

COBIZ FINANCIAL INC
Form 10-Q
October 24, 2014
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2014.

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

Commission File
Number 001-15955

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

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

821
17th
Street

80202

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Denver,
CO
(Address (Zip Code)
of
principal
executive
offices)

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

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

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company

(do not check if a smaller reporting company)

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

Yes No

There were 40,694,556 shares of the registrant’s Common Stock, \$0.01 par value per share, outstanding at October 22, 2014.

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Part I. Financial Information

Item 1. Condensed Consolidated Financial Statements (unaudited)

CoBiz Financial Inc. and Subsidiaries

Condensed Consolidated Balance Sheets (unaudited)

At September 30, 2014 and December 31, 2013

(in thousands, except share and per share amounts)	September 30, 2014	December 31, 2013
Assets		
Cash and due from banks	\$ 59,233	\$ 53,359
Interest-bearing deposits and federal funds sold	34,500	22,669
Total cash and cash equivalents	93,733	76,028
Investment securities available for sale (cost of \$461,300 and \$526,908, respectively)	473,446	535,133
Investment securities held to maturity (fair value of \$13,834 and \$12,715, respectively)	13,311	13,266
Other investments	13,769	8,397
Total investments	500,526	556,796
Loans - net of allowance for loan losses of \$33,682 and \$37,050, respectively	2,323,387	2,047,309
Intangible assets - net of amortization of \$6,047 and \$5,600, respectively	2,676	2,798
Bank-owned life insurance	47,678	43,768
Premises and equipment - net of depreciation of \$37,324 and \$35,705, respectively	7,484	6,034
Accrued interest receivable	9,776	8,770
Deferred income taxes, net	20,664	26,506
Other real estate owned - net of valuation allowance of \$8,850 and \$8,674, respectively	3,750	5,097
Other	19,190	27,585
TOTAL ASSETS	\$ 3,028,864	\$ 2,800,691
Liabilities		
Deposits		
Noninterest-bearing demand	\$ 1,001,921	\$ 961,705
Interest-bearing demand	509,352	487,037
Money market	619,377	572,175
Savings	19,091	12,803
Certificates of deposits	216,635	245,317
Total deposits	2,366,376	2,279,037
Securities sold under agreements to repurchase	76,041	138,494
Other short-term borrowings	185,753	-
Accrued interest and other liabilities	25,798	29,909
Junior subordinated debentures	72,166	72,166

TOTAL LIABILITIES	2,726,134	2,519,606
Commitments and contingencies		
Shareholders' Equity		
Preferred stock, \$.01 par value; 2,000,000 shares authorized; 57,366 issued and outstanding (\$57,366 liquidation value)	1	1
Common stock, \$.01 par value; 100,000,000 shares authorized; 40,691,039 and 40,368,008 issued and outstanding, respectively	400	397
Additional paid-in capital	243,628	240,660
Accumulated earnings	53,807	37,297
Accumulated other comprehensive income (AOCI), net of income tax of \$3,001 and \$1,673, respectively	4,894	2,730
TOTAL SHAREHOLDERS' EQUITY	302,730	281,085
TOTAL LIABILITIES AND EQUITY	\$ 3,028,864	\$ 2,800,691
See Notes to Condensed Consolidated Financial Statements		

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CoBiz Financial Inc. and Subsidiaries

Condensed Consolidated Statements of Income (unaudited)

For the three and nine months ended September 30, 2014 and 2013

(in thousands, except per share amounts)	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
INTEREST INCOME:				
Interest and fees on loans	\$ 25,452	\$ 22,826	\$ 72,598	\$ 66,522
Interest and dividends on investment securities:				
Taxable securities	3,493	4,020	11,461	12,330
Nontaxable securities	74	7	196	15
Dividends on securities	163	85	380	233
Interest on federal funds sold and other	23	23	71	73
Total interest income	29,205	26,961	84,706	79,173
INTEREST EXPENSE:				
Interest on deposits	970	1,130	2,915	3,562
Interest on short-term borrowings and securities sold under agreements to repurchase	134	120	388	365
Interest on subordinated debentures (includes derivative reclassifications from AOCI of \$319 and \$538, for the quarterly periods and \$992 and \$1,616, for the year-to-date periods)	1,039	1,336	3,083	4,321
Total interest expense	2,143	2,586	6,386	8,248
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	27,062	24,375	78,320	70,925
Provision for loan losses	(452)	(1,554)	(3,281)	(4,209)
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	27,514	25,929	81,601	75,134
NONINTEREST INCOME:				
Service charges	1,424	1,359	4,194	4,039
Investment advisory income	1,418	1,306	4,282	3,713
Insurance income	2,622	2,862	8,278	8,582
Investment banking income	2,359	689	4,040	1,331
Other income	1,916	1,543	3,663	4,995
Total noninterest income	9,739	7,759	24,457	22,660
NONINTEREST EXPENSE:				
Salaries and employee benefits	17,700	17,067	51,204	47,765
Occupancy expenses, premises and equipment	3,288	3,289	9,984	9,748
Amortization of intangibles	147	152	447	511
FDIC and other assessments	373	403	1,263	1,281
Other real estate owned and loan workout costs	283	91	848	379
Net gain on securities, other assets and other real estate owned (includes available for sale security reclassifications from AOCI of \$6 and \$28, for the quarterly periods and \$(1,164) and \$(461), for the year-to-date	(598)	(319)	(2,428)	(1,439)

periods)				
Other expense	3,854	3,131	11,108	9,744
Total noninterest expense	25,047	23,814	72,426	67,989
INCOME BEFORE INCOME TAXES	12,206	9,874	33,632	29,805
Provision for income taxes (includes provision from AOCI reclassification items of \$124 and \$215, for the quarterly periods and \$(64) and \$439, for the year-to-date periods)	4,315	2,849	11,607	9,642
NET INCOME FROM CONTINUING OPERATIONS	7,891	7,025	22,025	20,163
DISCONTINUED OPERATIONS:				
Income from discontinued operations	-	-	-	259
Provision for income taxes	-	-	-	86
Net income from discontinued operations	-	-	-	173
NET INCOME	\$ 7,891	\$ 7,025	\$ 22,025	\$ 20,336
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	\$ 7,747	\$ 6,881	\$ 21,595	\$ 19,535
EARNINGS PER COMMON SHARE:				
Basic	\$ 0.19	\$ 0.17	\$ 0.53	\$ 0.49
Diluted	\$ 0.19	\$ 0.17	\$ 0.53	\$ 0.49
See Notes to Condensed Consolidated Financial Statements				

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CoBiz Financial Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (unaudited)

For the three and nine months ended September 30, 2014 and 2013

(in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Net income	\$ 7,891	\$ 7,025	\$ 22,025	\$ 20,336
Other comprehensive income items:				
Unrealized gain (loss) on available for sale securities	(924)	(954)	5,085	(8,923)
Reclassification to operations	6	28	(1,164)	(461)
Unrealized gain (loss) on derivatives	(241)	(91)	(1,421)	2,684
Reclassification to operations	319	538	992	1,616
Total other comprehensive income items	(840)	(479)	3,492	(5,084)
Income tax provision:				
Unrealized gain (loss) on available for sale securities	(351)	(362)	1,932	(3,391)
Reclassification to operations	3	11	(441)	(175)
Unrealized gain (loss) on derivatives	(92)	(35)	(540)	1,020
Reclassification to operations	121	204	377	614
Total income tax provision	(319)	(182)	1,328	(1,932)
Other comprehensive income (loss), net of tax	(521)	(297)	2,164	(3,152)
Comprehensive income	\$ 7,370	\$ 6,728	\$ 24,189	\$ 17,184

See Notes to Condensed Consolidated Financial Statements

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CoBiz Financial Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows (unaudited)

For the nine months ended September 30, 2014 and 2013

(in thousands)	Nine months ended September 30, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 22,025	\$ 20,336
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization on investment securities	1,664	2,749
Depreciation and amortization	2,506	2,808
Accretion of net loan fees	(1,254)	(995)
Provision for loan and credit losses	(3,281)	(4,209)
Stock-based compensation	2,440	2,191
Federal Home Loan Bank stock dividend	(201)	(58)
Deferred income taxes	3,971	4,693
Bank-owned life insurance	(928)	(952)
Net gain on securities, other assets and other real estate owned	(2,428)	(1,439)
Other operating activities, net	(351)	(1,711)
Changes in operating assets and liabilities:		
Prepaid FDIC insurance	-	1,365
Accrued interest and other liabilities	(2,142)	(4,589)
Accrued interest receivable	(1,006)	(904)
Other assets	(352)	-
Net cash provided by operating activities	20,663	19,285
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of other investments	(16,619)	(2,728)
	13,031	3,023

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Proceeds from other investments		
Purchase of investment securities available for sale	(12,128)	(132,287)
Maturity of investment securities available for sale	70,113	117,943
Proceeds from sale of investment securities available for sale	11,590	-
Purchase of investment securities held to maturity	-	(7,765)
Maturity of investment securities held to maturity	28	23
Restricted cash	-	4,540
Net proceeds from sale of loans, OREO and repossessed assets	11,951	12,266
Loan originations and repayments, net	(280,035)	(130,665)
Purchase of premises and equipment	(3,774)	(1,443)
Purchase of bank-owned life insurance	(3,335)	-
Acquisition of client relationships	(250)	-
Other investing activities, net	370	11
Net cash used in investing activities	(209,058)	(137,082)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand, NOW, money market, and savings accounts	116,021	140,213
Net decrease in certificates of deposits	(28,682)	(280)
Net increase in short-term borrowings	185,753	-
Net increase (decrease) in securities sold under agreements to repurchase	(62,453)	36,301
Redemption of subordinated unsecured promissory notes	-	(20,984)
Proceeds from issuance of common stock, net	892	1,389
Dividends paid on common stock	(4,462)	(3,610)
Dividends paid on preferred stock	(430)	(1,322)
Other financing activities, net	(539)	(106)
	206,100	151,601

Net cash provided by
financing activities

NET INCREASE IN CASH AND CASH EQUIVALENTS	17,705	33,804
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	76,028	65,893
CASH AND CASH EQUIVALENTS, END OF PERIOD	93,733	99,697
	\$	\$

See Notes to Condensed Consolidated Financial Statements

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CoBiz Financial Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

1. Nature of Operations and Significant Accounting Policies

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

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

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

Basis of Presentation —These financial statements and notes thereto should be read in conjunction with, and are qualified in their entirety by, the Company’s Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the U.S. Securities and Exchange Commission (SEC).

The Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting only of normally recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2014, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2014.

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

The voting interest model is used when the equity investment is sufficient to absorb the expected losses and the equity investment has all of the characteristics of a controlling financial interest. Under the voting interest model, the party with the controlling voting interest consolidates the legal entity. The VIE model is used when any of the following conditions exist: the equity investment at risk is not sufficient to finance the entity's activities without additional subordinated financial support; the holders of the equity investment do not have a controlling voting interest; or the holders of the equity investment are not obligated to absorb the expected losses or residual returns of the legal entity. An enterprise is considered to have a controlling financial interest of a VIE if it has both the power to direct the activities that most significantly impact economic performance and the obligation to absorb losses, or receive benefits, that are significant to the VIE. An enterprise that has a controlling financial interest is considered the primary beneficiary and must consolidate the VIE. The Company was not the primary beneficiary of a VIE at September 30, 2014 or December 31, 2013.

Certain reclassifications have been made to prior years' Condensed Consolidated Financial Statements and related notes to conform to current year presentation including the combination of our operating segments.

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

(in thousands)	Nine months ended September 30,	
	2014	2013
Cash paid during the period for:		
Interest	\$ 6,190	\$ 8,398
Income taxes	5,555	6,782
Other noncash activities:		
Loans transferred to held for sale	7,087	8,044
Loans transferred to OREO	2,659	211
Financed sales of OREO	-	1,000

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

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

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

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

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

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

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

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

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

Included in impaired loans are troubled debt restructurings. A troubled debt restructuring is a formal restructure of a loan where the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower. The concessions may be granted in various forms, including but not limited to reduction in the stated interest rate, reduction in the loan balance or accrued interest, or extension of the maturity date. Troubled debt restructurings are evaluated in accordance with ASC Topic 310-10-40, Troubled Debt Restructurings by Creditors. Interest payments on impaired loans are typically applied to principal unless collectability of principal is reasonably assured. Loans that have been modified in a formal restructuring are typically returned to accrual status when there has been a sustained period of performance (generally six months) under the modified terms, the borrower has shown the ability and willingness to repay and the Company expects to collect all amounts due under the modified terms.

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

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

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

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

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

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

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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.

2. Recent Accounting Pronouncements

In January 2014, the Financial Accounting Standard Board (FASB) issued Accounting Standard Update (ASU) No. 2014-04, Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40) – Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (ASU 2014-04). The amendments in ASU 2014-04 are intended to clarify when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate recognized. This ASU is effective for annual periods beginning after December 15, 2014 and interim periods beginning after December 15, 2015. The Company is currently evaluating the effects of ASU 2014-04 on its financial statements and disclosures, if any.

In April 2014, the FASB issued ASU No. 2014-08 Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360) – Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (ASU 2014-08). The amendments in ASU 2014-08 change the criteria for reporting discontinued operations and improve related disclosures. This ASU also addresses sources of confusion and inconsistent application related to financial reporting of discontinued operations guidance. ASU 2014-08 will be effective for annual financial statements with fiscal years beginning on or after December 31, 2014 and interim periods thereafter. The Company is currently evaluating the effects ASU 2014-08 will have on its financial statements and disclosures, if any.

In May 2014, the FASB issued ASU No. 2014-09 Revenue from Contracts with Customers (Topic 606) (ASU 2014-09). This update to the ASC is the culmination of efforts by the FASB and the International Accounting Standards Board (IASB) to develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards (IFRS). ASU 2014-09 supersedes Topic 605 – Revenue Recognition and most industry-specific guidance. The core principal of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in ASU 2014-09 describes a 5-step process entities can apply to achieve the core principle of revenue recognition and requires disclosures sufficient to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers and the significant judgments used in determining that information. The amendments in ASU 2014-9 are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period and early application is not allowed. The Company is currently evaluating the effects of

ASU 2014-04 on its financial statements and disclosures, if any.

In June 2014, the FASB issued ASU No. 2014-12, Compensation – Stock Compensation (Topic 718) –Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Services Period (ASU 2014-12). The amendments in ASU 2014-12 provide guidance for determining compensation cost under specific circumstances when an employee is eligible to vest in an award regardless of whether the employee is rendering service on the date the performance target is achieved. ASU 2014-12 becomes effective for annual and interim periods beginning after December 15, 2015 with early adoption permitted. The Company is currently evaluating the effects of ASU 2014-12 on its financial statements and disclosures, if any.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40) (ASU 2014-15). The amendments' objective of ASU 2014-15 is to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and provide related disclosures. Currently, GAAP does not provide guidance to evaluate whether there is substantial doubt the organization's ability to continue as a going concern. This ASU provides guidance to an organization's management, with principles and definitions to reduce diversity in the timing and content of disclosures commonly provided by organizations today in the financial statements footnotes. ASU 2014-15 is effective for periods ending after December 15, 2016 and interim periods within annual periods beginning after December 15, 2016. The Company does not believe the effects of ASU 2014-15 will have an impact on its financial statements and disclosures.

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

Earnings per common share is calculated based on the two-class method prescribed in ASC 260, Earnings per Share. The two-class method is an allocation of undistributed earnings to common stock and securities that participate in dividends with common stock. The Company's restricted stock awards are considered participating securities since the recipients receive non-forfeitable dividends on unvested awards. The impact of participating securities is included in common shareholder basic earnings per share for the three and nine months ended September 30, 2014 and 2013. Earnings per common share from discontinued operations was not material in the presented periods and have been excluded from the following table. Income allocated to common shares and weighted average shares outstanding used in the calculation of basic and diluted earnings per share are as follows:

(in thousands, except share amounts)	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Net income from continuing operations	\$ 7,891	\$ 7,025	\$ 22,025	\$ 20,163
Net income from discontinued operations	-	-	-	173
Net income	7,891	7,025	22,025	20,336
Preferred stock dividends	(144)	(144)	(430)	(801)
Net income available to common shareholders	7,747	6,881	21,595	19,535
Dividends and undistributed earnings allocated to participating securities	(123)	(118)	(351)	(338)
Earnings allocated to common shares (1)	\$ 7,624	\$ 6,763	\$ 21,244	\$ 19,197
Weighted average common shares - issued	40,665,177	40,278,153	40,580,395	40,144,621
Average unvested restricted share awards	(640,415)	(706,047)	(657,988)	(737,345)
Weighted average common shares outstanding - basic	40,024,762	39,572,106	39,922,407	39,407,276
Effect of dilutive stock options and awards outstanding	203,041	165,765	192,103	155,991
Weighted average common shares outstanding - diluted	40,227,803	39,737,871	40,114,510	39,563,267
Weighted average antidilutive securities outstanding (2)	328,225	1,668,442	792,925	1,823,651
Basic earnings per common share	\$ 0.19	\$ 0.17	\$ 0.53	\$ 0.49
Diluted earnings per common share	\$ 0.19	\$ 0.17	\$ 0.53	\$ 0.49
Dividends declared per share	\$ 0.04	\$ 0.03	\$ 0.11	\$ 0.09

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

(2) Antidilutive securities excluded from the diluted earnings per share computation.

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4. Investments

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

(in thousands)	At September 30, 2014				At December 31, 2013			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available for sale securities (AFS):								
Mortgage-backed securities	\$ 289,417	\$ 7,863	\$ 517	\$ 296,763	\$ 326,555	\$ 7,467	\$ 811	\$ 333,211
Trust preferred securities	57,923	2,777	337	60,363	82,768	1,250	1,694	82,324
Corporate debt securities	99,431	2,390	265	101,556	108,862	3,088	968	110,982
Municipal securities	14,529	245	10	14,764	8,723	8	115	8,616
Total AFS	\$ 461,300	\$ 13,275	\$ 1,129	\$ 473,446	\$ 526,908	\$ 11,813	\$ 3,588	\$ 535,133
Held to maturity securities (HTM):								
Mortgage-backed securities	\$ 147	\$ 2	\$ -	\$ 149	\$ 175	\$ 6	\$ -	\$ 181
Trust preferred securities	13,164	521	-	13,685	13,091	-	557	12,534
Total HTM	\$ 13,311	\$ 523	\$ -	\$ 13,834	\$ 13,266	\$ 6	\$ 557	\$ 12,715

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

Three months ended	Nine months ended September 30,
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	September 30,			
(in thousands)	2014	2013	2014	2013
Proceeds	\$ -	\$ -	\$ 11,590	\$ -
Gains	-	27	1,240	544
Losses	(6)	(55)	(76)	(83)

The amortized cost and fair value of investments in debt securities at September 30, 2014, 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.

