed assets		8,647		20,691		35,252
Loans held for sale transferred to OREO						1,076
Financed sales of OREO and loans held for sale		660		1,152		114

Lessor-paid tenant improvement allowance	1,109	76

Restricted Cash Restricted cash consists of cash deposits that are contractually restricted as collateral for outstanding letters of credit. At December 31, 2011 and 2010, the Company had

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restricted cash of $4.5 million and $15.9 million, respectively, recorded as assets under the caption Other in the accompanying consolidated balance sheets.

Investments The Company classifies its investment securities as held to maturity, available for sale or trading, according to management s intent. At December 31, 2011 and 2010, the Company had no trading securities.

Available for sale securities consist of mortgage-backed securities (MBS), bonds, notes and debentures 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 accumulated other comprehensive income (loss) until realized.

Investment securities held to maturity consist of mortgage-backed securities, 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.

Premiums and discounts, adjusted for prepayments as applicable, are recognized in interest income using the level-yield method over the period to maturity. 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.

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. See Note 2 Investments.

Bank Stocks Federal Home Loan Bank of Topeka (FHLB), Federal Reserve Bank and other correspondent bank stocks are accounted for under the cost method. See Note 2 Investments.

Loans Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal balance adjusted for any charge-offs, the allowance for loan losses, deferred fees or 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. Management 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. See Note 3 Loans.

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.

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 Accounting Standards Codification (ASC) Topic 310-20, *Nonrefundable Fees and Other Costs*.

Allowance for Loan Losses The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged against earnings. Loan losses are

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charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management s periodic review of the collectibility 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.

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. Management 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 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 reduction in the stated interest rate, reduction in the loan balance or accrued interest, and extension of the maturity date. Troubled debt restructurings are evaluated in accordance with ASC Topic 310-10-40, *Troubled Debt Restructurings by Creditors.* See Note 3 Loans. 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.

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 consolidated balance sheets, the allowance for credit losses is recorded under the caption Accrued interest and other liabilities in the accompanying consolidated balance sheets. 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. See Note 3 Loans.

Goodwill and Intangible Assets Goodwill represents the excess purchase price over the fair value of net identifiable assets acquired in business combinations. Goodwill is not amortized but is reviewed for impairment at least annually at year end or when triggering events occur. Intangible assets, primarily consisting of customer contracts and relationships, are being amortized by the

straight-line method over three to 15 years. Intangible assets with an indefinite life are reviewed for impairment on an annual basis. See Note 5 Goodwill and Intangible Assets.

Bank-Owned Life Insurance (BOLI) The Bank invested in Bank-Owned Life Insurance policies to fund certain future employee benefit costs and are recorded at net realizable value. Changes in the cash surrender value are recorded in the consolidated statements of operations under the caption Other income.

Premises and Equipment Premises and equipment are stated at cost less accumulated depreciation and amortization, which is calculated using the straight-line method over the estimated useful lives of generally three to five years. Leasehold improvements are capitalized and amortized using the straight-line method over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. The Company reviews the carrying value of property and equipment for indications of impairment in accordance with ASC Topic 360-10-35, *Impairment or Disposal of Long-Lived Assets*. See Note 4 Premises and Equipment.

Other Assets Included in other assets are certain investments, where the Company has the ability to exercise significant influence or has ownership between 20% and 50% that are accounted for under the equity method. The Company s equity method investments consist of four limited partnership mezzanine funds (the Funds) licensed as Small Business Investment Companies that invest primarily in subordinated debt securities. In certain circumstances, the Funds may also receive warrants or other equity positions as part of their investments. There were no significant transactions between the Company and the Funds for the years ended December 31, 2011, 2010 and 2009. The Company recognized income from the Funds of $0.9 million, $1.5 million, and $0.9 million for the years ended December 31, 2011, 2010 and 2009, respectively, which is included in Other Income in the consolidated statements of operations.

Repossessed Assets Assets acquired through repossession are held for sale and initially recorded at estimated fair value at the date of repossession. Subsequent to repossession, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less costs to sell. Repossessed assets are reported in the consolidated balance sheets under the caption Other assets and there were none at December 31, 2011 and 2010. Valuation adjustments charged to operations on repossessed assets for the year ended December 31, 2011 were $0.1 million. There were no valuation adjustments in 2010 and 2009.

Other Real Estate Owned (OREO) OREO held for sale acquired through foreclosure, physical possession or in settlement of debt is valued at estimated fair value, less estimated costs to sell, at the date of receipt. Subsequent to foreclosure, OREO is carried at the lower of carrying amount or fair value less costs to sell. Subsequent declines in value are charged to operations. Valuation adjustments charged to operations on OREO for the years ended December 31, 2011, 2010 and 2009 totaled $2.8 million, $7.4 million and $3.3 million, respectively.

Securities Sold Under Agreements to Repurchase The Company sells certain securities under agreements to repurchase with its customers and other financial institutions. The agreements transacted with its customers are utilized as an overnight investment product, while the agreements with other financial institutions are transacted as a wholesale borrowing source. Both types of agreements are treated as secured borrowings, where the agreements are reflected as a liability of the Company and the securities underlying the agreements are reflected as a Company asset. See Note 7 Borrowed Funds.

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 Consolidated Statements of Cash Flows with the hedged items. The Company also has a derivative program that offers interest rate caps, floors, swaps and collars to customers of the Bank.

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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 offset when represented under a master netting arrangement. See Note 9 Derivatives.

Self Insurance Reserves The Company self-insures a portion of its employee medical costs. The Company maintains a liability for incurred-but-not-reported claims based on assumptions as to eligible employees, historical claims experience and lags in claims reporting.

Investment Advisory and Trust Income Fees earned from providing investment advisory services are based on the market value of assets under management and are collected either at the beginning or end of each quarter. Fees received at the beginning of the quarter are deferred and recognized ratably over the period as services are performed.

Insurance Income Insurance income includes commissions on the sale of life and property and casualty insurance policies and other employee benefit products earned as an agent for unaffiliated insurance underwriters. Life insurance and property and casualty income are primarily recognized upon policy origination and renewal dates. Benefits brokerage income is recognized on a monthly basis as the customer pays their insurance premiums.

Investment Banking Income Investment banking income includes nonrefundable retainer fees recognized over the expected term of the engagement and success fees recognized when the transaction is completed and collectibility of fees is reasonably assured.

Income Taxes A deferred income tax liability or asset is recognized for temporary differences which exist in the recognition of certain income and expense items for financial statement reporting purposes in periods different than for tax reporting purposes. The provision for income taxes is based on the amount of current and deferred income taxes payable or refundable at the date of the financial statements as measured by the provisions of current tax laws. A valuation allowance is provided when it is more likely than not that some portion or all of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the period in which related temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, taxes paid in prior carryback years, projected future taxable income and tax planning strategies in its assessment of a valuation allowance. See Note 10 Income Taxes.

Stock-Based Compensation Pursuant to ASC Topic 718, *Compensation Stock Compensation* (ASC 718), the Company recognizes the fair value of stock-based awards to employees as compensation cost over the requisite service period. See Note 13 Employee Benefit and Stock Compensation Plans.

Earnings (Loss) Per Common Share Basic earnings per share is based on the two-class method prescribed in ASC Topic 260, *Earnings Per Share* (ASC 260). The weighted-average number of shares outstanding used to compute diluted earnings per share include the number of additional common shares that would be outstanding if the potential dilutive common shares and common share equivalents had been issued at the beginning of the period. See Note 12 Earnings (Loss) Per Common Share.

Segment Information The Company has disclosed separately the results of operations relating to its segments in Note 18 Segments.

Fair Value Measurements The Company measures financial assets, financial liabilities, nonfinancial assets and nonfinancial liabilities pursuant to ASC Topic 820, *Fair Value Measurements and Disclosures* (ASC 820). ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. See Note 17 - Fair Value Measurements.

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Recent Accounting Pronouncements Effective July 2011, the Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2011-02, *A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring* (ASU 2011-02). ASU 2011-02 amends ASC Topic 310 *Receivables,* by clarifying guidance for creditors in determining whether a concession has been granted and whether a debtor is experiencing financial difficulties. ASU 2011-02 also makes disclosure requirements deferred under ASU 2011-01, *Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20,* effective for interim and annual periods beginning on or after June 15, 2011. The adoption of this update did not have a material impact on the consolidated financial statements.

In April 2011, the FASB issued ASU No. 2011-03, *Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements* (ASU 2011-03), intended to improve financial reporting of repurchase agreements and refocus the assessment of effective control on a transferor s contractual rights and obligations rather than practical ability to perform those rights and obligations. The guidance in ASU 2011-03 is effective for the first interim or annual period beginning on or after December 15, 2011. The Company is evaluating the effect, if any, the adoption of ASU 2011-03 will have on its consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04). ASU 2011-04 represents the converged guidance of the FASB and the International Accounting Standards Board (IASB) on fair value measurement. A variety of measures are included in the update intended to either clarify existing fair value measurement requirements, change particular principles requirements for measuring fair value or for disclosing information about fair value measurements. For many of the requirements, the FASB does not intend to change the application of existing requirements under Accounting Standards Codification (ASC) Topic 820, Fair Value Measurements. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011 and early application is not permitted. The Company is evaluating the effect, if any, the adoption of ASU 2011-04 will have on its consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income* (ASU 2011-05), intended to increase the prominence of items reported in other comprehensive income and to facilitate convergence of accounting guidance in this area with that of the IASB. The amendments require that all non-owner changes in stockholders equity be presented in a single continuous statement of comprehensive income or in two separate but consecutive statements. Amendments under ASU 2011-05 for public entities will be applied retrospectively for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company is evaluating the effect, if any, the adoption of ASU 2011-05 will have on its consolidated financial statements.

In December 2011, the FASB issued ASU No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities* (ASU 2011-11). The amendments in ASU 2011-11 require the disclosure of information on offsetting and related arrangements for financial and derivative instruments to enable users of its financial statements to understand the effect of those arrangements on its financial position. Amendments under ASU 2011-11 will be applied retrospectively for fiscal years, and interim periods within those years, beginning after January 1, 2013. The Company is evaluating the effect, if any, adoption of ASU 2011-11 will have on its consolidated financial statements.

In December 2011, the FASB issued ASU No. 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05* (ASU 2011-12). ASU 2011-12 defers the provisions of ASU 2011-05 that required the presentation of reclassification adjustments on the face of both the statement of income and statement of other comprehensive income. ASU 2011-05 is effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company is evaluating the effect, if any, the adoption of ASU 2011-05 will have on its consolidated financial statements.

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2. INVESTMENTS

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

	December 31, 2011			
(in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Available for sale securities:				
Mortgage-backed securities	$ 408,963	$ 11,650	$ 61	$ 420,552
U.S. government agencies	43,915	290		44,205
Trust preferred securities	98,997	2,193	2,172	99,018
Corporate debt securities	57,317	338	838	56,817
Private-label MBS	3,137		1,147	1,990
Municipal securities	935	5		940
Total	$ 613,264	$ 14,476	$ 4,218	$ 623,522
Held to maturity securities:				
Mortgage-backed securities	$ 232	$ 6	$	$ 238

	December 31, 2010			
(in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Available for sale securities:				
Mortgage-backed securities	$ 395,843	$ 10,740	$ 1,038	$ 405,545
U.S. government agencies	80,214	449	44	80,619
Trust preferred securities	86,543	2,556	791	88,308
Corporate debt securities	58,204	1,425	34	59,595
Private-label MBS	4,287		1,855	2,432
Municipal securities	932	13		945
Total	$ 626,023	$ 15,183	$ 3,762	$ 637,444
Held to maturity securities:				
Mortgage-backed securities	$ 262	$ 8	$	$ 270

Proceeds from the sale of investment securities available for sale totaled $8.9 million, $0.4 million and $2.2 million for the years ended December 31, 2011, 2010 and 2009, respectively. During the year ended December 31, 2011, 2010 and 2009, the Company recognized a net gain of $0.5 million and net losses of $0.1 million and $1.1 million on securities sold, called or tendered, respectively.

The amortized cost and estimated fair value of investments in debt securities at December 31, 2011, 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.

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	Available for sale		Held to maturity	
(in thousands)	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
Due in one year or less	$ 12,560	$ 12,647	$	$
Due after one year through five years	79,892	79,957		
Due after five years through ten years	9,715	9,358		
Due after ten years	98,997	99,018		
Mortgage-backed securities	412,100	422,542	232	238
	$ 613,264	$ 623,522	$ 232	$ 238

Investment securities with an approximate fair value of $181.0 million and $184.4 million were pledged to secure public deposits of $102.3 million and $135.6 million, at December 31, 2011 and 2010, respectively.

Changes in interest rates and market liquidity may cause adverse fluctuations in the market price of securities resulting in temporary unrealized losses. At December 31, 2011, the majority of the total unrealized loss of $4.2 million is comprised of private-label mortgage-backed and trust preferred securities (TPS). The TPS are all single-entity issues that continue to pay their regularly scheduled dividend payments.

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 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 OTTI 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 has determined there was no unrecognized OTTI associated with the 49 and 47 securities noted within the following tables at December 31, 2011 and 2010, respectively.

	Less than 12 months		12 months or Greater		Total	
(in thousands)	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
December 31, 2011						
Mortgage-backed securities	$ 31,855	$ 61	$	$	$ 31,855	$ 61
Trust preferred securities	39,838	2,008	1,246	164	41,084	2,172
Corporate debt securities	25,048	634	4,796	204	29,844	838
Private-label MBS			1,990	1,147	1,990	1,147

Total	$ 96,741	$ 2,703	$ 8,032	$ 1,515	$ 104,773	$ 4,218

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(in thousands)	Less than 12 months Fair value	Less than 12 months Unrealized loss	12 months or Greater Fair value	12 months or Greater Unrealized loss	Total Fair value	Total Unrealized loss
December 31, 2010						
Mortgage-backed securities	$ 117,405	$ 1,038	$	$	$ 117,405	$ 1,038
U.S. Government Agencies	4,949	44			4,949	44
Trust preferred securities	35,775	591	4,176	200	39,951	791
Corporate debt securities	4,966	34			4,966	34
Private-label MBS			2,432	1,855	2,432	1,855
Total	$ 163,095	$ 1,707	$ 6,608	$ 2,055	$ 169,703	$ 3,762

The credit component of OTTI recognized in earnings is presented as an addition in two parts based upon whether the current period is the first time the debt security was credit impaired or if it is additional credit impairment. The credit loss component is reduced if the Company sells, intends to sell or believes it will be required to sell previously credit impaired debt securities. Additionally, the credit loss component is reduced if the Company receives cash flows in excess of what it expected to receive over the remaining life of the credit impaired debt security or when the security matures.

The following table presents a roll-forward of the credit loss component of OTTI on debt securities recognized in earnings during the years ended December 31, 2011, 2010 and 2009.

(in thousands)	Credit Loss 2011	2010	2009
Balance at beginning of year	$ 1,782	$ 1,331	$ 2,269
Additions (1):			
Initial credit impairment		70	76
Additional credit impairment	771	381	846
Reductions:			
Securities intended to be sold			(1,860)
Balance at end of year	$ 2,553	$ 1,782	$ 1,331

(1) Excludes OTTI on investments the Company intends to sell.

During the year ended December 31, 2011, the Company recognized OTTI of $0.8 million, all of which was related to OTTI on three private-label MBS. During the year ended December 31, 2010, the Company recognized OTTI of $0.6 million of which $0.4 million was credit related OTTI. Credit-related OTTI is reported under the caption Net other than temporary impairment losses on securities recognized in earnings in the accompanying consolidated statements of operations. In determining the credit loss, the Company estimated expected future cash flows of the security by estimating the expected future cash flows of the underlying collateral and applying those collateral cash flows, together with any credit enhancements such as subordination interests owned by third parties to the security. The expected future cash flows of the underlying collateral are determined using the remaining contractual cash flows adjusted for future expected credit losses (which consider current and future delinquencies, default rates and loss severities) and prepayments. The expected cash flows of the security are then discounted to arrive at a present value amount.

The following table presents a summary of the significant inputs considered in determining the measurement of the credit loss component recognized in earnings during the year ended December 31, 2011, for the aforementioned three private-label mortgage-backed securities. These inputs are developed by examining the three-, six-and nine-month history of actual prepayment speeds, default rates and severity to project losses for the remaining life of each instrument. The Company validates the information provided by a third party to the remittance reports provided by the servicing agents. A range of inputs is provided for securities with multiple impairments during the year.

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Inputs	Security #1	Security #2	Security #3
Prepayment speed (CPR) (1)	8.8-13.6%	7.0-9.9%	6.8%
Default rate (CDR) (2)	6.2-8.9%	6.8-8.2%	2.0%
Severity (3)	49.4-56.0%	45.9-50.4%	32.9%
Credit Impairment (in thousands)	$ 271	$ 387	$ 113

(1) Estimated prepayments as a percentage of outstanding loans

(2) Estimated default rate as a percentage of outstanding loans

(3) Estimated loss rate on collateral liquidations

Certain characteristics of the loans underlying the private-label MBS are included in the following table.

	Underlying Loan Characteristics		
	Security #1	Security #2	Security #3
Purpose:			
Purchase	62.7%	63.2%	66.2%
Equity take out	33.1%	29.8%	8.3%
Refinance	4.2%	6.9%	25.4%
Type:			
Single family	65.3%	57.5%	70.4%
2-4 family	8.5%	6.9%	0.5%
Condominium	3.7%	8.3%	28.2%
Planned unit development	22.5%	26.9%	0.7%
Owner occupied	100.0%	90.6%	90.6%
Vacation	0.0%	0.4%	9.4%
Investment	0.0%	8.9%	0.0%
Terms:			
30 year amortization	100.0%	100.0%	100.0%
ARM	100.0%	100.0%	100.0%
Geography:			
Northern CA	28.3%	26.6%	13.9%
Southern CA	35.2%	37.9%	15.2%
Current Averages:			
Loan rate	2.9%	2.8%	3.0%
LTV based on origination value	76.5%	73.7%	67.9%
Loan balance	$ 464,700	$ 365,400	$ 205,900
Age (months)	81	84	93
FICO at origination	715	716	737
Delinquent 60+ days	8.6%	18.3%	6.4%
Delinquent 90+ days	8.6%	18.0%	6.0%

Other investments at December 31, 2011 and 2010, consist of the following:

(in thousands)	December 31, 2011	December 31, 2010
Bank stocks at cost	$ 7,382	$ 4,790
Investment in statutory trusts equity method	2,172	2,172
	$ 9,554	$ 6,962

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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 and at December 31, 2011, did not consider the investment to be other-than-temporarily impaired.

3. 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, 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.

- **Land Acquisition and Development Loans** The Company has a portfolio of loans for the acquisition and future development of land for residential building projects, as well as finished lots prepared to enter the construction phase. Due to overall market illiquidity and the significant value declines on raw land, the Company has ceased new lending activities for the acquisition and future development of land. 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.

- **Real Estate Construction Loans** The Company originates loans to finance construction projects involving one- to four-family residences. 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 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

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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.

- **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.

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

The loan portfolio segments at December 31, 2011 and 2010 were as follows:

(in thousands)		**2011**		**2010**
Commercial	$	569,032	$	564,882
Real estate - mortgage		784,874		784,009
Land acquisition & development		62,056		83,909
Real estate - construction		63,491		87,116
Consumer		116,772		94,661
Other		41,300		29,388
Loans held for investment		1,637,525		1,643,965
Allowance for loan losses		(55,629)		(65,892)
Unearned net loan fees		(101)		(238)
Net loans held for investment	$	1,581,795	$	1,577,835

The following table provides information about loans sold:

	For the year ended December 31, 2011				
(in thousands)	**Number of loans**		**Sale proceeds**		**Recovery / (charge-off) on sale**
Commercial	2	$	3,070	$	
Real estate - mortgage	2		1,278		(270)
Loans sold	4	$	4,348	$	(270)

The following table provides information about loans purchased during 2011, none of which were of deteriorated credit quality:

For the year ended December 31, 2011

(in thousands)	Number of loans		Amount
Real estate - mortgage	1	$	1,700
Other	37		20,440
Loans purchased	38	$	22,140

At December 31, 2011 and 2010, overdraft demand deposits totaling $0.4 million and $1.0 million, respectively, were reclassified from deposits to loans.

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Substantially all of the Company s lending activity occurs within the states of Colorado and Arizona, specifically in the Denver and Phoenix metropolitan areas. The majority of the Company s loan portfolio consists of Commercial and Real estate mortgage loans. At December 31, 2011 and 2010, there were no concentrations of loans related to any single industry in excess of 10% of total loans. However, the Company may be subject to additional regulatory supervisory oversight to the extent its concentration in commercial real estate lending exceeds regulatory guidelines. Pursuant to interagency guidance issued by the Federal Reserve and other federal banking agencies, supervisory criteria were put in place to define commercial real estate concentrations as:

- Construction, land development and other land loans that represent 100% or more of total risk-based capital; or
- Commercial real estate loans (as defined in the guidance) that represent 300% or more of total risk-based capital and the real estate portfolio has increased by more than 50% or more during the prior 36 months.

At December 31, 2011 and 2010, the Company was below these guidelines and was not considered to have a commercial real estate concentration.

The Company maintains a loan review program independent of the lending function that is designed to reduce and control risk in the lending function. 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 lower are categorized as non-classified credits while loans graded 6 and higher 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 Problem Loan Committee of the Bank and the Chief Credit Officer along with current financial information, a collateral analysis and an action plan.

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The loan portfolio showing total non-classified and classified balances by loan class at December 31, 2011 and December 31, 2010 is summarized below:

	At December 31, 2011		
(in thousands)	**Non-classified**	**Classified**	**Total**
Commercial			
Manufacturing	$ 64,936	$ 14,899	$ 79,835
Finance and insurance	77,968	1,106	79,074
Health care	55,885	358	56,243
Real estate services	75,520	10,678	86,198
Construction	40,095	6,343	46,438
Retail trade	27,016	756	27,772
Wholesale trade	58,420	3,681	62,101
Other	126,715	4,656	131,371
	526,555	42,477	569,032
Real estate - mortgage			
Residential & commercial owner-occupied	387,453	33,764	421,217
Residential & commercial investor	339,968	23,689	363,657
	727,421	57,453	784,874
Land acquisition & development			
Commercial	14,220	10,052	24,272
Residential	25,282	5,347	30,629
Other	7,003	152	7,155
	46,505	15,551	62,056
Real estate - construction			
Residential & commercial owner-occupied	16,401		16,401
Residential & commercial investor	37,364	9,726	47,090
	53,765	9,726	63,491
Consumer	112,541	4,231	116,772
Other	41,300		41,300
Total loans held for investment	$ 1,508,087	$ 129,438	$ 1,637,525
Unearned net loan fees			(101)
Net loans held for investment			$ 1,637,424

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(in thousands)	At December 31, 2010 Non-classified	Classified	Total
Commercial			
Manufacturing	$ 72,036	$ 14,695	$ 86,731
Finance and insurance	75,258	2,061	77,319
Health care	70,110	396	70,506
Real estate services	63,272	15,948	79,220
Construction	41,125	10,224	51,349
Retail trade	22,516	4,367	26,883
Wholesale trade	51,219	2,268	53,487
Other	111,387	8,000	119,387
	506,923	57,959	564,882
Real estate - mortgage			
Residential & commercial owner-occupied	403,644	28,261	431,905
Residential & commercial investor	313,157	38,947	352,104
	716,801	67,208	784,009
Land acquisition & development			
Commercial	17,540	10,050	27,590
Residential	33,168	10,613	43,781
Other	8,599	3,939	12,538
	59,307	24,602	83,909
Real estate - construction			
Residential & commercial owner-occupied	22,411		22,411
Residential & commercial investor	43,939	20,766	64,705
	66,350	20,766	87,116
Consumer	90,239	4,422	94,661
Other	29,388		29,388
Unearned net loan fees	(238)		(238)
Net loans held for investment	$ 1,468,770	$ 174,957	$ 1,643,727

Transactions in the allowance for loan losses by segment for the year ended December 31, 2011 are summarized below:

(in thousands)	Commercial	Real estate - mortgage	Land acquisition & development	Real estate - construction	Consumer	Other	Unallocated	Total
Balance at December 31, 2010	$ 17,169	$ 17,677	$ 14,938	$ 6,296	$ 3,373	$ 354	$ 6,085	$ 65,892
Provision	61	7,804	(3,506)	1,436	1,492	255	(3,540)	4,002
Charge-offs	(4,559)	(7,064)	(1,635)	(5,118)	(309)	(61)		(18,746)
Recoveries	1,377	1,472	1,216	132	281	3		4,481
Balance at December 31, 2011	$ 14,048	$ 19,889	$ 11,013	$ 2,746	$ 4,837	$ 551	$ 2,545	$ 55,629

Transactions in the allowance for loan and credit losses for the years ended December 31, 2010 and 2009 follow:

(in thousands)	At and for the year ended December 31, 2010	2009
Allowance for loan losses:		
Beginning balance	$ 75,116	$ 42,851
Provision for loan losses	35,127	105,815

Loan charge-offs		(50,627)		(76,577)
Loan recoveries		6,276		3,027
Ending balance		65,892		75,116
Allowance for credit losses:				
Beginning balance		155		259
Provision for credit losses		(94)		(104)
Ending balance		61		155
Total allowance for loan and credit loss	$	65,953	$	75,271

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The allowance for loan losses (ALL) is established for the purpose of recognizing estimated loan impairments before loan losses on individual loans result in a charge-off. The ALL reflects probable but unconfirmed loan impairments in the Company s loan portfolio as of the balance sheet date.

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 inherent 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 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, 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 or evaluations performed by the Company s appraisal department, adjusted for estimated costs to sell the property. Upon impairment, the Company will obtain a new appraisal or evaluation if one had not been previously obtained in the last 6-12 months. All appraisals and evaluations are reviewed for reasonableness based on recent sales transactions that may have occurred subsequent to or right at the time of the appraisal. Based on this analysis the appraised value may be adjusted downward if there is evidence that the value may not be indicative of fair value. Each appraisal and evaluation is generally 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 allowance. The Company uses a comprehensive loan grading process for our 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 potential unconfirmed 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 in 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

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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 inherent losses in the portfolio, which have not yet manifested in Migration. Due to current and recent adverse economic conditions resulting in increased loan loss levels for the Company, management relies more heavily on actual empirical charge-off history. Management believes Migration history adequately captures a great percentage of estimated losses within the portfolio.

In addition to the allocated reserve for graded loans, a portion of the allowance 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, land acquisition and development loans, and speculative real estate loans. This supplemental portion of the allowance includes judgmental consideration of any additional amounts necessary for subjective factors such as economic uncertainties and excess concentration risks.

- **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. Included in the unallocated reserve is a missed grade component that is intended to capture the inherent risk that certain loans may be assigned the incorrect loan grade.