(in thousands)	Available for sale		Held to maturity	
	Amortized cost	Fair value	Amortized cost	Fair value
Due in one year or less	\$ 23,915	\$ 24,262	\$ -	\$ -
Due after one year through five years	60,246	62,073	-	-
Due after five years through ten years	29,233	29,413	-	-
Due after ten years	58,489	60,935	13,164	13,685
Mortgage-backed securities	289,417	296,763	147	149
	\$ 461,300	\$ 473,446	\$ 13,311	\$ 13,834

The Company uses investment securities to collateralize public deposits. At September 30, 2014 investment securities with an approximate fair value of \$145.7 million were used to partially collateralize public deposits of \$158.2 million. At December 31, 2013 investment securities with an approximate fair value of \$138.8 million were used to fully collateralize public deposits of \$106.4 million. Securities sold under agreements to repurchase of \$76.0 million and \$138.5 million at September 30, 2014 and December 31, 2013, respectively, consisted primarily of MBS with an estimated fair value of \$89.2 million and \$162.8 million, respectively.

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

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

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

During the three and nine months ended September 30, 2014 and 2013, the Company did not have any credit impaired securities.

There were 26 and 44 securities in the tables below at September 30, 2014 and December 31, 2013, respectively, in an unrealized loss position.

(in thousands)	At September 30, 2014					
	Less than 12 months		12 months or greater		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
AFS						
Mortgage-backed securities	\$ 16,714	\$ 57	\$ 27,424	\$ 460	\$ 44,138	\$ 517
Trust preferred securities	7,100	100	6,305	237	13,405	337
Corporate debt securities	6,977	89	4,857	176	11,834	265
Municipal securities	1,415	10	-	-	1,415	10
Total AFS	\$ 32,206	\$ 256	\$ 38,586	\$ 873	\$ 70,792	\$ 1,129

(in thousands)	At December 31, 2013					
	Less than 12 months		12 months or greater		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
AFS						
Mortgage-backed securities	\$ 52,509	\$ 811	\$ -	\$ -	\$ 52,509	\$ 811
Trust preferred securities	49,934	1,599	1,903	95	51,837	1,694

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Corporate debt securities	20,609	938	4,970	30	25,579	968
Municipal securities	7,787	115	-	-	7,787	115
Total AFS	\$ 130,839	\$ 3,463	\$ 6,873	\$ 125	\$ 137,712	\$ 3,588

HTM

Trust preferred securities	\$ 12,534	\$ 557	\$ -	\$ -	\$ 12,534	\$ 557
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Other investments at September 30, 2014 and December 31, 2013, consist of the following:

	At September 30, 2014	At December 31, 2013
(in thousands)		
Bank stocks — at cost	\$ 11,597	\$ 6,225
Investment in statutory trusts — equity method	2,172	2,172
Total	\$ 13,769	\$ 8,397

Bank stocks consist primarily of stock in the FHLB which is part of the Federal Home Loan Bank 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 September 30, 2014, did not consider the investment to be other-than-temporarily impaired.

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5. Loans

The following disclosure reports the Company's loan portfolio segments and classes. Segments are groupings of similar loans at a level which the Company has adopted systematic methods of documentation for determining its allowance for loan and credit losses. Classes are a disaggregation of the portfolio segments. In the first quarter of 2014, the Company combined its land acquisition and development and real estate construction loan segments into a single segment called Construction and land. Prior period balances were adjusted to conform to the current presentation. 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.
- Construction and land – The Company originates loans to finance construction projects including one- to four-family residences, multifamily residences, commercial office, senior housing, and industrial projects. Residential construction loans are due upon the sale of the completed project and are generally collateralized by first liens on the real estate and have floating interest rates. Construction loans are considered to have higher risks due to construction completion and timing risk, and the ultimate repayment being sensitive to interest rate changes, governmental regulation of real property and the availability of long-term financing. Additionally, economic conditions may impact the Company's ability to recover its investment in construction loans. Adverse economic conditions may negatively impact the real estate market which could affect the borrowers' ability to complete and sell the project. Additionally, the fair value of the underlying collateral may fluctuate as market conditions change. The Company also originates loans for the acquisition and future development of land for residential building projects, as well as finished lots prepared to enter the construction phase. The primary risks include the borrower's inability to pay and the inability of the Company to recover its investment due to a decline in the fair value of the underlying collateral.

- Consumer loans – The Company provides a broad range of consumer loans to customers, including personal lines of credit, home equity loans, jumbo mortgage loans and automobile loans. Repayment of these loans is dependent on the borrowers' ability to pay and the fair value of the underlying collateral.
- Other loans – Other loans include lending products, such as taxable and tax-exempt leasing, not defined as commercial, real estate, construction and land, or consumer loans.

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The loan portfolio segments at September 30, 2014 and December 31, 2013 were as follows:

	At	At
	September	December
(in thousands)	30, 2014	31, 2013
Commercial	\$ 962,838	\$ 825,530
Real estate - mortgage	965,016	901,721
Construction & land	183,035	128,670
Consumer	202,399	181,067
Other	45,389	49,394
Loans held for investment	2,358,677	2,086,382
Allowance for loan losses	(33,682)	(37,050)
Unearned net loan fees	(1,608)	(2,023)
Total net loans	\$ 2,323,387	\$ 2,047,309

The Company uses qualifying loans as collateral for advances and a line of credit from the FHLB. The FHLB line of credit, which had a \$166.0 million balance outstanding at September 30, 2014, was collateralized by loans of \$844.2 million with a lending value of \$537.5 million.

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

The loan portfolio showing total non-classified and classified balances by loan class at September 30, 2014 and December 31, 2013 is summarized below:

(in thousands)	At September 30, 2014		
	Non-classified	Classified	Total
Commercial			
Manufacturing	\$ 128,495	\$ 4,403	\$ 132,898
Finance and insurance	81,747	226	81,973
Healthcare	87,829	145	87,974
Real estate services	108,162	1,585	109,747
Construction	56,859	4,200	61,059
Wholesale and retail trade	76,536	3,767	80,303
Other	406,527	2,357	408,884
	946,155	16,683	962,838
Real estate - mortgage			
Residential & commercial owner-occupied	462,513	13,780	476,293
Residential & commercial investor	487,274	1,449	488,723
	949,787	15,229	965,016
Construction & land	181,757	1,278	183,035
Consumer	199,146	3,253	202,399
Other	45,298	91	45,389
Total loans held for investment	\$ 2,322,143	\$ 36,534	\$ 2,358,677
Unearned net loan fees			(1,608)
Net loans held for investment			\$ 2,357,069

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(in thousands)	At December 31, 2013		
	Non-classified	Classified	Total
Commercial			
Manufacturing	\$ 101,114	\$ 4,582	\$ 105,696
Finance and insurance	76,589	517	77,106
Healthcare	99,526	639	100,165
Real estate services	98,691	1,591	100,282
Construction	51,616	1,695	53,311
Wholesale and retail trade	69,167	1,937	71,104
Other	313,862	4,004	317,866
	810,565	14,965	825,530
Real estate - mortgage			
Residential & commercial owner-occupied	436,479	16,500	452,979
Residential & commercial investor	441,186	7,556	448,742
	877,665	24,056	901,721
Construction & land	122,637	6,033	128,670
Consumer	179,645	1,422	181,067
Other	49,394	-	49,394
Total loans held for investment	\$ 2,039,906	\$ 46,476	\$ 2,086,382
Unearned net loan fees			(2,023)
Net loans held for investment			\$ 2,084,359

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Transactions in the allowance for loan losses by segment for the three and nine months ended September 30, 2014 and 2013 are summarized below:

(in thousands)	Three months ended		Nine months ended	
	September 30, 2014	2013	September 30, 2014	2013
Allowance for loan losses, beginning of period				
Commercial	\$ 13,831	\$ 14,564	\$ 14,103	\$ 13,448
Real estate - mortgage	13,254	17,124	14,919	17,832
Construction & land	2,626	5,847	3,346	9,893
Consumer	2,472	2,714	2,471	3,061
Other	432	538	479	451
Unallocated	1,307	2,445	1,732	2,181
Total	33,922	43,232	37,050	46,866
Provision				
Commercial	\$ 1,406	\$ 138	\$ 2,273	\$ 651
Real estate - mortgage	(1,021)	(449)	(2,909)	236
Construction & land	(761)	(970)	(2,048)	(4,899)
Consumer	86	90	42	(187)
Other	(3)	13	(55)	102
Unallocated	(159)	(376)	(584)	(112)
Total	(452)	(1,554)	(3,281)	(4,209)
Charge-offs				
Commercial	\$ (200)	\$ (250)	\$ (1,648)	\$ (438)
Real estate - mortgage	-	(147)	(52)	(2,007)
Construction & land	(16)	-	(54)	(632)
Consumer	(2)	(3)	(10)	(104)
Other	(4)	-	(5)	(2)
Total	(222)	(400)	(1,769)	(3,183)
Recoveries				
Commercial	\$ 72	\$ 144	\$ 381	\$ 935
Real estate - mortgage	58	85	333	552
Construction & land	300	297	905	812
Consumer	2	6	55	37
Other	2	-	8	-
Total	434	532	1,682	2,336
Allowance for loan losses, end of period				
Commercial	\$ 15,109	\$ 14,596	\$ 15,109	\$ 14,596
Real estate - mortgage	12,291	16,613	12,291	16,613
Construction & land	2,149	5,174	2,149	5,174
Consumer	2,558	2,807	2,558	2,807

Other	427	551	427	551
Unallocated	1,148	2,069	1,148	2,069
Total	\$ 33,682	\$ 41,810	\$ 33,682	\$ 41,810

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

- Specific Reserves – The Company continuously evaluates its reserve for loan losses to maintain an adequate level to absorb loan losses incurred in the loan portfolio. Reserves on loans identified as impaired, including

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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, troubled debt restructurings are subject to impairment evaluation on a loan-by-loan basis.

For collateral dependent loans that have been specifically identified as impaired, the Company measures fair value based on third-party appraisals, adjusted for estimated costs to sell the property. Upon impairment, the Company will obtain a new appraisal if one had not been previously obtained in the last 6-12 months. For credits over \$2.0 million, the Company engages an additional third-party appraiser to review the appraisal. For credits under \$2.0 million, the Company's internal appraisal department reviews the appraisal. All appraisals are reviewed for reasonableness based on recent sales transactions that may have occurred subsequent to or right at the time of the appraisal. Based on this analysis the appraised value may be adjusted downward if there is evidence that the appraised value may not be indicative of fair value. Each appraisal is updated on an annual basis, either through a new appraisal or through the Company's comprehensive internal review process.

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

· General Reserves – General reserves are considered part of the allocated portion of the 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 probable incurred losses within the portfolio. In evaluating the adequacy of the ALL, management considers historical losses (Migration), as well as other factors including changes in:

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

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

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

In addition to the allocated reserve for graded loans, a portion of the 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, and land acquisition and development loans.

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

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

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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.

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

(in thousands)	At September 30, 2014				At December 31, 2013			
	Individually evaluated for impairment		Collectively evaluated for impairment		Individually evaluated for impairment		Collectively evaluated for impairment	
	Loans held for investment	Allowance for loan losses	Loans held for investment	Allowance for loan losses	Loans held for investment	Allowance for loan losses	Loans held for investment	Allowance for loan losses
Commercial	\$ 22,150	\$ 3,638	\$ 940,288	\$ 11,471	\$ 17,454	\$ 2,140	\$ 806,999	\$ 11,963
Real estate - mortgage	18,533	767	945,567	11,524	25,501	2,371	875,363	12,548
Construction & land	5,015	316	177,273	1,833	10,454	932	117,498	2,414
Consumer	1,205	187	201,209	2,371	807	174	180,249	2,297
Other	91	6	45,738	421	-	-	50,034	479
Unallocated	-	-	-	1,148	-	-	-	1,732
Total	\$ 46,994	\$ 4,914	\$ 2,310,075	\$ 28,768	\$ 54,216	\$ 5,617	\$ 2,030,143	\$ 31,433

Information on impaired loans at September 30, 2014 and December 31, 2013 is reported in the following tables:

(in thousands)	At September 30, 2014				
	Unpaid principal balance	Recorded investment in impaired loans(1)	Recorded investment with a related allowance	Recorded investment with no related allowance	Related allowance
Commercial					
Manufacturing	\$ 6,827	\$ 5,756	\$ 5,692	\$ 64	\$ 710
Finance and insurance	226	226	226	-	66
Healthcare	145	145	145	-	11
Real estate services	7,696	7,696	7,696	-	713

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Construction	2,416	2,416	2,326	90	294
Wholesale and retail trade	3,455	3,455	3,123	332	1,420
Other	2,655	2,456	2,267	189	424
	23,420	22,150	21,475	675	3,638
Real estate - mortgage					
Residential & commercial owner-occupied	4,936	4,922	1,646	3,276	592
Residential & commercial investor	4,923	4,923	4,923	-	175
	9,859	9,845	6,569	3,276	767
Construction & land	4,136	4,103	3,395	708	316
Consumer	1,205	1,205	765	440	187
Other	91	91	91	-	6
Total	\$ 38,711	\$ 37,394	\$ 32,295	\$ 5,099	\$ 4,914

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	At December 31, 2013				
(in thousands)	Unpaid principal balance	Recorded investment in impaired loans(1)	Recorded investment with a related allowance	Recorded investment with no related allowance	Related allowance
Commercial					
Manufacturing	\$ 4,887	\$ 4,859	\$ 4,797	\$ 62	\$ 479
Finance and insurance	517	517	517	-	106
Healthcare	236	236	236	-	23
Real estate services	7,473	7,473	7,473	-	505
Construction	1,708	1,708	1,613	95	222
Wholesale and retail trade	294	248	97	151	59
Other	2,418	2,413	2,215	198	746
	17,533	17,454	16,948	506	2,140
Real estate - mortgage					
Residential & commercial owner-occupied	6,468	5,967	2,524	3,443	709
Residential & commercial investor	11,058	10,518	8,357	2,161	1,662
	17,526	16,485	10,881	5,604	2,371
Construction & land	10,279	8,877	4,557	4,320	932
Consumer	807	807	807	-	174
Total	\$ 46,145	\$ 43,623	\$ 33,193	\$ 10,430	\$ 5,617

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

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

(in thousands)	Impaired loans							
	Three months ended September 30,				Nine months ended September 30,			
	2014		2013		2014		2013	
	Average recorded	Interest income	Average recorded	Interest income	Average recorded	Interest income	Average recorded	Interest income
Commercial								
Manufacturing	\$ 4,297	\$ 113	\$ 4,744	\$ 70	\$ 3,840	\$ 198	\$ 5,106	\$ 233
Finance and insurance	227	2	649	8	349	11	706	24
Healthcare	183	6	256	3	217	11	269	10
Real estate services	7,510	65	8,445	84	5,878	190	8,195	229
Construction	1,491	60	2,152	170	1,407	92	2,867	226
Wholesale and retail trade	1,540	97	350	3	653	118	397	13
Other	2,417	59	1,578	8	2,723	120	1,871	26
	17,665	402	18,174	346	15,067	740	19,411	761
Real estate - mortgage								
Residential & commercial owner-occupied	4,946	11	8,745	23	5,795	72	10,044	92
Residential & commercial investor	4,935	41	10,965	44	5,875	207	12,782	233
	9,881	52	19,710	67	11,670	279	22,826	325
Construction & land	5,022	40	7,869	178	6,597	126	8,997	407
Consumer	1,060	17	1,163	11	889	37	1,277	37
Other	91	-	-	-	40	1	-	-
Total	\$ 33,719	\$ 511	\$ 46,916	\$ 602	\$ 34,263	\$ 1,183	\$ 52,511	\$ 1,530

The table below summarizes transactions as it relates to troubled debt restructurings during the nine months ended September 30, 2014:

(in thousands)	Performing	Nonperforming	Total
Beginning balance at December 31, 2013	\$ 29,683	\$ 12,010	\$ 41,693
New restructurings	10,402	631	11,033
Change in accrual status	(3,222)	3,222	-
Paydowns	(7,742)	(10,716)	(18,458)

Net charge-offs	-	(436)	(436)
Ending balance at September 30, 2014	\$ 29,121	\$ 4,711	\$ 33,832

The below table provides information regarding troubled debt restructurings that occurred during the three and nine months ended September 30, 2014 and 2013. Pre-modification outstanding recorded investment reflects the Company's recorded investment immediately before the modification. Post-modification outstanding recorded investment represents the Company's recorded investment at the end of the reporting period. The table below does not include loans restructured and paid-off during the periods presented.