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 our loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

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The following table summarizes the allowance for loan losses on the basis of the Company s impairment method:

At December 31, 2011	Commercial	Real estate - mortgage	Land acquisition & development	Real estate - construction	Consumer	Other	Unallocated	Total
Allowance for loan losses	$ 14,048	$ 19,889	$ 11,013	$ 2,746	$ 4,837	$ 551	$ 2,545	$ 55,629
Individually evaluated for impairment	1,905	4,870	2,245	1,259	2,509			12,788
Collectively evaluated for impairment	12,143	15,019	8,768	1,487	2,328	551	2,545	42,841
Allowance for credit losses	$ 35	$	$	$	$	$	$	$ 35
Individually evaluated for impairment	35							35
Loans held for investment	$ 568,962	$ 784,491	$ 61,977	$ 63,141	$ 116,676	$ 42,177	$	$ 1,637,424
Individually evaluated for impairment	10,948	34,811	8,435	6,985	2,527			63,706
Collectively evaluated for impairment	558,014	749,680	53,542	56,156	114,149	42,177		1,573,718

At December 31, 2010	Commercial	Real estate - mortgage	Land acquisition & development	Real estate - construction	Consumer	Other	Unallocated	Total
Allowance for loan losses	$ 17,169	$ 17,677	$ 14,938	$ 6,296	$ 3,373	$ 354	$ 6,085	$ 65,892
Individually evaluated for impairment	3,615	2,402	694	3,755	1,414			11,880
Collectively evaluated for impairment	13,554	15,275	14,244	2,541	1,959	354	6,085	54,012
Allowance for credit losses	$ 61	$	$	$	$	$	$	$ 61
Individually evaluated for impairment	61							61
Loans held for investment	$ 565,145	$ 783,675	$ 83,871	$ 86,862	$ 94,607	$ 29,567	$	$ 1,643,727
Individually evaluated for impairment	8,722	24,934	9,690	12,614	3,060			59,020
Collectively evaluated for impairment	556,423	758,741	74,181	74,248	91,547	29,567		1,584,707

Information on impaired loans at December 31, 2011 and 2010 is reported in the following tables:

	At and for the year ended December 31, 2011						
(in thousands)	Recorded investment on impaired loans	Unpaid principal balance	Recorded investment with a related ALL	Recorded investment with no related ALL	Average recorded investment	Related allowance	Interest income recognized
Commercial							
Manufacturing	$ 179	$ 207	$	$ 179	$ 231	$	$
Finance and insurance	147	147	147		326	97	
Health care					32		
Real estate services	7,907	7,907	7,907		4,088	1,561	61
Construction	701	752	27	674	1,439	12	74
Retail trade	555	2,142	156	399	1,016	32	
Wholesale trade	144	333	14	130	166	14	
Other	1,315	1,707	994	321	1,336	224	32
	10,948	13,195	9,245	1,703	8,634	1,940	167
Real estate - mortgage							

Residential & commercial owner-occupied	9,504	10,083	8,456	1,048	9,046	2,244	41
Residential & commercial investor	9,258	9,352	8,392	866	6,201	1,200	70
	18,762	19,435	16,848	1,914	15,247	3,444	111
Land acquisition & development							
Commercial	6,400	7,075	5,394	1,006	3,366	1,620	27
Residential	2,035	3,314	1,381	654	3,979	625	2
	8,435	10,389	6,775	1,660	7,345	2,245	29
Real estate - construction							
Residential & commercial investor	6,985	8,861	2,452	4,533	8,818	1,259	38
Consumer	2,527	2,528	2,509	18	2,780	2,509	22
Total	$ 47,657	$ 54,408	$ 37,829	$ 9,828	$ 42,824	$ 11,397	$ 367

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(in thousands)	Recorded investment on impaired loans	Unpaid principal balance	Recorded investment with a related ALL	Recorded investment with no related ALL	Average recorded investment	Related allowance	Interest income recognized
	At and for the year ended December 31, 2010						
Commercial							
Manufacturing	$ 341	$ 570	$ 109	$ 232	$ 639	$ 41	$
Finance and insurance	608	608	108	500	130	108	
Health care					150		18
Real estate services	2,457	2,482	1,702	755	2,324	1,213	
Construction	1,673	1,727	228	1,445	1,588	154	
Retail trade	1,669	3,219	1,597	72	2,581	1,067	
Wholesale trade	221	457	11	210	1,742	6	
Other	1,753	2,680	1,322	431	2,617	1,026	
	8,722	11,743	5,077	3,645	11,771	3,615	18
Real estate - mortgage							
Residential & commercial owner-occupied	6,865	9,374	2,622	4,243	11,979	733	
Residential & commercial investor	18,069	19,138	14,024	4,045	10,459	1,669	504
Other					787		2
	24,934	28,512	16,646	8,288	23,225	2,402	506
Land acquisition & development							
Commercial	2,430	3,651		2,430	6,913		
Residential	5,684	16,291	1,468	4,216	6,669	694	8
Other	1,576	4,461		1,576	3,997		
	9,690	24,403	1,468	8,222	17,579	694	8
Real estate - construction							
Residential & commercial investor	12,614	13,931	11,015	1,599	11,193	3,755	7
Consumer	3,060	3,120	2,423	637	1,284	1,414	
Total	$ 59,020	$ 81,709	$ 36,629	$ 22,391	$ 65,052	$ 11,880	$ 539

Interest income that would have been recorded had nonaccrual loans performed in accordance with their original contract terms during 2011, 2010, and 2009 was $0.8 million, $1.6 million, and $1.8 million, respectively.

Additional information on impaired loans is reported in the following table:

(in thousands)	At December 31, 2011	At December 31, 2010
Nonaccrual loans	$ 17,836	$ 41,271
Nonaccrual troubled debt restructurings	9,188	1,261
Total nonaccrual loans	$ 27,024	$ 42,532
Loans 90 days or more delinquent and still accruing	$ 212	$ 202
Performing troubled debt restructurings	$ 20,633	$ 16,488

The Company had $20.6 million and $16.5 million in performing troubled debt restructurings at December 31, 2011 and 2010, respectively. The performing troubled debt restructurings at December 31, 2011 include sixteen contracts and are comprised primarily of Real estate mortgage loans (46%); Commercial loans (38%); and land acquisition and development (16%) loans. Performing troubled debt restructurings at December 31, 2010 were comprised of four credit relationships. The Company still maintains these credit relationships. However, in accordance with ASC 310-40-50-2, these loans were no longer subject to disclosure requirements as these loans were in compliance with their modified terms and had a market rate of interest at the time of restructuring.

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The following table provides information regarding troubled debt restructurings that occurred during the year ended December 31, 2011:

Troubled debt restructurings (in thousands)	Number of contracts	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Year-to-date charge-off
Commercial	7	$ 9,751	$ 8,720	$
Real estate - mortgage	8	9,673	9,466	
Land acquisition & development	5	4,294	4,269	
Real estate - construction	2	5,995	4,534	3,276
Consumer	1	2,195	1,645	
	23	$ 31,908	$ 28,634	$ 3,276

Current period troubled debt restructurings resulted primarily from granting an interest rate below market, reducing the loan amount or extending the maturity date. At December 31, 2011, one real estate construction loan of $0.3 million modified as a troubled debt restructuring within the previous twelve months defaulted subsequent to the modification. At December 31, 2011 there were $0.3 million in outstanding commitments on restructured loans. At December 31, 2010, there were no outstanding commitments on restructured loans.

The Company s nonaccrual loans by class at December 31, 2011 and 2010 are reported in the following table:

(in thousands)	At December 31, 2011	2010
Commercial		
Manufacturing	$ 179	$ 341
Finance and insurance	93	608
Real estate services	566	2,457
Construction	701	1,673
Retail trade	555	1,669
Wholesale trade	144	221
Other	867	1,753
Total commercial	3,105	8,722
Real estate - mortgage		
Residential & commercial owner-occupied	5,357	6,865
Residential & commercial investor	3,938	1,581
Total real estate - mortgage	9,295	8,446
Land acquisition & development		
Commercial	3,077	2,430
Residential	2,035	5,684
Other		1,576
Total land acquisition & development	5,112	9,690
Real estate - construction		
Residential & commercial investor	6,985	12,614
Consumer	2,527	3,060
Total nonaccrual loans	$ 27,024	$ 42,532

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The following table summarizes the aging of the Company s loan portfolio at December 31, 2011:

(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
	At December 31, 2011						
Commercial							
Manufacturing	$ 19	$	$	$ 19	$ 79,816	$ 79,835	$
Finance and insurance	120			120	78,954	79,074	
Health care	29			29	56,214	56,243	
Real estate services	361		536	897	85,301	86,198	
Construction	1,223	135	681	2,039	44,399	46,438	
Retail trade	24		38	62	27,710	27,772	
Wholesale trade	38		69	107	61,994	62,101	
Other	689		532	1,221	130,150	131,371	
	2,503	135	1,856	4,494	564,538	569,032	
Real estate - mortgage							
Residential & commercial owner-occupied	7,016	456	1,930	9,402	411,815	421,217	
Residential & commercial investor	1,174		3,755	4,929	358,728	363,657	
	8,190	456	5,685	14,331	770,543	784,874	
Land acquisition & development							
Commercial			2,071	2,071	22,201	24,272	
Residential	566		1,504	2,070	28,559	30,629	
Other					7,155	7,155	
	566		3,575	4,141	57,915	62,056	
Real estate - construction							
Residential & commercial owner-occupied					16,401	16,401	
Residential & commercial investor		1,076	2,743	3,819	43,271	47,090	
		1,076	2,743	3,819	59,672	63,491	
Consumer	8	173	1,859	2,040	114,732	116,772	212
Other	1,255			1,255	40,045	41,300	
Total loans held for investment	$ 12,522	$ 1,840	$ 15,718	$ 30,080	$ 1,607,445	$ 1,637,525	$ 212
Unearned net loan fees						(101)	
Net loans held for investment						$ 1,637,424	

In the ordinary course of business, the Company makes various direct and indirect loans to officers and directors of the Company. Activity with respect to officer and director loans is as follows for the years ended December 31, 2011 and 2010:

(in thousands)	2011	2010
Balance beginning of year	$ 5,024	$ 4,203
New loans and advances	8,922	5,284
Principal paydowns and payoffs	(6,531)	(4,463)
Balance end of year	$ 7,415	$ 5,024

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4. PREMISES AND EQUIPMENT

The major classes of premises and equipment at December 31, 2011 and 2010, are summarized as follows:

(in thousands)	2011	2010
Land	$ 230	$ 230
Buildings	230	230
Leasehold improvements	10,899	10,781
Furniture, fixtures, and equipment	29,349	27,240
	40,708	38,481
Accumulated depreciation	(32,320)	(29,433)
Total	$ 8,388	$ 9,048

The Company recorded depreciation expense related to premises and equipment of $3.1 million, $3.2 million and $3.7 million during the years ended December 31, 2011, 2010 and 2009, respectively.

5. GOODWILL AND INTANGIBLE ASSETS

Pursuant to ASC Topic 350, *Intangibles-Goodwill and Other* (ASC 350), the Company performed goodwill impairment testing on an annual basis and more frequently if events or circumstances occurred that would more likely than not reduce the fair value of a reporting unit below its carrying amount. When conducting the goodwill impairment analysis, the fair value of the reporting units is reconciled to the market capitalization of the Company, as adjusted for a control premium, to determine the overall reasonableness of the valuations. The Company performed goodwill impairment tests at March 31, 2009 and September 30, 2009 due to events and circumstances during those periods. Due to the results of those impairment tests, the Company recognized an impairment charge of $46.2 million in 2009 that fully removed goodwill from the consolidated balance sheets.

At December 31, 2011 and 2010, the Company s intangible assets and related accumulated amortization consisted of the following:

	Amortizing		Non-amortizing	
(in thousands)	Customer contracts, lists and relationships	Other	Tradename	Total
December 31, 2009	$ 4,758	$ 3	$ 149	$ 4,910
Impairment loss			(149)	(149)
Amortization	(639)	(3)		(642)
December 31, 2010	4,119			4,119
Disposals	(82)			(82)
Amortization	(638)			(638)
December 31, 2011	$ 3,399	$	$	$ 3,399

During the first quarter of 2011, the Company sold a book of business related to an insurance product line that was no longer being pursued.

In conjunction with the merger of two of the Company s subsidiaries during 2010, an impairment charge of $0.1 million was recognized on the indefinite-lived tradename intangible asset which is no longer used by the Company. The tradename impairment is included in the Loss on securities, other

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assets and other real estate owned line of the accompanying consolidated statements of operations for the year ended December 31, 2010.

The Company recorded amortization expense of $0.6 million, $0.6 million, and $0.7 million, for the years ended December 31, 2011, 2010, and 2009, respectively. Amortization expense on intangible assets for each of the five succeeding years is estimated in the following table.

(in thousands)		
2012	$	638
2013		426
2014		316
2015		300
2016		300
Total	$	1,980

6. CERTIFICATES OF DEPOSIT

The composition of the certificates of deposit portfolio at December 31, 2011 and 2010, is as follows:

	At December 31,			
(in thousands)		**2011**		**2010**
Less than $100,000	$	39,394	$	50,855
$100,000 and more		265,609		378,470
	$	305,003	$	429,325

Related interest expense for the years ended December 31, 2011, 2010 and 2009, is as follows:

	For the year ended December 31,					
(in thousands)		**2011**		**2010**		**2009**
Less than $100,000	$	384	$	804	$	2,208
$100,000 and more		2,551		5,570		10,109
	$	2,935	$	6,374	$	12,317

Maturities of certificates of deposit of $100,000 and more at December 31, 2011, are as follows:

(in thousands)		**Amount**
Remaining maturity:		
Three months or less	$	116,478
Three months through six months		49,444
Six months through 12 months		75,020

After 12 months		24,667
Total	$	265,609

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7. BORROWED FUNDS

Securities sold under agreements to repurchase at December 31, 2011 and 2010 are summarized as follows:

(in thousands)	At December 31, 2011	At December 31, 2010
Securities sold under agreements to repurchase (principally mortgage-backed securities with an estimated fair value of $138,765 and $170,097 in 2011 and 2010, respectively)	$ 127,948	$ 157,690

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 consolidated balance sheets. The securities underlying these agreements are included in investment securities in the consolidated balance sheets. Securities sold under agreements to repurchase averaged $156.7 million and $148.5 million during 2011 and 2010, respectively. The maximum amounts outstanding at any month-end during 2011 and 2010 were $166.5 million and $165.6 million, respectively. At December 31, 2011 and 2010, the weighted-average interest rate was 0.36% and 0.53%, respectively. All securities sold under agreements to repurchase had a maturity date of less than three months.

The composition of other short-term borrowings, which are all due within one year, at December 31, 2011 and 2010, is summarized as follows:

(in thousands)	At December 31, 2011	At December 31, 2010
Federal Home Loan Bank line of credit	$ 20,000	$ 14,000
Federal funds purchased		12
Total	$ 20,000	$ 14,012

The Company has advances and a line of credit from the FHLB with a weighted-average interest rate of 0.26% at December 31, 2011 and 2010. The average balance was $13.0 million and $6.3 million during 2011 and 2010. Advances and the line of credit are collateralized by either qualifying loans or investment securities not otherwise pledged as collateral. At December 31, 2011, the FHLB advances and line of credit were collateralized by loans of $641.8 million with a lending value of $347.6 million. At December 31, 2010, the FHLB advances and line of credit were collateralized by loans of $569.2 million with a lending value of $294.6 million.

The Company has approved federal fund purchase lines with seven banks with an aggregate credit line of $165.0 million. The average balance of federal funds purchased was $1.1 million and $1.2 million during 2011 and 2010.

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8. LONG-TERM DEBT

Outstanding subordinated debentures and notes payable at December 31, 2011 and 2010, is summarized as follows:

(in thousands)	At December 31, 2011	2010	Interest rate	Maturity date	Earliest call date
Junior subordinated debentures:					
CoBiz Statutory Trust I	$ 20,619	$ 20,619	3-month LIBOR + 2.95%	September 17, 2033	March 17, 2012
CoBiz Capital Trust II	30,928	30,928	3-month LIBOR + 2.60%	July 23, 2034	January 23, 2012
CoBiz Capital Trust III	20,619	20,619	3-month LIBOR + 1.45%	September 30, 2035	March 30, 2012
Total junior subordinated debentures	$ 72,166	$ 72,166			
Other long-term debt:					
Subordinated notes payable	$ 20,984	$ 20,984	Fixed 9%	August 18, 2018	August 18, 2013

Effective for interest payments beginning in February 2010, the Company fixed the interest rate on its junior subordinated debentures through a series of interest rate swaps. For further discussion of the interest rate swaps and the corresponding terms, see Note 9 - Derivatives.

In September 2003, the Company created a wholly owned trust, CoBiz Statutory Trust I, formed under the laws of the State of Connecticut (the Statutory Trust). The Statutory Trust issued $20.0 million of trust preferred securities bearing an interest rate based on a spread above three-month LIBOR. Simultaneously with the issuance, the Company purchased a minority interest in the Statutory Trust for $0.6 million. The Statutory Trust invested the proceeds thereof in $20.6 million of junior subordinated debentures of CoBiz that also bear an interest rate based on a spread above three-month LIBOR. The securities and junior subordinated debentures provide cumulative distributions at a floating rate that is reset each quarter on March 17, June 17, September 17 and December 17. The junior subordinated debentures will mature and the capital securities must be redeemed on September 17, 2033, which may be shortened to any quarterly distribution date, if certain conditions are met (including the Company having received prior approval from the Federal Reserve and any other required regulatory approvals) and notice is given at least 30 and not more than 60 days prior to the redemption date.

In May 2004, the Company created a wholly owned trust, CoBiz Capital Trust II, formed under the laws of the State of Delaware (the Capital Trust II). The Capital Trust II issued $30.0 million of trust preferred securities bearing an interest rate based on a spread above three-month LIBOR. Simultaneously with the issuance, the Company purchased a minority interest in the Capital Trust II for $0.9 million. The Capital Trust II invested the proceeds thereof in $30.9 million of junior subordinated debentures of CoBiz that also bear an interest rate based on a spread above three-month LIBOR. The securities and junior subordinated debentures provide cumulative distributions at a floating rate that is reset each quarter on January 23, April 23, July 23 and October 23. The junior subordinated debentures will mature and the capital securities must be redeemed no later than July 23, 2034, if certain conditions are met (including the Company having received prior approval from the Federal Reserve and any other required regulatory approvals).

In August 2005, the Company created a wholly owned trust, CoBiz Capital Trust III, formed under the laws of the State of Delaware (the Capital Trust III). The Capital Trust III issued $20.0 million of trust preferred securities bearing an interest rate based on a spread above three-month

LIBOR. Simultaneously with the issuance, the Company purchased a minority interest in the Capital Trust III for $0.6 million. The Capital Trust III invested the proceeds thereof in $20.6 million of junior subordinated debentures of CoBiz that also bear an interest rate based on a spread above three-month LIBOR. The securities and junior subordinated debentures provide cumulative distributions at a floating rate that is reset each quarter on March 30, June 30, September 30 and December 30. The junior subordinated debentures will mature and the capital securities must be redeemed no later than September 30, 2035, if certain conditions are met (including the Company having received prior approval from the Federal Reserve and any other required regulatory approvals).

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The Company records the distributions of the junior subordinated debentures in interest expense on the consolidated statements of operations. All of the outstanding junior subordinated debentures may be prepaid if certain events occur, including a change in tax status or regulatory capital treatment of trust preferred securities. In each case, redemption will be made at par, plus the accrued and unpaid distributions thereon through the redemption date.

Although the accounts of the Statutory Trust, Capital Trust II and Capital Trust III are not included in the Company s consolidated financial statements, $70.0 million in trust preferred securities issued by the trusts are included in Tier 1 capital for regulatory capital purposes as allowed by the Federal Reserve Board at December 31, 2011. Under rules that became effective March 31, 2009, the aggregate amount of trust preferred securities and certain other capital elements are limited to 25% of Tier 1 capital elements, net of goodwill that has been reduced by any associated deferred tax liability. The amount of trust preferred securities and certain other elements in excess of the limit can be included in Tier 2 capital, subject to certain restrictions. The Federal Reserve board subsequently delayed the March 2009 effective date until March 31, 2011. (See Note 15 Regulatory Matters)

Under the Dodd Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), signed into law on July 21, 2010, significant changes were made that limit the ability of bank holding companies with assets between $500 million and $15 billion or more to issue trust preferred securities with Tier 1 capital treatment. Bank holding companies with assets in that range will continue to give Tier 1 capital treatment for issuances before May 2010.

The Company completed a private placement of $21.0 million of Subordinated Unsecured Promissory Notes (the Notes) during the third and fourth quarter of 2008. The Notes mature on August 18, 2018, 10 years after the initial issue date. The Notes bear a fixed annual interest rate of 9.00%, pay interest quarterly, and can be prepaid at par without penalty at any time on or after the fifth anniversary of the initial issue date. The Notes qualify as Tier 2 capital for regulatory capital purposes. Certain employees and directors of the Company participated in the private placement. At December 31, 2011 and 2010, there were $3.5 million in Notes owed to related parties. The Company paid $0.3 million in interest to related parties during the years ended December 31, 2011, 2010 and 2009.

9. 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. The Company has adopted guidance amending and expanding the disclosure requirements of ASC 815 with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under GAAP, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. As required by ASC 815, the Company records all derivatives on the consolidated balance sheets at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

In order to qualify for hedge accounting, the Company must comply with detailed rules and strict documentation requirements at the inception of the hedge, and hedge effectiveness must be assessed at inception and periodically throughout the life of each hedging relationship. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are

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attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risks, even though hedge accounting does not apply or the Company elects not to apply hedge accounting under ASC 815.

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 s objective in using derivatives is to minimize the impact of interest rate fluctuations on the Company s interest income and to reduce asset sensitivity. To accomplish this objective, the Company uses interest-rate swaps as part of its cash flow hedging strategy. Under the interest-rate swap agreements, the Company receives a fixed-rate and pays a variable-rate based on the prime rate (Prime) over the life of the agreements without exchange of the underlying principal amount. For accounting purposes, these swaps are designated as hedging the overall changes in cash flows related to portfolios of the Company s Prime-based loans. Specifically, the Company has designated as the hedged transactions the first Prime-based interest payments received by the Company each calendar month during the term of the swaps that, in the aggregate for each period, are interest payments on principal from specified portfolios equal to the notional amount of the swaps.

Based on the Company s ongoing assessments, including at inception of the hedging relationship, it is probable that there will be sufficient Prime-based interest receipts 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 method described in ASC 815-30-35 (formerly DIG Issue No. G7, *Cash Flow Hedges: Measuring the Ineffectiveness for a Cash Flow Hedge under Paragraph 30(b) When the Shortcut Method Is Not Applied)*, for both prospective and retrospective assessments of hedge effectiveness on a quarterly basis. The Company also uses this methodology to measure hedge ineffectiveness each quarterly interim period. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income (outside of earnings) and subsequently reclassified to earnings (interest and fees on loans for the hedging relationships described above) when the hedged transactions affect earnings. Any ineffectiveness resulting from the hedges are recorded as a gain or loss in the consolidated statements of operations as part of noninterest income/expense.

Prepayments in the hedged loan portfolios are accounted for consistent with the guidance in ASC 815-20-25 (formerly DIG Issue No. G25, *Cash Flow Hedges: Using the First-Payments-Received Technique in Hedging the Variable Interest Payments on a Group of Nonbenchmark-Rate-Based Loans*), which allows the designated forecasted transactions to be the variable Prime-rate-based interest payments on a rolling portfolio of pre-payable interest-bearing loans using the first-payments-received technique as described above, thereby allowing interest payments from loans that prepay to be replaced with interest payments from new loan originations. Proceeds received or paid upon termination of derivative financial instruments qualifying as cash flow hedges are deferred in other comprehensive income and amortized into income over the remaining life of the hedged item.

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

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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 table below presents the fair value of the Company s derivative financial instruments as well as their classification within the consolidated balance sheets.

	Asset derivatives			Liability derivatives		
		Fair value At December 31,			Fair value At December 31,	
(in thousands)	Balance sheet classification	2011	2010	Balance sheet classification	2011	2010
Derivatives designated as hedging :						
Instruments under ASC 815 Interest rate swap	Other assets	$	$ 504	Accrued interest and other liabilities	$ 8,508	$ 1,712
Derivatives not designated as hedging :						
Instruments under ASC 815 Interest rate swap	Other assets	$ 7,943	$ 4,840	Accrued interest and other liabilities	$ 8,720	$ 5,106

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. 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.

In February 2009, the Company executed a series of interest-rate swap transactions designated as cash flow hedges that were effective for interest payments starting in 2010. The intent of the transactions is to fix the effective interest rate for payments due on the 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 will be effective for varying lengths of time ranging from five to 14 years. Select critical terms of the cash flow hedges are as follows:

(in thousands)	Notional Amount	Fixed rate	Termination Date
Hedged item - Junior subordinated debentures issued by:			
CoBiz Statutory Trust I	$ 20,000	6.04%	March 17, 2015
CoBiz Capital Trust II	$ 30,000	5.99%	April 23, 2020
CoBiz Capital Trust III	$ 20,000	5.02%	March 30, 2024

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in Accumulated Other Comprehensive Income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings.

Such derivatives were used to hedge the variable cash inflows associated with existing pools of Prime-based loan assets, as well as variable cash outflows associated with subordinated debentures. The ineffective portion of the change in fair value of the derivatives, if any, is recognized directly in earnings. The Company s derivatives did not have any hedge ineffectiveness recognized in earnings during the years ended December 31, 2011, 2010 and 2009.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest income or expense as interest payments are received or made on the Company s variable-rate assets/liabilities. During the next 12 months, the Company estimates that $1.9 million will be reclassified as an increase to interest expense.

The table below summarizes gains and losses recognized in other comprehensive income (loss) (OCI) and in conjunction with our derivatives designated as hedging instruments for the years ended December 31, 2011, 2010 and 2009.

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(in thousands)	Gain (loss) recognized in OCI (Effective portion) for the year ended December 31, 2011	2010	2009
Cash flow hedges:			
Interest rate swap	$ (7,300)	$ (5,355)	$ 561

(in thousands)	Gain (loss) reclassified from accumulated OCI into earnings (Effective portion) for the year ended December 31, 2011	2010	2009
Cash flow hedges:			
Interest rate swap	$ (1,668)	$ (487)	$ 2,631

Non-designated Hedges Derivatives not designated as hedges are not speculative and result from a service the Company provides to certain 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 GAAP hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings. At December 31, 2011, the Company had 81 interest rate swaps with an aggregate notional amount of $173.5 million. During the years ended December 31, 2011, 2010 and 2009, the Company recognized a net loss $0.5 million, $0.1 million, and a net gain of $0.2 million, respectively, related to changes in fair value of these swaps.

The Company offsets the fair value of derivative instruments covered under master netting agreements. 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. The Company also 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 December 31, 2011, 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 $17.5 million. At December 31, 2011, the Company had minimum collateral posting thresholds with certain of its derivative counterparties and has posted collateral of $25.0 million against its obligations under these agreements. At December 31, 2011, the Company was not in default with any of its debt covenants.

See Note 17 Fair Value Measurements for additional discussion of derivatives and fair value.

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10. INCOME TAXES

The components of consolidated income tax expense (benefit) for the years ended December 31, 2011, 2010 and 2009 are as follows:

	For the year ended December 31,		
(in thousands)	**2011**	**2010**	**2009**
Current tax provision (benefit):			
Federal tax	$ 6,263	$ (5,022)	$ (14,366)
State tax	590		
Total current tax provision (benefit)	6,853	(5,022)	(14,366)
Deferred tax provision (benefit):			
Federal tax	2,381	244	(14,269)
State tax	335	36	(2,172)
Net operating loss carryforward	373	(826)	(2,052)
Valuation allowance	(15,596)	15,596	
Total deferred tax provision (benefit)	(12,507)	15,050	(18,493)
Total tax provision (benefit)	$ (5,654)	$ 10,028	$ (32,859)

The primary component of deferred tax expense in 2011 and 2010 was the change in the valuation allowance of $15.6 million in both years. During 2009, the primary component of the deferred tax benefit was $12.2 million attributable to timing differences in the allowance for loan and credit losses. Also during 2009, the Company recorded a goodwill impairment of $46.2 million, of which $12.9 million was deductible for income tax purposes over the applicable term as allowed by the Internal Revenue Code. The Company has a net operating loss carryforward for Arizona and Colorado that originated in 2010 and 2009. The states of Arizona and Colorado do not allow net loss carrybacks, but allow net loss carryforwards of five and 20 years, respectively.

A deferred tax asset or liability is recognized for the tax consequences of temporary differences in the recognition of revenue and expense, and unrealized gains and losses, for financial and tax reporting purposes. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some or all of the deferred tax assets may not be realized.

The Company conducted an analysis to assess the need of a valuation allowance at December 31, 2011 and 2010. As part of this assessment, all available evidence, including both positive and negative, was considered to determine whether based on the weight of such evidence, a valuation allowance for deferred tax assets was needed. In accordance with ASC Topic 740-10, *Income Taxes* (ASC 740), a valuation allowance is deemed to be needed when, based on the weight of the available evidence, it is more likely than not (a likelihood of more than 50%) that some portion or all of a deferred tax asset will not be realized. The future realization of the tax benefit depends on the existence of sufficient taxable income within the carryback and carryforward periods.

As part of its 2010 analysis, the Company considered the following positive evidence:

- Taxes paid in prior carryback years.
- The Company has a long history of earnings profitability.
- The Company s quarterly operating results have improved over the past five quarters.
- The Company returned to a quarterly profit in the fourth quarter of 2010.
- The Company is projecting future taxable income, exclusive of tax planning strategies, will be sufficient to utilize the deferred tax assets.
- The size of loan credits in the Company s pipeline of potential problem loans has significantly decreased.
- The Company is able to carry forward federal and Colorado tax losses for 20 years and Arizona tax losses for five years.

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- The Company has identified prudent and feasible tax planning strategies, including the sale of appreciated assets tax-exempt assets and redeploying the proceeds into taxable investments.