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(\$ in thousands)	Three months ended September 30, 2014			Three months ended September 30, 2013		
	Number of contracts	Pre-modification	Post-modification	Number of contracts	Pre-modification	Post-modification
		outstanding recorded investment	outstanding recorded investment		outstanding recorded investment	outstanding recorded investment
Commercial						
Manufacturing	4	\$ 1,949	\$ 1,943	1	\$ 160	\$ 135
Real estate services	2	283	150	-	-	-
Construction	1	1,750	1,625	1	63	63
Wholesale and retail trade	2	1,135	1,135	-	-	-
Other	2	389	378	2	585	447
	11	5,506	5,231	4	808	645
Real estate - mortgage Residential & commercial owner-occupied	1	29	29	-	-	-
Construction & land	-	-	-	1	2,615	2,615
Consumer	1	458	440	-	-	-
Total	13	\$ 5,993	\$ 5,700	5	\$ 3,423	\$ 3,260

(\$ in thousands)	Nine months ended September 30, 2014			Nine months ended September 30, 2013		
	Number of contracts	Pre-modification	Post-modification	Number of contracts	Pre-modification	Post-modification
		outstanding recorded investment	outstanding recorded investment		outstanding recorded investment	outstanding recorded investment
Commercial						
Manufacturing	4	\$ 1,949	\$ 1,943	1	\$ 160	\$ 135
Real estate services	2	283	150	-	-	-
Construction	3	2,050	1,945	2	113	83
Wholesale and retail trade	3	1,182	1,174	-	-	-
Other	6	916	796	6	936	758
	18	6,380	6,008	9	1,209	976
Real estate - mortgage Residential and commercial owner-occupied	1	29	29	4	3,221	3,118
Construction & land	1	121	102	1	2,615	2,615
Consumer	1	458	440	1	24	22
Other	1	91	91	-	-	-

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Total	22	\$ 7,079	\$ 6,670	15	\$ 7,069	\$ 6,731
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Troubled debt restructurings during the three and nine months ended September 30, 2014 resulted primarily from the extension of repayment terms and interest rate reductions. The Company had no charge-offs in conjunction with loans restructured during the three and nine months ended September 30, 2014 and 2013.

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Troubled loans restructured within the past 12 months with a payment default during the nine months ended September 30, 2014 were immaterial. There were no such loans for the nine months ended September 30, 2013.

At September 30, 2014 and December 31, 2013 there were \$2.8 million and \$1.9 million in outstanding commitments on restructured loans, respectively.

The Company's nonaccrual loans by class at September 30, 2014 and December 31, 2013 are reported in the following table:

(in thousands)	At	
	September 30, 2014	December 31, 2013
Commercial		
Manufacturing	\$ 261	\$ 79
Finance and insurance	53	63
Real estate services	243	-
Construction	172	201
Wholesale and retail trade	2,320	206
Other	516	781
Total commercial	3,565	1,330
Real estate - mortgage		
Residential & commercial owner-occupied	3,957	5,020
Residential & commercial investor	-	5,484
Total real estate - mortgage	3,957	10,504
Construction & land	136	1,986
Consumer	524	101
Other	91	-
Total nonaccrual loans	\$ 8,273	\$ 13,921

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The following table summarizes the aging of the Company's loan portfolio at September 30, 2014 and December 31, 2013. At September 30, 2014 there was no recorded investment on loans 90 days or more past due and accruing interest.

(in thousands)	At September 30, 2014			Total past due	Current	Total loans
	30 - 59 Days past due	60 - 89 Days past due	90+ Days past due			
Commercial						
Manufacturing	\$ 48	\$ 16	\$ 184	\$ 248	\$ 132,650	\$ 132,898
Finance and insurance	-	-	-	-	81,973	81,973
Healthcare	-	-	-	-	87,974	87,974
Real estate services	-	-	-	-	109,747	109,747
Construction	60	89	-	149	60,910	61,059
Wholesale and retail trade	6,049	-	-	6,049	74,254	80,303
Other	50	-	-	50	408,834	408,884
	6,207	105	184	6,496	956,342	962,838
Real estate - mortgage						
Residential & commercial owner-occupied	-	-	-	-	476,293	476,293
Residential & commercial investor	-	-	-	-	488,723	488,723
	-	-	-	-	965,016	965,016
Construction & land	-	-	104	104	182,931	183,035
Consumer	93	1,934	-	2,027	200,372	202,399
Other	-	91	-	91	45,298	45,389
Total loans held for investment	\$ 6,300	\$ 2,130	\$ 288	\$ 8,718	\$ 2,349,959	\$ 2,358,677
Unearned net loan fees						(1,608)
Net loans held for investment						\$ 2,357,069

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(in thousands)	At December 31, 2013				Current	Total loans	Recorded investment in loans 90 days or more past due and accruing
	30 - 59 Days past due	60 - 89 Days past due	90+ Days past due	Total past due			
Commercial							
Manufacturing	\$ -	\$ -	\$ -	\$ -	\$ 105,696	\$ 105,696	\$ -
Finance and insurance	-	-	-	-	77,106	77,106	-
Healthcare	259	-	-	259	99,906	100,165	-
Real estate services	24	-	-	24	100,258	100,282	-
Construction	-	-	19	19	53,292	53,311	19
Wholesale and retail trade	-	-	100	100	71,004	71,104	-
Other	727	324	-	1,051	316,815	317,866	-
	1,010	324	119	1,453	824,077	825,530	19
Real estate - mortgage Residential & commercial owner-occupied	-	-	913	913	452,066	452,979	-
Residential & commercial investor	-	-	-	-	448,742	448,742	-
	-	-	913	913	900,808	901,721	-
Construction & land	816	-	1,951	2,767	125,903	128,670	-
Consumer	-	2	-	2	181,065	181,067	-
Other	-	-	-	-	49,394	49,394	-
Total loans held for investment	\$ 1,826	\$ 326	\$ 2,983	\$ 5,135	\$ 2,081,247	\$ 2,086,382	\$ 19
Unearned net loan fees						(2,023)	
Net loans held for investment						\$ 2,084,359	

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6. Borrowed Funds

During the second quarter of 2014, the Company entered into a revolving Line of Credit (LOC) agreement with an aggregate principal sum of up to \$20.0 million bearing interest at 1-month LIBOR plus 225 basis points (2.25%). The Company pays a quarterly commitment fee of 0.25% per annum on the unused portion of the line of credit. The line matures on May 15, 2015 at which time any outstanding amounts are due and payable. Proceeds from the line will be used for general corporate purposes and backup liquidity. Although the credit facility is unsecured, the Company has agreed not to sell, pledge or transfer any part of its right, title or interest in CoBiz Bank. At September 30, 2014, there was no amount outstanding on the revolving line.

The Company has a LOC with the FHLB. At September 30, 2014, \$166.0 million was outstanding on the FHLB LOC. No amount was outstanding at December 31, 2013. The average FHLB LOC balance was \$109.3 million for the nine months ended September 30, 2014 and \$33.2 million during 2013. The LOC was collateralized by qualifying loans. At September 30, 2014 and December 31, 2013, the FHLB LOC was collateralized by loans of \$844.2 million and \$800.4 million, respectively. In addition, the Company had federal funds purchased with correspondent banks of \$19.8 million at September 30, 2014.

7. Derivatives

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

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

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

During the fourth quarter of 2013, the Company expanded its product offering by adding international banking products, which exposes the Company to foreign exchange risk. The Company utilizes foreign exchange forward contracts to manage the risk associated with fluctuation in foreign exchange rates.

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

At September 30, 2014, 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 \$8.3 million. The Company has minimum collateral posting thresholds with certain of its derivative counterparties and has posted collateral of \$15.0 million against its obligations under these agreements. At September 30, 2014, the Company was not in default with any of its debt or capitalization covenants.

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

(in thousands)	Asset derivatives		Liability derivatives		Fair value at	
	Balance sheet classification	Fair value at September 30, 2014	Fair value at December 31, 2013	Balance sheet classification	Fair value at September 30, 2014	Fair value at December 31, 2013
Derivatives designated as hedging instruments under ASC 815:						
Cash flow hedge - interest rate swap	Other assets	\$ 148	\$ 184	Accrued interest and other liabilities	\$ 4,400	\$ 4,007
Fair value hedge - interest rate swap	Other assets	\$ 730	\$ 1,735	Accrued interest and other liabilities	\$ 334	\$ -
Derivatives not designated as hedging instruments under ASC 815:						
Interest rate swap	Other assets	\$ 4,261	\$ 6,422	Accrued interest and other liabilities	\$ 4,379	\$ 6,409
Foreign exchange forward contracts	Other assets	\$ 196	\$ -	Accrued interest and other liabilities	\$ 42	\$ 10

The tables below include information required by ASU No. 2011-11 Disclosures about Offsetting Assets and Liabilities, about derivative instruments that are offset in accordance with ASC 815-10-45 or subject to an enforceable master netting arrangement.

(in thousands)	At September 30, 2014			At December 31, 2013		
	Gross amounts of recognized assets	Gross amounts offset	Net amounts included in 'other assets' in the Condensed Consolidated Balance Sheets	Gross amounts of recognized assets	Gross amounts offset	Net amounts included in 'other assets' in the Condensed Consolidated Balance Sheets
Derivatives designated as hedges	\$ 878	\$ -	\$ 878	\$ 1,919	\$ (286)	\$ 1,633
Derivatives not designated as hedges	4,457	-	4,457	6,422	(366)	6,056
Total	\$ 5,335	\$ -	\$ 5,335	\$ 8,341	\$ (652)	\$ 7,689

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	At September 30, 2014				At December 31, 2013			
	Gross amounts of recognized liabilities	Gross offset	Net amounts included in 'accrued interest and other liabilities' in the Condensed Consolidated Balance Sheets	Collateral	Gross amounts of recognized liabilities	Gross offset	Net amounts included in 'accrued interest and other liabilities' in the Condensed Consolidated Balance Sheets	Collateral
(in thousands)								
Derivatives designated as hedges	\$ (4,734)	\$ -	\$ (4,734)	\$ 7,758	\$ (4,007)	\$ 286	\$ (3,721)	\$ 7,043
Derivatives not designated as hedges	(4,421)	-	(4,421)	7,245	(6,419)	366	(6,053)	11,946
Total	\$ (9,155)	\$ -	\$ (9,155)	\$ 15,003	\$ (10,426)	\$ 652	\$ (9,774)	\$ 18,989

Cash Flow Hedges of Interest Rate Risk — For hedges of the Company's variable-rate loan assets, interest-rate swaps designated as cash flow hedges involve the receipt of fixed-rate amounts from a counterparty in exchange for the Company making variable-rate payments over the life of the agreements without exchange of the underlying notional amount. At September 30, 2014, the Company had five interest rate swaps with a notional value of \$75.0 million that effectively fixed the interest rate on a portion of its 1-Month LIBOR loan portfolio. The weighted average fixed rate received under these swaps was 1.41%. The swaps have contractual maturities ranging from three to five years.