As part of its analysis, the Company considered the following negative evidence:

- The Company is in a three-year cumulative loss position.
- The Company recorded a net loss in 2010 and 2009.
- The Company did not meet its financial goals in 2010.

At December 31, 2010, the Company s losses in prior years resulted in a negative three-year cumulative pretax loss position that was considered significant negative evidence in the determination of the need for a valuation allowance. Included in the three-year pretax loss position was $46.2 million related to a non-recurring goodwill impairment and net losses on the Company s land acquisition and future development loan portfolio. The Company has ceased lending for land acquisition and future development. However, the Company may still pursue loans secured by finished lots that are prepared to enter the construction phase. Although the Company s financial forecasts at December 31, 2010 indicated that sufficient taxable income was expected to be generated in the future to ultimately realize the existing deferred tax assets, those forecasts were not considered to constitute sufficient positive evidence to overcome the observable negative evidence associated with the three-year cumulative loss position determined at December 31, 2010.

During the fourth quarter of 2010, the Company established a deferred tax valuation allowance in the amount of $15.6 million based on its assessment of the amount of deferred tax assets that were more likely than not to be realized.

As part of its 2011 analysis, the Company considered the following positive evidence:

- The Company is in a positive cumulative income position.
- The Company s quarterly pretax operating results have improved each of the past nine quarters.
- The Company has had a pretax quarterly profit since the fourth quarter of 2010 (five consecutive quarters).
- The Company s financial projections are sufficient to absorb the deferred tax assets.
- The size of loan credits in the Company s pipeline of potential problem loans has continued to decrease.
- The Company is able to carry forward federal and Colorado tax losses for 20 years and Arizona tax losses for five years.
- The Company has generated taxable income in 2011.

- The Company has available tax planning strategies.

As part of its analysis, the Company considered the following negative evidence:

- The Company recorded a net loss in 2010 and 2009.

In the Company s consideration of the weight of the available evidence, the Company provided more weight to evidence that was more objectively verifiable. In 2010 and 2011, the most significant weight was given to the cumulative income/loss position. In 2010 when the Company was in a cumulative loss position, the Company recorded a valuation allowance of $15.6 million. The remaining deferred tax assets, for which a valuation allowance was not established, related to amounts that could be realized through future reversals of existing taxable temporary differences and through available tax planning strategies. The Company s estimates of future taxable income in 2010 were limited to tax planning strategies and no weight was placed on future taxable income expected to be generated through management s approved business plans.

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At December 31, 2011, the Company gave significant weight to the fact that the Company had returned to a cumulative income position in the fourth quarter of 2011. The Company had availability in its carryback years, current deferred income tax liabilities that are expected to absorb a portion of the deferred tax asset balance and sufficient projected future taxable income. As such, the Company determined that a valuation allowance was not required at December 31, 2011 and the Company reversed the deferred tax valuation allowance of $15.6 million during the fourth quarter of 2011.

The net change in deferred taxes related to investment securities available for sale and cash flow hedges are included in other comprehensive income. The temporary differences, tax effected, which give rise to the Company s net deferred tax assets at December 31, 2011 and 2010 are as follows:

	At December 31,			
(in thousands)		**2011**		**2010**
Deferred tax assets:				
Allowance for loan and credit losses	$	21,127	$	24,938
Intangible assets		2,574		2,812
Valuation adjustments on OREO		2,914		2,234
Deferred loan fees		225		84
Supplemental Executive Retirement Plan and other accrued liabilities		3,332		2,728
Stock-based compensation		2,179		1,962
Depreciation on premises and equipment				545
Interest on nonaccrual loans		460		427
Net operating loss carryover		2,506		2,879
Other		237		
Total deferred tax assets		35,554		38,609
Valuation allowance				(15,596)
Total deferred tax assets, net of allowance	$	35,554	$	23,013
Deferred tax liabilities:				
Deferred initial direct loan costs	$	1,047	$	961
Prepaid assets		309		1,233
FHLB stock dividends		92		89
Net unrealized gain on investment securities available for sale and derivatives		665		3,881
Other		423		400
Total deferred tax liabilities	$	2,536	$	6,564
Net deferred tax assets	$	33,018	$	16,449

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A reconciliation of income tax expense at the statutory rate to the Company s actual income tax expense for the years ended December 31, 2011, 2010 and 2009 is shown below:

(in thousands)	For the year ended December 31, **2011**		**2010**		**2009**	
Computed at the statutory rate (35%)	$	9,733	$	(4,413)	$	(40,565)
Increase (decrease) resulting from:						
Valuation allowance		(15,596)		15,596		
State income taxes net of federal income tax effect		842		(760)		(3,456)
Tax exempt interest income on loans and securities		(596)		(237)		(408)
Goodwill impairment						11,636
Bank-owned life insurance income		(433)		(442)		(414)
Other net		396		284		348
Actual tax provision (benefit)	$	(5,654)	$	10,028	$	(32,859)

Accounting guidance in ASC 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. A reconciliation of the beginning and ending amount of unrecognized tax benefits follows:

(in thousands)	**2011**	
Balance as of January 1	$	
Additions for tax for prior year positions		
Additions for tax for current year positions		933
Settlements during the period		
Lapses of applicable statue of limitations		
Ending balance as of December 31	$	933

The above unrecognized tax benefits, if recognized, would not have an effect of the effective tax rate.

Penalties and interest are classified as income tax expense when incurred. The Company recognized $0.1 million for the payment of interest and penalties accrued for the year ended December 31, 2011. There were no penalties and interest recognized in 2010 and 2009.

The Company files income tax returns in the U.S. federal jurisdiction and in several state jurisdictions.

On January 4, 2012, the Company received notice that its federal income tax return for the year ended December 31, 2009 would be under examination by the Internal Revenue Service (IRS). The IRS is currently performing field work as part of their audit procedures. The following are the major tax jurisdictions in which the Company and its affiliates operate and the earliest tax year subject to examination:

Jurisdiction	Tax year
United States	2008
Colorado	2007
Arizona	2007

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11. SHAREHOLDERS EQUITY

Common Stock At December 31, 2011 and 2010, the Company has reserved the following shares of its authorized but unissued common stock for possible future issuance in connection with the following:

	At December 31, 2011	2010
Exercise of outstanding stock options	2,421,886	2,659,750
Exercise of outstanding stock warrants	895,968	895,968
Future granting of option and stock awards	1,690,906	1,710,772
Future stock purchases through ESPP	229,833	316,262
	5,238,593	5,582,752

Preferred Stock, Series C On September 7, 2011, the Company amended the Articles of Incorporation to establish the Senior Non-Cumulative Perpetual Preferred Stock, Series C (Series C Preferred Stock) and fix the powers, preferences and relative, participating, optional and other special rights, and the qualifications, limitations and restrictions, of the shares of Series C Preferred Stock.

On September 8, 2011, the Company entered into and consummated the transactions contemplated by a Securities Purchase Agreement (Purchase Agreement) with the U.S. Secretary of the Treasury (Treasury) under the Small Business Lending Fund (SBLF), a $30 billion fund established under the Small Business Jobs Act of 2010 that is designed to encourage lending to small businesses by providing capital to qualified community banks with assets of less than $10 billion. Pursuant to the Purchase Agreement, the Company issued and sold to the Treasury, for an aggregate purchase price of $57.4 million, 57,366 shares of the Company s Series C Preferred Stock, par value $0.01 per share, having a liquidation value of $1,000 per share. The dividend rate is set at five percent (5%) for the initial dividend period.

The Series C Preferred Stock is non-voting, except in limited circumstances that could impact the SBLF investment, such as (i) authorization of senior stock, (ii) charter amendments adversely affecting the Series C Preferred Stock and (iii) extraordinary transactions such as mergers, asset sales, share exchanges and the like (unless the Series C Preferred Stock remains outstanding and the rights and preferences thereof are not impaired by such transaction).

The Series C Preferred Stock is not convertible to common stock or any other securities. Distributions upon any liquidation of the Company must be paid on the Series C Preferred Stock up to the aggregate liquidation value, plus accrued dividends, before any other shareholder distributions can be made.

The Series C Preferred Stock may be redeemed (repurchased) by the Company at any time, at a redemption price of $1,000 per share plus accrued but unpaid dividends to the date of redemption, subject to the approval of the Company s federal banking regulator. The Series C Preferred Stock may be redeemed in whole or in part, subject to a minimum redemption of at least 25% of the original SBLF investment (i.e., about $14.3 million).

Preferred Stock, Series B - On September 8, 2011, the Company entered into and consummated the transactions contemplated by a letter agreement (Repurchase Agreement) with the Treasury. Under the Repurchase Agreement, the Company redeemed (repurchased) from the Treasury, using the proceeds from the issuance of the Series C Preferred Stock and other available funds, all 64,450 outstanding shares of its Series B Preferred Stock, liquidation amount $1,000 per share, for a redemption price of $64.5 million, plus accrued but unpaid dividends to the date of redemption.

The Series B Preferred Stock and a warrant to purchase 895,968 shares of the Company s common stock were issued to the Treasury on December 19, 2008 in connection with the Company s participation in the TARP Capital Purchase Program. The warrant has a 10-year term and an

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exercise price of $10.79 per share. On November 17, 2011 the Treasury sold the warrant issued by the Company to a third party in a private auction. The warrant will continue to be outstanding under the terms originally issued to the Treasury.

All obligations under the Series B Preferred Stock terminated upon redemption, including limits on dividends, executive compensation and other restrictions stipulated under the TARP Capital Purchase Program with respect to periods after the redemption date.

Dividends The Company s ability to pay dividends to its shareholders is largely dependent upon the payment of dividends by the Bank to the Parent. At December 31, 2011, the Bank was restricted in its ability to pay a dividend to the Parent as its earnings in the current and prior two years, net of dividends paid during those years, was negative. However, at December 31, 2011, the Company has paid and had the ability to pay dividends on its common stock without reliance on the Bank.

Dividends on the Company s capital stock (common and preferred stock) are prohibited under the terms of the junior subordinated debenture agreements (see Note 9 Long-term debt) if the Company is in continuous default on its payment obligations to the capital trusts, has elected to defer interest payments on the debentures or extends the interest payment period. At December 31, 2011, the Company was not in default on any of the junior subordinated debt issuances.

Dividends declared per common share for the years ended December 31, 2011, 2010 and 2009 were $0.04, $0.04 and $0.10, respectively. Dividends paid on the Series B Preferred Stock for the years ended December 31, 2011, 2010 and 2009 were $2.5 million, $3.2 million and $2.9 million, respectively. Dividends paid on the Series C Preferred Stock for the year ended December 31, 2011, were $0.9 million.

Pursuant to the terms of the Purchase Agreement executed in the issuance of the Series B Preferred Stock, the ability of the Company to declare or pay dividends or distributions on, or purchase, redeem or otherwise acquire for consideration, shares of its common stock will be subject to restrictions in the event that the Company fails to declare and pay full dividend on the Series B Preferred Stock. In addition, the Company may not increase its dividend prior to the earlier of 1) three years from the date of the Purchase Agreement or 2) the date on which the Series B Preferred Stock is redeemed in whole. The Company paid all required dividends under the Purchase Agreement when due and through the redemption date.

Dividends for the Series C Preferred Stock began accruing at five percent (5.0%) on September 8, 2011, when issued, and are payable the first day of each January, April, July and October. The 5.0% rate was effective for the first calendar quarter (or partial period thereof) the Series C was outstanding. During the second through ninth calendar quarters under the SBLF Program, the dividend rate can fluctuate between one percent (1%) and five percent (5%) with a reduced dividend rate applying to the lesser of the amount of change in the Bank s level of Qualified Small Business Lending (QSBL) compared to the initial baseline or $57.4 million. More specifically, if the Bank s QSBL two quarters prior to the quarter under measurement has increased as compared to the baseline, then the dividend rate payable on the Series C Preferred Stock would change as follows:

Relative increase in QSBL to Baseline	Dividend Rate
Less than 2.5%	5.0%
Between 2.5% and 5.0%	4.0%
Between 5.0% and 7.5%	3.0%

Between 7.5% and 10.0%	2.0%
10.0% or more	1.0%

QSBL is defined as certain loans of up to $10.0 million to businesses with up to $50.0 million in annual revenues. QSBL includes:
(i) commercial and industrial loans; (ii) owner-occupied nonfarm, nonresidential real estate loans; (iii) loans to finance agricultural production and other loans to

farmers; and, (iv) loans secured by farmland. The SBLF requires that quarterly supplemental reports be submitted to Treasury, based in part on information already provided by the Bank in its quarterly Call Report. Changes in QSBL compared to baseline QSBL based on the supplemental reports will determine the applicable dividend rate. It is not feasible to predict the volume of QSBL in future periods or to estimate specific future dividend rates.

From the tenth calendar quarter through 4.5 years after closing of the SBLF Program transaction, the dividend rate on the Series C Preferred Stock may be fixed at or between one percent (1%) and nine percent (9%) based on the level of QSBL at that time, as compared to the baseline; however, the dividend rate will increase to 9% only if the rate of small business lending has stayed the same or decreased. If any Series C Preferred Stock remains outstanding after 4.5 years, the dividend rate will increase to nine percent (9%). The dividend rate on the Series C Preferred Stock at December 31, 2011, was 5.0%.

If the Company has not declared and paid an aggregate of five dividend payments, whether or not consecutive, the holder of the Series C Preferred Stock will have the right to appoint a representative as an observer on the Company s Board of Directors. If the Company has not declared and paid an aggregate of six dividend payments, whether or not consecutive, the holder of the Series C Preferred Stock will have the right, but not the obligation, to elect two directors to the Company s Board of Directors.

On July 20, 2009, pursuant to the shelf registration originally filed on December 19, 2006, the Company completed an underwritten public offering of 12,670,000 shares of the Company s common stock at a price of $4.50 per share. The offering provided net proceeds to the Company of approximately $53.5 million after deducting underwriting discounts and commissions and estimated offering expenses. On August 7, 2009, the Company issued 535,600 shares of common stock at $4.50 per share, fulfilling underwriter purchase options, which provided additional net proceeds of $2.3 million after discounts and commissions.

12. EARNINGS (LOSS) PER COMMON SHARE

Effective January 1, 2009, the Company adopted authoritative accounting guidance in ASC 260, which provides that unvested share-based payment awards containing nonforfeitable rights to dividends, paid or unpaid, are participating securities and will be included in the computation of earnings per share pursuant to the two-class method. The Company determined that its outstanding unvested stock awards are participating securities and computes earnings per share using the prescribed two-class method. However, the impact of these shares is not included in the common shareholder basic loss per share for the years ended December 31, 2010 and 2009 because the effect of including those shares would be anti-dilutive due to the net loss in those years.

Income available to common shareholders and the weighted average shares outstanding, used in the calculation of basic and diluted earnings (loss) per share, for the years ended December 31, 2011, 2010 and 2009, are as follows:

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(in thousands, except share amounts)	Year ended December 31, 2011	2010	2009
Net income (loss)	$ 33,462	$ (22,637)	$ (83,041)
Preferred stock dividends (1)	(5,147)	(3,764)	(3,732)
Net income (loss) available to common shareholders	$ 28,315	$ (26,401)	$ (86,773)
Distributed earnings (2)	$ 1,468	$	$
Undistributed earnings (loss)	26,599	(26,401)	(86,773)
Earnings (loss) allocated to common stock (3)	$ 28,067	$ (26,401)	$ (86,773)
Weighted average common shares - issued	37,021,383	36,796,285	29,388,038
Average nonvested restricted share awards	(325,068)	(256,648)	(242,064)
Weighted average common shares outstanding - basic	36,696,315	36,539,637	29,145,974
Effect of dilutive stock options outstanding	9,624		
Weighted average common shares outstanding - diluted	36,705,939	36,539,637	29,145,974
Weighted average antidilutive common shares outstanding (4)	3,269,678	3,783,012	3,488,340
Basic earnings (loss) per share	$ 0.76	$ (0.72)	$ (2.98)
Diluted earnings (loss) per share	$ 0.76	$ (0.72)	$ (2.98)

(1) 2011 includes Series C Preferred Stock dividends, Series B Preferred Stock dividends through redemption date and accelerated accretion of the remaining Series B discount. 2010 and 2009 include Series B Preferred Stock dividends.

(2) Dividends paid during 2010 and 2009 were not considered distributions of current period earnings.

(3) Earnings allocated to common shareholders for basic EPS under the two-class method may differ from earnings allocated for diluted EPS due to the possible use of the treasury method when that method results in greater dilution than when the two-class method is applied.

(4) Shares excluded from diluted EPS due to the antidilutive effect on the computation.

13. EMPLOYEE BENEFIT AND STOCK COMPENSATION PLANS

Stock Options and Awards The Company has adopted several incentive stock option plans to reward and provide long-term incentives for directors and key employees of the Company. The term of all options issued may not exceed 10 years. The Company issues new shares upon exercise of a stock option award.

The 1997 Incentive Stock Option Plan (the 1997 Plan) authorizes the issuance of 227,331 shares at not less than the market value of the Company s stock at the date of grant. The majority of the options issued under the 1997 Plan are exercisable commencing one year from the date of grant and vest 25% per year thereafter becoming fully exercisable after four years. No additional shares under the 1997 Plan are available to be granted.

The 1998 Stock Incentive Plan (the 1998 Plan) authorizes the issuance of 956,250 shares of common stock. The exercise price for options granted under the 1998 Plan must be at least equal to 100% of the fair market value of the common stock on the date of grant. The 1998 Plan permits the granting of Incentive Stock Options and nonqualified stock options. Options granted under the 1998 Plan have vesting schedules ranging from immediately exercisable to being exercisable four years from the grant date. No additional shares under the 1998 Plan are available to be granted.

The 2002 Equity Incentive Plan (the 2002 Plan) authorizes the issuance of 975,000 shares of common stock. Under the 2002 Plan, the Compensation Committee of the Company has the authority to determine the identity of the key employees, consultants, and directors who shall be granted options; the option price, which shall not be less than 85% of the fair market value of the common stock on the date of grant; and the manner and times at which the options shall be exercisable. Shares available for grant under the 2002 Plan at December 31, 2011 totaled 170,679.

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The 2005 Equity Incentive Plan (the 2005 Plan) originally authorized the issuance 1,250,000 shares of common stock. The 2005 Plan was amended at the May 15, 2008 Annual Shareholder Meeting to increase the authorized shares available under the plan to 2,750,000 shares of common stock and shares available for restricted stock awards was increased by 250,000 shares to 500,000 shares. The 2005 Plan was further amended at the May 20, 2010 Annual Shareholder Meeting to increase the authorized shares available under the plan to 3,750,000 shares of common stock and shares available for restricted stock awards was increased by 1,500,000 shares to 2,000,000 shares. Under the 2005 Plan, the Compensation Committee of the Company has the authority to determine the identity of the key employees, consultants and directors who shall be granted options; the option price, which shall not be less than 85% of the fair market value of the common stock on the date of grant; and the manner and times at which the options shall be exercisable. Shares available for grant under the 2005 Plan at December 31, 2011, totaled 1,519,529.

During 2011, 2010 and 2009, the Company recognized compensation expense, net of estimated forfeitures, of $1.5 million, $1.6 million and $1.5 million, respectively, for stock-based compensation awards for which the requisite service was rendered during the year. The Company recognized an income tax benefit of $0.5 million, $0.6 million and $0.5 million on the compensation expense for 2011, 2010 and 2009, respectively.

ASC 718 requires the Company to select a valuation technique that meets the measurement criteria set forth in the standard. Valuation techniques that meet the criteria for estimating the fair values of employee stock options include a lattice model and a closed-form model (for example, the Black-Scholes formula). The Company uses the Black-Scholes option pricing model (Model) to estimate the fair value of stock options. Restricted stock award fair values are based on the closing price of the Company stock on the award date.

The fair value of each option grant is estimated on the date of grant using the Model. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield in effect at the time of grant. The expected term of options granted is based on the options vesting schedule and the Company s historical exercise patterns for different employee groups and represents the period of time that options granted are expected to be outstanding. Expected volatilities are based on the historical volatility of the Company s stock and vesting period of the option to be issued. The dividend yield is determined by annualizing the dividend rate as a percentage of the Company s stock price. The following weighted-average assumptions were used for grants issued during the years ended December 31, 2011, 2010 and 2009:

	2011			2010			2009		
	Weighted Average	Range Low	High	Weighted Average	Range Low	High	Weighted Average	Range Low	High
Risk-free interest rate	1.40%	0.42%	2.26%	2.03%	0.58%	2.76%	1.75%	1.02%	2.72%
Expected dividend yield	0.65%	0.59%	0.85%	0.60%	0.58%	0.89%	0.87%	0.55%	2.98%
Expected volatility	68.67%	62.65%	75.51%	68.06%	60.75%	77.50%	63.08%	49.18%	74.54%
Expected life (years)	4.0			4.0			4.2		

The summary of changes in shares under option and restricted stock awards for the years ended December 31, 2011, 2010 and 2009 is as follows:

2011	2010	2009

STOCK OPTION AWARDS		Shares	Weighted average exercise price	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding	beginning of year	2,659,750	$ 12.70	2,522,243	$ 13.26	2,287,472	$ 14.66
Granted		83,450	6.39	369,248	7.24	518,201	6.28
Exercised		2,750	4.87	43,912	5.44	23,479	6.53
Forfeited		318,564	11.63	187,829	11.16	259,951	12.30
Outstanding	end of year	2,421,886	$ 12.63	2,659,750	$ 12.70	2,522,243	$ 13.26
Exercisable	end of year	1,938,502	$ 14.11	1,891,700	$ 14.81	1,727,266	$ 14.88

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RESTRICTED STOCK AWARDS	2011 Shares	2011 Weighted average grant date fair value	2010 Shares	2010 Weighted average grant date fair value	2009 Shares	2009 Weighted average grant date fair value
Unvested beginning of year	261,390	$ 6.77	257,050	$ 6.84	217,100	$ 6.97
Granted	152,367	6.50	30,574	6.03	49,950	6.36
Vested	94,352	6.88	13,984	6.94	400	21.07
Forfeited	28,451	6.83	12,250	6.08	9,600	6.86
Unvested end of year	290,954	$ 6.59	261,390	$ 6.77	257,050	$ 6.84
Total fair value of vested shares (in thousands)		$ 597		$ 77		$ 2

There were 2,406,386 options vested or expected to vest with a weighted average price of $12.67 at December 31, 2011. The weighted-average remaining terms for options outstanding, vested or expected to vest and options exercisable at the end of the period were 2.9, 2.9 and 2.4 years, respectively. The aggregate intrinsic value for options outstanding, vested or expected to vest and options exercisable at the end of the 2011, 2010 and 2009 periods was insignificant. The weighted average grant date fair value of options granted during the years ended December 31, 2011, 2010 and 2009 was $2.87, $3.17 and $2.62, respectively. The total intrinsic value of options exercised during years ended December 31, 2011 and 2010 was insignificant.

At December 31, 2011, there was $1.9 million of total unrecognized compensation cost related to unvested share-based compensation arrangements granted under the Plans. The cost is expected to be recognized over a weighted-average period of 1.6 years.

At December 31, 2011, a summary of the Company s stock options outstanding are as follows:

	Options outstanding			Options exercisable	
Range of exercise price	Number outstanding	Weighted average exercise price	Weighted average remaining life (years)	Number exercisable	Weighted average exercise price
$4.01 - $6.74	519,148	$ 6.08	4.8	227,896	$ 6.30
$6.75 - $10.60	502,538	8.39	3.8	316,706	8.89
$10.71 - $12.67	485,444	11.94	1.9	485,444	11.94
$13.16 - $20.23	486,054	17.22	1.9	479,754	17.20
$20.25 - $23.35	428,702	21.12	1.9	428,702	21.12
	2,421,886	$ 12.63	2.9	1,938,502	$ 14.11

Employee Stock Purchase Plan (ESPP) The ESPP was established in January 2000 and is administered by a committee of two or more directors who are not employees or officers of the Company and are appointed by the Board of Directors. Employees may elect to have a percentage of their payroll deducted and applied to the purchase of Common Stock at a discount. In addition, the Company may make a matching contribution up to 50% of an employee s deduction toward the purchase of additional Common Stock. No matching contribution was made for the years presented.

	2011	2010	2009
Available ESPP shares - beginning of year	316,262	406,831	36,493

Additions (1)			450,000
Purchases	(86,429)	(90,569)	(79,662)
Available ESPP shares - end of year	229,833	316,262	406,831

(1) Shareholder approved increase in maximum issuable shares.

Employee 401(k) Plan The Company has a defined contribution plan covering substantially all its employees. Employees may contribute up to the maximum allowed by the internal revenue service.

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The Company may also make discretionary contributions within the limits of the 401(k) Plan and internal revenue service limitations. In 2009, the Company reduced its matching contribution from 6% to 3% of eligible compensation and that matching rate was unchanged for the years ended December 31, 2011 and 2010. Employer contributions charged to expense for the years ended December 31, 2011, 2010 and 2009 were $1.0 million, $1.0 million and $1.2 million, respectively, and are included in the consolidated statements of operations under the caption Salaries and employee benefits.

Supplemental Executive Retirement Plan The Company maintains a Supplemental Executive Retirement Plan (SERP) for five active key executives. The plan provides for target retirement benefits, as a percentage of pay, beginning at age 60 or after 10 years of service and are paid as a monthly benefit for a 10-year period. The target percentage is 50% of pay based on the executives average monthly compensation during any five calendar years during which the executives compensation is highest during participation. Benefits under the SERP are vested 20% for each year of service and are 100% vested after five years of service. At December 31, 2011, all participants were fully vested. At December 31, 2011 and 2010, the Company had accrued $4.6 million and $3.7 million, respectively, for the expected benefits under the SERP which are included in the consolidated balance sheets under the caption Accrued interest and other liabilities.

14. COMMITMENTS AND CONTINGENCIES

Lease Commitments The Company has various operating lease agreements for office space. Generally leases are subject to rent escalation provisions in subsequent years and have renewal options at the end of the initial lease terms. Rent expense (excluding ancillary charges for common area expense, maintenance, etc.) for the years ended December 31, 2011, 2010 and 2009 was $5.4 million, $5.4 million and $5.1 million, respectively.

In 1998, certain officers and directors acquired the building in which the corporate office is located and certain banking operations are performed. At December 31, 2011, one director has a remaining interest in the building. Additionally, two bank locations are leased from entities controlled by the same director of the Company. Rent payments under the related party leases for the years ended December 31, 2011, 2010 and 2009 were $2.0 million, $2.1 million and $2.0 million, respectively. At December 31, 2011 and 2010, the Company was current on its related party lease payments. Future contractual obligations of $8.7 million will be paid to entities controlled by the related parties and are included in the below schedule of future minimum lease payments under all non-cancelable operating leases.

Year ending December 31, (in thousands)		**Amount**
2012	$	5,750
2013		5,206
2014		4,944
2015		4,706
2016		3,522
Thereafter		6,075
Total	$	30,203

Financial Instruments With Off-Balance Sheet Risk In the normal course of business the Company has entered into financial instruments which are not reflected in the accompanying consolidated financial statements. The Company had the following commitments at December 31, 2011:

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(in thousands)		Amount
Commitments to originate commercial or real estate construction loans and unused lines of credit granted to customers	$	522,636
Commitments to originate consumer loans personal lines of credit and equity lines	$	30,513
Overdraft protection plans	$	8,457
Letters of credit	$	49,950
Unfunded commitments for unconsolidated investments	$	6,721
Company guarantees	$	1,262

Commitments to Originate The Company makes contractual commitments to extend credit and provide standby letters of credit which are binding agreements to lend money to its customers at predetermined interest rates for a specific period of time. These commitments are not held for sale. The credit risk involved in issuing these financial instruments is essentially the same as that involved in granting on-balance sheet financial instruments. As such, the Company s exposure to credit loss in the event of nonperformance by the counterparty to the financial instrument is represented by the contractual amounts of those instruments. However, the Company applies the same credit policies, standards, and ongoing reassessments in making commitments and conditional obligations as it does for loans. In addition, the amount and type of collateral obtained, if deemed necessary upon extension of a loan commitment or standby letter of credit, is essentially the same as the collateral requirements provided for loans. Additional risk associated with providing these commitments arises when they are drawn upon, such as the demands on liquidity the Company would experience if a significant portion were drawn down at the same time. However, this is considered unlikely, as many commitments expire without being drawn upon and therefore do not necessarily represent future cash requirements.