For hedges of the Company's variable-rate borrowings, interest-rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments. The Company has executed a series of interest-rate swap transactions in order to fix the effective interest rate for payments due on its junior subordinated debentures with the objective of reducing the Company's exposure to adverse changes in cash flows relating to payments on its LIBOR-based floating rate debt. The swaps have contractual lives ranging between five and 14 years. Select critical terms of the cash flow hedges are as follows:

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

Based on the Company's ongoing assessments (including at inception of the hedging relationship), it is probable that there will be sufficient variable interest payments through the maturity date of the swaps. The Company also monitors the risk of counterparty default on an ongoing basis. The Company uses the "Hypothetical Derivative" method described in ASC 815 for both prospective and retrospective assessments of hedge effectiveness on a quarterly basis. The Company also uses this methodology to measure hedge ineffectiveness each period. The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in AOCI and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. The Company's derivatives did not have any hedge ineffectiveness recognized in earnings during the three and nine months ended September 30, 2014 and 2013.

Amounts reported in AOCI related to derivatives will be reclassified to interest income/expense as interest payments are received/made on the Company's variable-rate assets/liabilities. During the next 12 months, the Company estimates that \$1.8 million will be reclassified as an increase to interest expense and \$0.9 million as an increase to interest income.

The following table reports the beginning and ending balance of AOCI relating to derivatives designated as hedging transactions and the associated periodic change, net of reclassifications to earnings and the effect of income taxes for the periods shown.

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(in thousands)	Cash flow hedge component of AOCI Three months ended September 30,		Cash flow hedge component of AOCI Nine months ended September 30,	
	2014	2013	2014	2013
Beginning of period balance	\$ (2,685)	\$ (3,219)	\$ (2,370)	\$ (5,607)
Net change	49	278	(266)	2,666
End of period balance	\$ (2,636)	\$ (2,941)	\$ (2,636)	\$ (2,941)

Fair Value Hedges of Fixed-Rate Assets — The Company is exposed to changes in the fair value of certain of its fixed-rate assets due to changes in benchmark interest rates based on LIBOR. The Company uses interest rate swaps to manage its exposure to changes in fair value on certain fixed-rate loans. Interest rate swaps designated as fair value hedges involve the receipt of variable rate payments from a counterparty in exchange for the Company's fixed-rate payments over the life of the agreements without the exchange of the underlying notional amount. Certain interest rate swaps met the criteria to qualify for the shortcut method of accounting. Under the shortcut method of accounting no ineffectiveness is assumed. For interest rate swaps not accounted for under the shortcut method, the Company performs ongoing retrospective and prospective effectiveness assessments (including at inception) using a regression analysis to compare periodic changes in fair value of the swaps to periodic changes in fair value of the fixed-rate loans attributable to changes in the benchmark interest rate. At September 30, 2014, the Company had five interest rate swaps with a notional amount of \$32.4 million used to hedge the change in the fair value of five commercial loans. For derivatives that are designated and qualify as fair value hedges, the gain or loss on the derivative as well as the gain or loss on the hedged item attributable to the hedged risk are recognized in earnings. The net amount recognized in noninterest expense during the three and nine months ended September 30, 2014 and 2013, representing hedge ineffectiveness, was immaterial.

Non-designated Hedges — Derivatives not designated as hedges are not speculative and result from a service the Company provides to its customers. The Company executes interest-rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest-rate swaps are simultaneously hedged by offsetting interest-rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. As the interest-rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings. At September 30, 2014, the Company had 112 interest-rate swaps with an aggregate notional amount of \$278.3 million related to this program. Gains and losses arising from changes in the fair value of these swaps are included in "Other income" in the accompanying Condensed Consolidated Statements of Income and were immaterial for the three and nine months ended September 30, 2014 and 2013.

During the fourth quarter of 2013, the Company expanded its product offerings to include international banking products, thereby creating exchange-rate risk exposure. At September 30, 2014, the Company's foreign currency holdings included British pounds, Euros, Mexican pesos, Australian, and Canadian dollars. In order to economically reduce the risk associated with the fluctuation of the aforementioned foreign exchange rates, the Company utilizes

short-term foreign exchange forward contracts to lock in exchange rates so the gain or loss on the forward contracts approximately offsets the transaction gain or loss. These contracts are not designated as hedging instruments. Ineffectiveness in the economic hedging relationship may occur as the foreign currency holdings are revalued based upon changes in the currency's spot rate, while the forward contracts are revalued using the currency's forward rates. Forward contracts in gain positions are recorded at fair value in 'other' assets, while contracts in loss positions are recorded in 'other' liabilities in the Condensed Consolidated Balance Sheets. Net changes in the fair value of the forward contracts are recognized through earnings, disclosed as 'other' noninterest income in the Condensed Consolidated Statements of Income. At September 30, 2014, the Company had entered into forward contracts with a notional amount of \$5.8 million maturing within one month. Net gains recognized during the three and nine months ended September 30, 2014 on foreign exchange forward contracts were immaterial.

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8. Employee Benefit and Stock Compensation Plans

Stock Options and Awards - During the three and nine months ended September 30, 2014, the Company recognized compensation expense (net of estimated forfeitures) of \$0.7 million and \$2.4 million, respectively, compared to \$0.7 million and \$2.2 million in the respective prior year periods. Estimated forfeitures are periodically evaluated based on historical and expected forfeiture behavior.

The following table summarizes changes in option awards during the nine months ended September 30, 2014.

	Shares	Weighted average exercise price
Outstanding at December 31, 2013	1,292,077	\$ 11.82
Granted	71,917	11.22
Exercised	(82,584)	6.74
Forfeited	(374,515)	18.06
Outstanding at September 30, 2014	906,895	\$ 9.65
Exercisable at September 30, 2014	747,903	\$ 9.66

The weighted average grant date fair value of options granted during the nine months ended September 30, 2014 was \$3.07 per share.

The following table summarizes changes in stock awards for the nine months ended September 30, 2014.

	Shares	Weighted average grant date fair value
Unvested at December 31, 2013	681,578	\$ 7.04
Granted	319,466	11.33
Vested	(340,328)	7.25
Forfeited	(20,486)	8.05

Unvested at September 30, 2014 640,230 \$ 9.04

At September 30, 2014, there was \$4.7 million of total unrecognized compensation expense related to unvested share-based compensation arrangements granted under the Company's equity incentive plans. The cost is expected to be recognized over a weighted average period of 1.9 years.

9. Segments

Due to recent organizational changes and the manner in which the chief operating decision maker reviews the Company, in the first quarter of 2014, the Company re-evaluated the identification of its reportable segments under ASC Topic 280 - Segment Reporting (ASC 280). As a result of this evaluation, the Company aggregated the segments previously reported as Investment Banking, Wealth Management and Insurance into a new segment titled Fee-Based Lines. The changes to our reporting segments are consistent with the way the Chief Executive Officer, who is the chief operating decision maker, evaluates the performance of operations, develops strategy and allocates capital resources. Additionally, none of the segments previously reported (Investment Banking, Wealth Management and Insurance) meet the quantitative thresholds under ASC 280 for separate reporting. No changes were made to Commercial Banking or Corporate Support and Other. All prior period disclosures have been adjusted conform to the new presentation.

The financial information for the Commercial Banking and Fee-Based Lines segments reflect activities which is specifically identifiable or which is allocated based on an internal allocation method. The Corporate Support and Other segment includes activities that are not directly attributable to the other reportable segments including centralized bank operations and the activities of the Parent. The following tables report the results of operations for the three and nine months ended September 30, 2014 and 2013 by segment.