Overdraft Protection Plans The Company provides personal credit lines on customer accounts to advance funds to cover overdrafts.

Letters of Credit The Company provides standby and commercial letters of credit during the normal course of business. Standby letters of credit guarantee performance of a customer to a third party while commercial letters of credit guarantee payments on behalf of our customers.

Unfunded Commitments for Unconsolidated Investments The Company has committed to purchase up to $13.5 million in limited partnership interests of four entities, of which $6.7 million is unfunded at December 31, 2011. Certain shareholders and directors also have interests in some of these entities.

Company Guarantees The Company guarantees, to the issuing merchant banks, the credit card debt transactions for certain customers.

Federal Reserve Bank Stock The fair value of the Federal Reserve Bank stock approximates its carrying value, which is based on the redemption provisions of the Federal Reserve Bank. At December 31, 2011, the Company held 75,274 shares of Federal Reserve Bank stock with a fair value of $3.8 million (par value of $50). This investment represents 50% of the subscription amount due to the Federal Reserve Bank to become a member bank and the stock cannot be sold, traded, or

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pledged as collateral for loans. Although the probability is remote, the remaining 50% or $3.8 million due to the Federal Reserve Bank may be callable at their discretion.

Employment Contracts Certain officers of the Company have entered into employment agreements providing for salaries and fringe benefits. In addition, severance is provided in the event of termination for other than cause, and under certain changes in control, a payment is required.

Indemnification Agreements The Company is subject to certain indemnification obligations in conjunction with agreements signed with officers and directors of the Company. The Indemnification Agreements require the Company to indemnify against judgments, fines, penalties and amounts paid in settlements incurred in connection with civil or criminal action or proceedings, as it relates to their services to the Company. To the extent the Company maintains an insurance policy or policies providing directors and officers liability insurance, the Indemnitee will be covered to the maximum extent of the coverage available for any director or officer of the Company. However, certain indemnification payments may not be covered under the Company s directors and officers insurance coverage. The rights of the Indemnitee under the Indemnification Agreement are in addition to any rights the Indemnitee may have under the Company s articles of incorporation or bylaws. While the likelihood is remote, performance under these indemnifications could materially affect net income in a particular quarter or annual period.

Other Matters The Company is involved in various lawsuits which have arisen in the normal course of business. It is management s opinion, based upon advice of legal counsel, that the ultimate outcome of these lawsuits will not have a material impact upon the financial condition or results of operations of the Company.

15. REGULATORY MATTERS

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can trigger certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company s financial condition and results of operations. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company and the Bank s assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company and the Bank s capital amounts and classification are also subject to qualitative judgments by the regulators regarding components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of Tier 1 and Total Capital (as defined in the regulations) to risk-weighted assets and of Tier I capital to average assets. At December 31, 2011 and 2010, management believes the Company and Bank meet all capital adequacy requirements to which they are subject.

At December 31, 2011, the most recent notification from the Federal Reserve categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the following table. There are no conditions or events that management believes have changed the Bank s categories.

The following table shows the Company and Bank s actual capital amounts and ratios and regulatory thresholds at December 31, 2011 and 2010:

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At December 31, 2011 **(in thousands)**	**Company**	**Bank**
Shareholders equity	$ 220,082	$ 237,240
Disallowed intangible assets	(3,236)	
Unrealized gain on available for sale securities	(6,359)	(6,359)
Unrealized gain on cash flow hedges	5,275	
Subordinated debentures	70,000	
Disallowed deferred tax asset	(14,553)	
Other deductions	(128)	
Tier I regulatory capital	$ 271,081	$ 230,881
Subordinated notes payable	$ 20,984	$
Allowance for loan losses	24,630	24,268
Total risk-based regulatory capital	$ 316,695	$ 255,149

	Company			**Bank**		
At December 31, 2011	**Risk-based**		**Leverage**	**Risk-based**		**Leverage**
(in thousands)	**Tier I**	**Total capital**	**Tier I**	**Tier I**	**Total capital**	**Tier I**
Regulatory capital	$ 271,081	$ 316,695	$ 271,081	$ 230,881	$ 255,149	$ 230,881
Well-capitalized requirement	116,366	193,943	119,724	114,681	191,134	118,693
Regulatory capital - excess	$ 154,715	$ 122,752	$ 151,357	$ 116,200	$ 64,015	$ 112,188
Capital ratios	14.0%	16.3%	11.3%	12.1%	13.3%	9.7%
Minimum capital requirement	4.0%	8.0%	4.0%	4.0%	8.0%	4.0%
Well capitalized requirement (1)	6.0%	10.0%	5.0%	6.0%	10.0%	5.0%

At December 31, 2010 **(in thousands)**	**Company**	**Bank**
Shareholders equity	$ 201,738	$ 205,940
Disallowed intangible assets	(3,830)	
Unrealized gain on available for sale securities	(7,080)	(7,080)
Unrealized (gain) loss on cash flow hedges	749	(312)
Subordinated debentures	65,135	
Disallowed deferred tax asset	(5,603)	
Other deductions	(128)	
Tier I regulatory capital	$ 250,981	$ 198,548
Subordinated notes payable and debentures	$ 25,849	$
Allowance for loan losses	24,837	24,421
Total risk-based regulatory capital	$ 301,667	$ 222,969

	Company			**Bank**		
At December 31, 2010	***Risk-based***		***Leverage***	***Risk-based***		**Leverage**
(in thousands)	**Tier I**	**Total capital**	**Tier I**	**Tier I**	**Total capital**	**Tier I**
Regulatory capital	$ 250,981	$ 301,667	$ 250,981	$ 198,548	$ 222,969	$ 198,548
Well-capitalized requirement	116,755	194,592	121,917	114,734	191,223	118,905
Regulatory capital - excess	$ 134,226	$ 107,075	$ 129,064	$ 83,814	$ 31,746	$ 79,643
Capital ratios	12.9%	15.5%	10.3%	10.4%	11.7%	8.3%
Minimum capital requirement	4.0%	8.0%	4.0%	4.0%	8.0%	4.0%
	6.0%	10.0%	5.0%	6.0%	10.0%	5.0%

Well capitalized
requirement (1)

(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.

16. COMPREHENSIVE INCOME (LOSS)

Comprehensive income is the total of (1) net income plus (2) all other changes in net assets arising from non-owner sources, and are referred to as other comprehensive income. Presented below are the changes in other comprehensive income which consist of unrealized gains (losses) on available for sale securities and derivatives, net of tax for the years ended December 31, 2011, 2010 and 2009:

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(in thousands)	2011	2010	2009
Other comprehensive income items:			
Unrealized gain (loss) on available for sale securities, gross	$ (2,133)	$ (1,541)	$ 11,717
Reclassification for (gain) loss to operations	261	597	2,062
Change in OTTI-related component of unrealized gain	709	351	925
Unrealized loss on derivative securities, gross	(8,968)	(5,842)	3,192
Reclassification for (gain) loss to operations	1,668	487	(2,631)
	(8,463)	(5,948)	15,265
Deferred tax benefit (expense):			
Unrealized gain (loss) on available for sale securities, gross	811	585	(4,452)
Reclassification for (gain) loss to operations	(100)	(227)	(784)
Change in OTTI-related component of unrealized gain	(269)	(133)	(352)
Unrealized (gain) loss on derivative securities, gross	3,408	2,220	(1,213)
Reclassification for (gain) loss to operations	(634)	(185)	1,000
	3,216	2,260	(5,801)
Other comprehensive income, net of tax	$ (5,247)	$ (3,688)	$ 9,464

(in thousands)	Available for sale securities	Derivatives designated as hedging instruments	Accumulated other comprehensive income
Balance at January 1, 2010	$ 7,448	$ 2,571	$ 10,019
Net change	(368)	(3,320)	(3,688)
Balance at December 31, 2010	7,080	(749)	6,331
Net change	(721)	(4,526)	(5,247)
Balance at December 31, 2011	$ 6,359	$ (5,275)	$ 1,084

17. 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 using 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.

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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.

A description of the valuation methodologies used for 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 December 31, 2011, the Company holds, as part of its investment portfolio, available for sale securities reported at fair value consisting of MBS, municipal securities and TPS. The fair value of the majority of MBS and municipal securities are determined using widely accepted valuation techniques including matrix pricing and broker-quote based applications. Inputs include benchmark yields, reported trades, issuer spreads, prepayment speeds and other relevant items. As a result, the Company has determined that these valuations fall within Level 2 of the fair value hierarchy. Certain private-label MBS are valued using broker-dealer quotes. As the private-label MBS market has become increasingly illiquid, these securities are being valued more often based on modeling techniques rather than observable trades. Accordingly, the Company has determined the appropriate input level for the private-label MBS is Level 3. The Company also holds TPS that are recorded at fair values 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 a small number of TPS for which unadjusted market prices are not available or the market is not active and is therefore classified as level 2. 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. The Company did not transfer any TPS between Levels during 2011. The fair value of TPS transferred from Level 1 to Level 2 during 2010 was $3.3 million.

During the year ended December 31, 2011, the Company recorded losses on AFS securities of $0.3 million, primarily comprised of $0.8 million in OTTI arising from an increase on credit risk on three private-label MBS and a $0.5 million gain on AFS sales and calls.

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 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, including strike price, forward rates, volatility estimates and discount rates. 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. The Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings and thresholds.

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

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the credit valuation adjustments which use estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. At December 31, 2011 and 2010, 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.

Private equity investments The valuation of nonpublic private equity investments requires significant management judgment due to the absence of quoted market prices, inherent lack of liquidity and the long-term nature of such assets. The carrying values of private equity investments are adjusted either upwards or downwards from the transaction price to reflect expected exit values as evidenced by financing and sale transactions with third parties, or when determination of a valuation adjustment is confirmed through ongoing reviews by management. A variety of factors are reviewed and monitored to assess positive and negative changes in valuation including, but not limited to, current operating performance and future expectations of the particular investment, industry valuations of comparable public companies, changes in market outlook and the third-party financing environment. In determining valuation adjustments resulting from the investment review process, emphasis is placed on current company performance and market conditions. As a result, the Company has determined that private equity investments are classified in Level 3 of the fair value hierarchy. The value of private equity investments was not material at December 31, 2011.

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, in accordance with ASC 310. Depending on the age of the appraisal and current real estate market activity, the Company may discount the appraisal to reflect valuation declines. The fair value of other impaired loans is measured using a discounted cash flow analysis considered to be a level 3 input.

Loans held for sale Loans held for sale are primarily nonperforming loans that management intends to sell within the next 12 months. Fair value on these loans is estimated based on price quotes from potential buyers. Since there is not an active market with observable prices for these loans, the Company considers the measurements to be Level 3 inputs. The Company did not have any loans held for sale at December 31, 2011.

The following table presents the Company s financial assets measured at fair value on a recurring basis at December 31, 2011 and 2010, aggregated by the level in the fair value hierarchy within which those measurements fall.

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		Fair value measurements using:		
(in thousands)	**Balance at December 31, 2011**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Assets				
Available for sale securities:				
Mortgage-backed securities	$ 420,552	$	$ 420,552	$
U.S. government agencies	44,205		44,205	
Trust preferred securities	99,018	90,904	8,114	
Corporate debt securities	56,817		56,817	
Private-label MBS	1,990			1,990
Municipal securities	940		940	
Total available for sale securities	$ 623,522	$ 90,904	$ 530,628	$ 1,990
Derivatives:				
Reverse interest rate swap	$ 7,943	$	$ 7,943	$
Total derivative assets	$ 7,943	$	$ 7,943	$
Liabilities				
Derivatives:				
Cash flow hedge - interest rate swap	$ 8,508	$	$ 8,508	$
Reverse interest rate swap	8,720		8,720	
Total derivative liabilities	$ 17,228	$	$ 17,228	$

		Fair value measurements using:		
(in thousands)	**Balance at December 31, 2010**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Assets				
Available for sale securities:				
Mortgage-backed securities	$ 405,545	$	$ 405,545	$
U.S. government agencies	80,619		80,619	
Trust preferred securities	88,308	79,093	9,215	
Corporate debt securities	59,595		59,595	
Private-label MBS	2,432			2,432
Municipal securities	945		945	
Total available for sale securities	$ 637,444	$ 79,093	$ 555,919	$ 2,432
Derivatives:				
Cash flow hedge - interest rate swap	$ 504	$	$ 504	$
Reverse interest rate swap	4,840		4,840	
Total derivative assets	$ 5,344	$	$ 5,344	$
Liabilities				
Derivatives:				
Cash flow hedge - interest rate swap	$ 1,712	$	$ 1,712	$
Reverse interest rate swap	5,106		5,106	
Total derivative liabilities	$ 6,818	$	$ 6,818	$

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

	For the year ended December 31,	
(in thousands)	2011	2010
Beginning balance	$ 2,432	$ 2,373
Realized loss on OTTI	(771)	(451)
Paydowns	(545)	(714)
Net accretion	165	158
Unrealized gain included in comprehensive income	709	1,066
Ending balance	$ 1,990	$ 2,432

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 December 31, 2011 and 2010, aggregated by the level in the fair value hierarchy within which those measurements fall.

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		Fair value measurements using:		
(in thousands)	Balance at December 31, 2011	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Impaired loans, net of specific reserve	$ 50,883	$	$	$ 50,883

		Fair value measurements using:		
(in thousands)	Balance at December 31, 2010	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Impaired loans, net of specific reserve	$ 47,616	$	$	$ 47,616

During the years ended December 31, 2011 and 2010, the Company recorded a provision for loan losses of $19.7 million and $42.1 million, respectively, on impaired loans. The Company charged-off $18.7 million and $50.6 million ($44.1 million on loans held for investment and $6.5 million on loans held for sale) on impaired loans during the year ended December 31, 2011 and 2010, respectively.

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 Bank 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. Included within OREO are repossessed assets that the Company has received as partial satisfaction of a loan. These assets, which are not material, do not typically have readily determinable market values and are considered Level 3 inputs.

Intangible assets Intangible assets consist of a non-amortizing trade name that was initially recorded at fair value. Intangible assets are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The fair value of intangible assets is based on an income approach using a present value model, considered a Level 3 input by the Company.

The following table presents the Company s nonfinancial assets measured at fair value on a nonrecurring basis at December 31, 2011 and 2010, aggregated by the level in the fair value hierarchy within which those measurements fall.

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(in thousands)	Balance at December 31, 2011	Fair value measurements using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Loss for the year ended December 31, 2011
OREO and repossessed assets	$ 19,476	$	$	$ 19,476	$ (2,885)
Intangible asset					(57)

(in thousands)	Balance at December 31, 2010	Fair value measurements using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Loss for the year ended December 31, 2010
OREO	$ 26,416	$	$	$ 26,416	$ (7,392)
Tradename					(149)

In the first quarter of 2011, the Company sold a small insurance book of business and recorded a loss of $0.1 million on the intangible sale. In accordance with ASC Topic 350, *Intangibles Goodwill and Other,* the Company performed an impairment test on a tradename intangible asset during the second quarter of 2010 and concluded that the Company s decision not to use the tradename in the future was a triggering event for an impairment charge of $0.1 million.

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 at December 31, 2011 and 2010, disclosed pursuant to ASC 820 to the amount recorded on the consolidated balance sheet.

(in thousands)	At December 31, 2011	December 31, 2010
OREO recorded at fair value	$ 19,476	$ 26,416
Estimated selling costs	(974)	(1,321)
OREO	$ 18,502	$ 25,095

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Valuation adjustments on OREO are recognized in current earnings under the caption Loss on securities, other assets and other real estate owned. Below is a summary of the 2011 and 2010 OREO transactions:

(in thousands)		**2011**		**2010**
Beginning OREO balance		$ 25,095		$ 25,182
Foreclosed loans	13,814		29,422	
Charge-offs	(5,342)		(8,839)	
Transferred in		8,472		20,583
OREO sales		(12,262)		(13,278)
Net loss on sale and valuation adjustments		(2,803)		(7,392)
Ending OREO balance		18,502		25,095
Estimated selling costs		974		1,321
OREO recorded at fair value		$ 19,476		$ 26,416

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 December 31, 2011 and 2010.

	December 31, 2011		**December 31, 2010**	
(in thousands)	**Carrying value**	**Estimated fair value**	**Carrying value**	**Estimated fair value**
Financial assets:				
Cash and cash equivalents	$ 59,210	$ 59,210	$ 24,166	$ 24,166
Restricted cash	4,535	4,535	15,872	15,872
Investment securities available for sale	623,522	623,522	637,444	637,444
Investment securities held to maturity	232	238	262	270
Other investments	9,554	9,554	6,962	6,962
Loans net	1,581,795	1,587,352	1,577,835	1,562,844
Accrued interest receivable	8,273	8,273	8,081	8,081
Interest rate swaps	7,943	7,943	5,344	5,344
Bank-owned life insurance	39,767	39,767	36,043	36,043
Financial liabilities:				
Deposits	$ 1,918,406	$ 1,919,284	$ 1,889,368	$ 1,891,107
Other short-term borrowings	20,000	20,000	14,012	14,012
Securities sold under agreements to repurchase	127,948	130,990	157,690	154,776
Accrued interest payable	529	529	930	930
Junior subordinated debentures	72,166	72,166	72,166	72,166
Subordinated notes payable	20,984	22,380	20,984	18,610
Interest rate swaps	17,228	17,228	6,818	6,818

The estimation methodologies utilized by the Company are summarized as follows:

Cash and Cash Equivalents The carrying amount of cash and cash equivalents is a reasonable estimate of fair value.

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Restricted Cash The carrying amount of restricted cash is a reasonable estimate of fair value.

Other Investments The estimated fair value of other investments approximates their carrying value.

Loans The fair value of loans is estimated by discounting the future cash flows using the current 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.

Accrued Interest Receivable/Payable The carrying amount of accrued interest receivable/payable is a reasonable estimate of fair value due to the short-term nature of these amounts.

Bank-Owned Life Insurance The carrying amount of bank-owned life insurance is based on the cash surrender value of the policies and is a reasonable estimate of fair value.

Deposits The fair value of certificates of deposit is estimated by discounting the expected life using an index of the U.S. Treasury curve. Nonmaturity deposits are reflected at their carrying value for purposes of estimating fair value.

Short-Term Borrowings The estimated fair value of short-term borrowings approximates their carrying value, due to their short-term nature.

Securities Sold Under Agreements to Repurchase Estimated fair value is based on discounting cash flows for comparable instruments.

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.

Subordinated Notes Payable The estimated fair value of subordinated notes payable is based on discounting cash flows for comparable instruments.

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.

The fair value estimates presented herein are based on pertinent information available to management at December 31, 2011 and 2010. 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.

18. SEGMENTS

The Company s segments consist of Commercial Banking, Investment Banking, Wealth Management, Insurance and Corporate Support and Other.

The Investment Banking segment consists of the operations of GMB, which provides middle-market companies with merger and acquisition advisory services, institutional private placements of debt and equity, and other strategic financial advisory services.

In conjunction with the Company s strategic initiative to create a focused wealth management offering, the Company changed its operating segments in the third quarter of 2010 to reflect an internal realignment of its wealth management components. As part of this change, the Investment

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Advisory and Trust segment previously reported was renamed Wealth Management and a business line was moved from Insurance into the Wealth Management segment. All prior period disclosures have been adjusted to conform to the new presentation. The segment includes the operations of CoBiz Trust, CIM and FDL s wealth transfer business line. The wealth transfer business line assists high net-worth individuals and companies with the acquisition of institutionally-priced life insurance products. Revenues of the segment are generally derived as a percentage of assets under management for the trust and investment management lines and from commissions paid by insurers with whom wealth transfer has placed policies.

The Insurance segment includes the employee benefits and brokerage activities of FDL and CoBiz Insurance, Inc. The FDL employee benefits line targets small- to mid-sized employers and offers group insurance and retirement plan design and consulting services. CoBiz Insurance, Inc. is a property and casualty (P&C) broker agency focusing on commercial and affluent individual lines of coverage. The majority of the revenues for the segment are derived from insurance product sales and referrals, paid by third-party insurance carriers.

The Corporate Support and Other segment consists of activities that are not directly attributable to the other reportable segments and include centralized bank operations and the activities of the Parent.

The financial information for each business segment reflects that information which is specifically identifiable or which is allocated based on an internal allocation method. Results of operations and selected financial information by operating segment are as follows:

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For the year ended December 31, 2011 (in thousands)	Commercial Banking	Investment Banking	Wealth Management	Insurance	Corporate Support and Other	Consolidated
Income statement						
Total interest income	$ 110,920	$ 8	$ 2	$ 2	$ 332	$ 111,264
Total interest expense	8,998		31	4	5,830	14,863
Provision for loan losses	570				3,432	4,002
Noninterest income	9,985	7,237	9,425	9,272	37	35,956
Noninterest expense	31,643	5,901	9,154	9,149	44,700	100,547
Management fees and allocations	22,979	151	628	368	(24,126)	
Provision (benefit) for income taxes	25,322	507	(93)	(214)	(31,176)	(5,654)
Net income (loss)	31,393	686	(293)	(33)	1,709	33,462
Depreciation and amortization	2,662	75	466	509	28	3,740
Capital expenditures	2,051	79	410	12	48	2,600
Identifiable assets at December 31, 2011	$ 2,372,100	$ 6,128	$ 6,348	$ 7,895	$ 31,033	$ 2,423,504

For the year ended December 31, 2010 (in thousands)	Commercial Banking	Investment Banking	Wealth Management	Insurance	Corporate Support and Other	Consolidated
Income statement						
Total interest income	$ 114,697	$ 8	$ 2	$ 2	$ 1,270	$ 115,979
Total interest expense	13,714		40	11	5,383	19,148
Provision for loan losses	30,224				4,903	35,127
Noninterest income	10,439	5,650	9,752	8,701	466	35,008
Noninterest expense	37,015	5,534	10,366	9,005	47,192	109,112
Management fees and allocations	24,089	163	721	343	(25,316)	
Provision (benefit) for income taxes	20,180	52	(78)	162	(10,288)	10,028
Net loss before noncontrolling interest	(86)	(91)	(1,295)	(818)	(20,138)	(22,428)
Net income attributable to noncontrolling interest					(209)	(209)
Net loss	(86)	(91)	(1,295)	(818)	(20,347)	(22,637)
Depreciation and amortization	2,832	77	381	539	25	3,854
Capital expenditures	2,692	35	228	61	30	3,046
Identifiable assets at December 31, 2010	$ 2,338,829	$ 4,101	$ 5,597	$ 8,058	$ 38,503	$ 2,395,088

For the year ended December 31, 2009 (in thousands)	Commercial Banking	Investment Banking	Wealth Management	Insurance	Corporate Support and Other	Consolidated
Income statement						
Total interest income	$ 128,914	$ 7	$	$	$ 529	$ 129,450
Total interest expense	21,701		16	13	4,336	26,066
Provision for loan losses	103,427				2,388	105,815
Noninterest income	9,555	1,154	8,052	8,912	(46)	27,627
Noninterest expense	34,533	4,024	9,903	8,498	38,292	95,250
Impairment of goodwill	15,348	5,279	21,384	4,149		46,160
Management fees and allocations	30,987	211	773	477	(32,448)	
Benefit for income taxes	(19,829)	(3,768)	(1,781)	(1,593)	(5,888)	(32,859)
	(47,698)	(4,585)	(22,243)	(2,632)	(6,197)	(83,355)

Net loss before noncontrolling interest						
Net loss attributable to noncontrolling interest					314	314
Net loss	(47,698)	(4,585)	(22,243)	(2,632)	(5,883)	(83,041)
Depreciation and amortization	3,272	67	449	513	61	4,362
Capital expenditures	2,628	10	1	123	22	2,784
Identifiable assets at December 31, 2009	$ 2,380,362	$ 609	$ 3,312	$ 10,278	$ 71,454	$ 2,466,015

19. CONDENSED FINANCIAL STATEMENTS OF PARENT COMPANY

Condensed financial statements pertaining only to CoBiz Financial Inc. are presented below. Investments in subsidiaries are stated using the equity method of accounting.

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CONDENSED BALANCE SHEETS (in thousands)	**At December 31, 2011**	**2010**
Assets:		
Cash on deposit at subsidiary bank	$ 25,020	$ 28,781
Investment in subsidiaries	275,526	255,062
Accounts receivable from subsidiaries	11,718	14,798
Taxes receivable	5,789	5,354
Other	17,022	3,014
Total assets	$ 335,075	$ 307,009
Liabilities and shareholders equity:		
Liabilities:		
Accounts payable to subsidiaries	$ 14,955	$ 6,911
Subordinated debentures	93,150	93,150
Other liabilities	6,888	5,210
Total liabilities	114,993	105,271
Shareholders equity	220,082	201,738
Total liabilities and shareholders equity	$ 335,075	$ 307,009

CONDENSED STATEMENTS OF OPERATIONS (in thousands)	**For the years ended December 31, 2011**	**2010**	**2009**
Income:			
Management fees	$ 3,834	$ 3,906	$ 3,664
Interest income	244	363	131
Other income	31	72	3,332
Total income	4,109	4,341	7,127
Expenses:			
Salaries and employee benefits	4,499	4,566	3,733
Interest expense	6,018	5,748	4,396
Other expense	2,393	2,600	2,907
Total expenses	12,910	12,914	11,036
Net loss before income taxes	(8,801)	(8,573)	(3,909)
Provision (benefit) for income taxes	(14,146)	(7,618)	5,376
Net income (loss) before equity in undistributed earnings of subsidiaries	5,345	(16,191)	1,467
Equity in undistributed earnings (loss) of subsidiaries	28,117	(6,446)	(84,508)
Net income (loss)	$ 33,462	$ (22,637)	$ (83,041)

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CONDENSED STATEMENTS OF CASH FLOWS (in thousands)	For the years ended December 31, 2011	2010	2009
Cash flows from operating activities:			
Net income (loss)	$ 33,462	$ (22,637)	$ (83,041)
Equity in undistributed earnings of subsidiaries	(28,117)	6,446	84,508
Stock-based compensation	257	301	372
Excess tax benefit from stock-based compensation		(9)	(5)
Change in other assets and liabilities	(7,452)	7,703	(6,221)
Net cash used in operating activities	(1,850)	(8,196)	(4,387)
Cash flows from investing activities:			
Net cash paid in earn-outs			(375)
Net advances to (repayments from) subsidiaries	8,649	7,495	(67,523)
Other	(49)	(31)	7
Net cash provided by (used in) investing activities	8,600	7,464	(67,891)
Cash flows from financing activities:			
Proceeds from issuance of common stock, net	468	735	56,340
Proceeds from the issuance of preferred stock, net	57,337		
Redemption of preferred stock	(64,450)		
Dividends paid on common stock	(1,472)	(1,470)	(2,597)
Dividends paid on preferred stock	(2,394)	(3,222)	(2,919)
Excess tax benefit from stock-based compensation		9	5
Other			(56)
Net cash provided by (used in) financing activities	(10,511)	(3,948)	50,773
Net decrease increase in cash and cash equivalents	(3,761)	(4,680)	(21,505)
Cash and cash equivalents beginning of year	28,781	33,461	54,966
Cash and cash equivalents end of year	$ 25,020	$ 28,781	$ 33,461

20. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The table below sets forth unaudited financial information for each quarter of the last two years:

(in thousands)	December 31, 2011 (1)	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010 (2)	September 30, 2010	June 30, 2010	March 31, 2010
Interest income	$ 27,284	$ 27,612	$ 28,177	$ 28,191	$ 28,252	$ 28,550	$ 29,258	$ 29,919
Interest expense	3,432	3,638	3,846	3,947	4,234	4,663	5,085	5,166
Net interest income	23,852	23,974	24,331	24,244	24,018	23,887	24,173	24,753
Income (loss) before income taxes	9,942	6,795	5,886	5,185	3,687	(1,663)	(5,969)	(8,455)
Net income (loss)	21,954	4,443	3,839	3,226	(12,274)	(1,897)	(3,769)	(4,697)
Earnings (loss) per share basic	$ 0.57	$ 0.05	$ 0.08	$ 0.06	$ (0.36)	$ (0.08)	$ (0.13)	$ (0.15)
Earnings (loss) per share diluted	$ 0.57	$ 0.05	$ 0.08	$ 0.06	$ (0.36)	$ (0.08)	$ (0.13)	$ (0.15)

(1) Net income for the fourth quarter of 2011 includes a $15.6 million benefit from the reversal of a deferred tax valuation allowance.

(2) Net loss for the fourth quarter of 2010 includes a $15.6 million provision for the recording of a deferred tax valuation allowance.