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Income Statement (in thousands)	Three months ended September 30, 2014			
	Commercial Banking	Fee-Based Lines	Corporate Support and Other	Consolidated
Total interest income	\$ 29,098	\$ 2	\$ 105	\$ 29,205
Total interest expense	1,111	9	1,023	2,143
Provision for loan losses	(197)	-	(255)	(452)
Noninterest income	2,740	6,399	600	9,739
Noninterest expense	8,534	5,460	11,053	25,047
Management fees and allocations, net of tax	5,725	270	(5,995)	-
Provision (benefit) for income taxes	8,021	414	(4,120)	4,315
Net income (loss)	\$ 8,644	\$ 248	\$ (1,001)	\$ 7,891

Income Statement (in thousands)	Nine months ended September 30, 2014			
	Commercial Banking	Fee-Based Lines	Corporate Support and Other	Consolidated
Total interest income	\$ 84,386	\$ 4	\$ 316	\$ 84,706
Total interest expense	3,349	31	3,006	6,386
Provision for loan losses	(2,572)	-	(709)	(3,281)
Noninterest income	6,968	16,600	889	24,457
Noninterest expense	26,280	14,357	31,789	72,426
Management fees and allocations, net of tax	17,676	807	(18,483)	-
Provision (benefit) for income taxes	22,944	893	(12,230)	11,607
Net income (loss)	\$ 23,677	\$ 516	\$ (2,168)	\$ 22,025

Income Statement (in thousands)	Three months ended September 30, 2013			
	Commercial Banking	Fee-Based Lines	Corporate Support and Other	Consolidated
Total interest income	\$ 26,854	\$ 3	\$ 104	\$ 26,961
Total interest expense	1,281	15	1,290	2,586
Provision for loan losses	(1,449)	-	(105)	(1,554)
Noninterest income	2,795	4,858	106	7,759
Noninterest expense	8,612	4,496	10,706	23,814
Management fees and allocations, net of tax	5,592	229	(5,821)	-
Provision (benefit) for income taxes	7,402	141	(4,694)	2,849
Net income (loss)	\$ 8,211	\$ (20)	\$ (1,166)	\$ 7,025

Income Statement	Nine months ended September 30, 2013		
	Commercial	Fee-Based	Corporate Support and

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(in thousands)	Banking	Lines	Other	Consolidated
Total interest income	\$ 78,880	\$ 9	\$ 284	\$ 79,173
Total interest expense	4,035	48	4,165	8,248
Provision for loan losses	(3,302)	-	(907)	(4,209)
Noninterest income	8,712	13,631	317	22,660
Noninterest expense	25,744	13,637	28,608	67,989
Management fees and allocations, net of tax	16,111	752	(16,863)	-
Provision (benefit) for income taxes	21,690	70	(12,118)	9,642
Net income (loss) from continuing operations	23,314	(867)	(2,284)	20,163
Net income from discontinued operations	-	173	-	173
Net income (loss)	\$ 23,314	\$ (694)	\$ (2,284)	\$ 20,336

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10. Fair Value Measurements

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

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

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

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

Available for sale securities – At September 30, 2014, the Company holds, as part of its investment portfolio, available for sale securities reported at fair value consisting of MBS, municipal securities, corporate debt 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. The Company also holds TPS that are recorded at fair value based on unadjusted quoted market prices for identical securities in an active market. The majority of the TPS are actively traded in the market and as a result, the Company has determined that the valuation of these securities falls within Level 1 of the fair value hierarchy. The Company also holds certain TPS and corporate debt securities for which unadjusted market prices are not available or the markets are not active and are therefore classified as Level 2. 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. Prior to 2014, the Company had classified three TPS as Level 3 due to their illiquid nature and lack of trading activity. In the first quarter of 2014, one single-issuer TPS of \$0.7 million was transferred from Level 2 to Level 3 based on a lack of trading activity. Unrealized gains transferred during the period were immaterial and the total net unrealized gain recognized in AOCI at September 30, 2014, on TPS Level 3 securities were \$0.1 million.

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

Pursuant to guidance in ASC 820, credit valuation adjustments are incorporated into the valuation to appropriately reflect both the Company's own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings and thresholds.

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The Company uses Level 2 and Level 3 inputs to determine the valuation of its derivatives portfolio. The valuation of derivative instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs (Level 2 inputs), including interest rate curves and implied volatilities. The estimates of fair value are made using a standardized methodology that nets the discounted expected future cash receipts and cash payments (based on observable market inputs). Level 3 inputs include the credit valuation adjustments which use estimates of current credit spreads to evaluate the likelihood of default by the Company and its counterparties. At September 30, 2014 and December 31, 2013, the Company assessed the impact of the Level 3 inputs on the overall derivative valuations in terms of the significance of the credit valuation adjustments in basis points and as a percentage of the overall derivative portfolio valuation and the overall notional value. The Company's assessment determined that credit valuation adjustments were not significant to the overall valuation of the portfolio. In addition, the significance of the credit value adjustments and overall derivative portfolio to the Company's financial statements was considered. As a result of the insignificance of the credit value adjustments to the derivative portfolio valuations and the Company's financial statements, the Company classified the derivative valuations in their entirety in Level 2.

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

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

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The following tables present the Company's assets and liabilities measured at fair value on a recurring basis at September 30, 2014 and December 31, 2013, aggregated by the level in the fair value hierarchy within which those measurements fall.

(in thousands)	Balance at September 30, 2014	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)
Assets				
Available for sale securities:				
Mortgage-backed securities	\$ 296,763	\$ -	\$ 296,763	\$ -
Trust preferred securities	60,363	21,695	31,724	6,944
Corporate debt securities	101,556	-	101,556	-
Municipal securities	14,764	-	14,764	-
Total available for sale securities	\$ 473,446	\$ 21,695	\$ 444,807	\$ 6,944
Derivatives:				
Cash flow hedges	\$ 148	\$ -	\$ 148	\$ -
Fair value hedges	730	-	730	-
Non-designated hedges	4,261	-	4,261	-
Foreign exchange forward contracts	196	-	196	-
Total derivative assets	\$ 5,335	\$ -	\$ 5,335	\$ -
Liabilities				
Derivatives:				
Cash flow hedges	\$ 4,400	\$ -	\$ 4,400	\$ -
Fair value hedges	334	-	334	-
Non-designated hedges	4,379	-	4,379	-
Foreign exchange forward contracts	42	-	42	-
Total derivative liabilities	\$ 9,155	\$ -	\$ 9,155	\$ -

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(in thousands)	Balance at December 31, 2013	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)
Assets				
Available for sale securities:				
Mortgage-backed securities	\$ 333,211	\$ -	\$ 333,211	\$ -
Trust preferred securities	82,324	46,252	30,036	6,036
Corporate debt securities	110,982	-	110,982	-
Municipal securities	8,616	-	8,616	-
Total available for sale securities	\$ 535,133	\$ 46,252	\$ 482,845	\$ 6,036
Derivatives:				
Cash flow hedges	\$ 184	\$ -	\$ 184	\$ -
Fair value hedges	1,735	-	1,735	-
Non-designated hedges	6,422	-	6,422	-
Total derivative assets	\$ 8,341	\$ -	\$ 8,341	\$ -
Liabilities				
Derivatives:				
Cash flow hedges	\$ 4,007	\$ -	\$ 4,007	\$ -
Non-designated hedges	6,409	-	6,409	-
Foreign exchange forward contracts	10	-	10	-
Total derivative liabilities	\$ 10,426	\$ -	\$ 10,426	\$ -

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

(in thousands)	Three months ended		Nine months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Beginning balance	\$ 6,892	\$ 983	\$ 6,036	\$ 980
Transfers	-	-	706	-
Net accretion	15	-	44	-

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Unrealized gain (loss) included in comprehensive income	37	(3)	158	-
Ending balance	\$ 6,944	\$ 980	\$ 6,944	\$ 980

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

(in thousands)	Total	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)
Impaired loans, net of specific reserve:				
At September 30, 2014	\$ 14,743	\$ -	\$ -	\$ 14,743
At December 31, 2013	\$ 22,187	\$ -	\$ -	\$ 22,187

During the three and nine months ended September 30, 2014, the Company recorded a \$1.2 million provision and a \$0.1 million provision for loan loss, respectively on collateral-dependent impaired loans. For the three and nine months ended

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September 30, 2014, the Company recorded net recoveries of \$0.2 million and net charge-offs of \$0.1 million, respectively, on impaired loans.

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

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

The following tables present the Company's nonfinancial assets measured at fair value on a nonrecurring basis at September 30, 2014 and December 31, 2013, aggregated by the level in the fair value hierarchy within which those measurements fall.

(in thousands)	Total	Fair value measurements using:			Year-to-date gain (loss)
		Quoted prices in active market for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
OREO:					
At September 30, 2014	\$ 3,954	\$ -	\$ -	\$ 3,954	\$ 1,281
At December 31, 2013	\$ 5,371	\$ -	\$ -	\$ 5,371	\$ (708)

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

	At September 30, 2014	At December 31, 2013
(in thousands)		
OREO recorded at fair value	\$ 3,954	\$ 5,371
Estimated selling costs	(204)	(274)
OREO	\$ 3,750	\$ 5,097

Valuation adjustments on OREO and additional gains or losses at the time OREO is sold are recognized in current earnings under the caption “Net gain on securities, other assets and other real estate owned.” Below is a summary of OREO transactions during the nine months ended September 30, 2014:

(in thousands)	OREO
Beginning OREO balance	\$ 5,097
Loans foreclosed and transferred in	2,659
OREO sales	(4,863)
Net gain on sale and valuation adjustments	857
Ending OREO balance	\$ 3,750

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The following table provides information describing the valuation processes used to determine recurring and nonrecurring fair value measurements categorized within Level 3 of the fair value hierarchy.

Category	Fair Value (in thousands)	Valuation Technique	Unobservable Input	Weighted Average %	Range
Trust preferred securities	\$ 6,944	Market approach	Broker quotes or prices on similar securities	89%	86% - 100%
Impaired loans:					
Commercial Real estate - mortgage	\$ 1,399	Property appraisals (1)	Management discount for property type and recent market volatility	36%	0% - 77%
Construction & land	12,110	Property appraisals (1)	Management discount for property type and recent market volatility	11%	0% - 35%
	708	Property appraisals (1)	Management discount for property type and recent market volatility	31%	30% - 35%
Consumer	440	Property appraisals (1)	Management discount for property type and recent market volatility	10%	10% - 10%
Other	86	Property appraisals (1)	Management discount for property type and recent market volatility	0%	0% - 0%
Total impaired loans	\$ 14,743				
OREO:					
Commercial Construction & land	\$ 3,551	Property appraisals (1)	Management discount for property type and recent market volatility	11%	0% - 30%
	403	Property appraisals (1)	Management discount for property type and recent market volatility	38%	30% - 50%
Total OREO	\$ 3,954				

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

types under appraisal.

The following table includes the estimated fair value of the Company's financial instruments. The methodologies for estimating the fair value of financial assets and financial liabilities measured at fair value on a recurring and nonrecurring basis are discussed above. The methodologies for estimating the fair value for other financial assets and financial liabilities are discussed below. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data in order to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts at September 30, 2014 and December 31, 2013.

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(in thousands)	September 30, 2014		December 31, 2013	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Financial assets:				
Cash and cash equivalents	\$ 93,733	\$ 93,733	\$ 76,028	\$ 76,028
Investment securities available for sale	473,446	473,446	535,133	535,133
Investment securities held to maturity	13,311	13,834	13,266	12,715
Other investments	13,769	13,769	8,397	8,397
Loans — net	2,323,387	2,315,905	2,047,309	2,045,447
Accrued interest receivable	9,776	9,776	8,770	8,770
Derivatives	5,335	5,335	8,341	8,341
Financial liabilities:				
Deposits	\$ 2,366,376	\$ 2,366,511	\$ 2,279,037	\$ 2,279,996
Securities sold under agreements to repurchase	76,041	76,597	138,494	138,312
Accrued interest payable	875	875	679	679
Junior subordinated debentures	72,166	72,166	72,166	72,166
Derivatives	9,155	9,155	10,426	10,426

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

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

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

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

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

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

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

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

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

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

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The fair value estimates presented herein are based on pertinent information available to management at September 30, 2014 and December 31, 2013. 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.

11. Regulatory Matters

The following table shows capital amounts, ratios and regulatory thresholds at September 30, 2014:

At September 30, 2014 (in thousands)		
	Company	Bank
Shareholders' equity	\$ 302,730	\$ 316,408
Disallowed intangible assets	(2,676)	-
Unrealized gain on available for sale securities	(7,530)	(7,530)
Unrealized gain (loss) on cash flow hedges	2,636	(5)
Subordinated debentures	70,000	-
Other deductions	(8)	-
Tier I regulatory capital	\$ 365,152	\$ 308,873
Allowance for loan losses	31,600	31,251
Total risk-based regulatory capital	\$ 396,752	\$ 340,124

At September 30, 2014 (in thousands)	Company Risk-based		Leverage	Bank Risk-based		Leverage
	Tier I	Total capital		Tier I	Total capital	
Regulatory capital	\$ 365,152	\$ 396,752	\$ 365,152	\$ 308,873	\$ 340,124	\$ 308,873
Well-capitalized requirement	151,555	252,591	148,385	149,889	249,814	146,957
Regulatory capital - excess	\$ 213,597	\$ 144,161	\$ 216,767	\$ 158,984	\$ 90,310	\$ 161,916
Capital ratios	14.5%	15.7%	12.3%	12.4%	13.6%	10.5%

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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%

(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.

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12. Supplemental Financial Data

Other income and Other expense as shown in the Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2014 and 2013 is detailed in the following schedules.

	Three months ended		Nine months ended	
	September 30,		September 30,	
Other noninterest income (in thousands)	2014	2013	2014	2013
Loan fees	\$ 394	\$ 374	\$ 1,323	\$ 1,108
Other customer service fees	607	415	1,580	1,198
Bank-owned life insurance	326	351	1,228	952
Private equity investment income (loss)	555	386	(503)	736
Other	34	17	35	1,001
Total	\$ 1,916	\$ 1,543	\$ 3,663	\$ 4,995

	Three months ended		Nine months ended	
	September 30,		September 30,	
Other noninterest expense (in thousands)	2014	2013	2014	2013
Marketing and business development	\$ 851	\$ 640	\$ 2,324	\$ 2,060
Service contracts	1,044	1,014	2,844	2,688
Professional fees	782	504	2,018	1,724
Office supplies and delivery	403	370	1,162	1,136
Other	774	603	2,760	2,136
Total	\$ 3,854	\$ 3,131	\$ 11,108	\$ 9,744

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

This discussion should be read in conjunction with our Condensed Consolidated Financial Statements and notes thereto included in this Form 10-Q. Certain terms used in this discussion are defined in the notes to these financial statements. For a description of our accounting policies, see Note 1 of the Notes to Consolidated Financial Statements included in our Form 10-K for the year ended December 31, 2013. For a discussion of the segments included in our principal activities, see Note 9 of the Notes to the Condensed Consolidated Financial Statements.

Executive Summary

CoBiz Financial Inc. is a \$3.0 billion financial holding company offering a broad array of financial service products to its target market of professionals, small and medium-sized businesses, and high-net-worth individuals primarily in Arizona and Colorado.

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

Industry Overview

At the September 2014 meeting, the Federal Open Market Committee (FOMC) kept the target range for federal funds rate at 0-25 basis points. The FOMC noted that while economic activity is expanding at a moderate pace, labor resources are underutilized; recovery in the housing sector remains slow and fiscal policy is restraining economic growth. However, the FOMC judged that there was sufficient underlying strength in the broader economy to support improvement in labor market conditions and decided to further reduce the purchase of agency mortgage-backed securities and longer-term Treasury securities. These actions, commonly known as “Quantitative Easing”, are intended to pressure longer-term

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interest rates and support the mortgage market, among other things. If the economy progresses as the FOMC expects, the purchase of agency mortgage-backed securities and Treasury securities would end in October 2014. The reversal of quantitative easing may pressure deposit growth and pricing within the industry.

The unemployment rate continued to improve in 2014 with the national unemployment rate decreasing to 5.9% in September, down from respective averages of 7.4% and 8.1% in 2013 and 2012. As of August 2014, Colorado's unemployment rate had decreased to 5.1% from 6.2% at the end of 2013. Similarly, Arizona's unemployment rate as of August 2014 had decreased to 7.1%, from 7.6% at the end of 2013.

In the second quarter of 2014, FDIC insured commercial banks and savings institutions reported combined earnings of \$40.2 billion, 5% higher than a year ago. Net interest income for the industry continues to increase, driven by growth in interest-earning assets. However, the net interest margin fell during the second quarter to the lowest level for the industry since the third quarter of 1989. Credit quality for the industry continues to improve, as noncurrent loans declined for the 17th consecutive quarter and is at a six year low.

Financial and Operational Highlights

Noted below are some of the Company's significant financial performance measures and operational results for the first nine months of 2014:

- During the first quarter of 2014, the Company realigned its reportable segments to reflect recent organizational and structural changes. As part of this change, the Company's segments that were previously reported as Investment Banking, Wealth Management and Insurance were combined into one segment titled "Fee-Based Lines."

INCOME STATEMENT (in thousands, except per share amounts)	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Net interest income before provision	\$ 27,062	\$ 24,375	\$ 78,320	\$ 70,925
Provision for loan losses	(452)	(1,554)	(3,281)	(4,209)
Noninterest income	9,739	7,759	24,457	22,660
Net income	7,891	7,025	22,025	20,336

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Diluted earnings per common share	\$ 0.19	\$ 0.17	\$ 0.53	\$ 0.49
Net interest margin	3.90%	3.80%	3.91%	3.82%
Return on average assets	1.05%	1.02%	1.02%	1.02%
Return on average shareholders' equity	10.46%	10.34%	10.09%	10.25%

- Net interest income and net interest margin increased for the three and nine months of 2014 over the prior year. The increases are primarily due to growth in the average loan portfolio during those periods.
- Improvements in overall credit quality metrics resulted in a net reversal of provision for loan losses of \$0.5 million and \$3.3 million in the three and nine months ended September 30, 2014, respectively.
- Net income of \$7.9 million and \$22.0 million for the three and nine months ended September 30, 2014, increased 12.3% and 8.3%, respectively, over the prior year periods.

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	At September 30, 2014	At December 31, 2013
BALANCE SHEET AND CREDIT QUALITY		
(in thousands)		
Total assets	\$ 3,028,864	\$ 2,800,691
Total loans	2,357,069	2,084,359
Total deposits	2,366,376	2,279,037
Total shareholders' equity	302,730	281,085
Allowance for loan losses	\$ 33,682	\$ 37,050
Nonperforming assets	12,023	19,037
Allowance for loan and credit losses to total loans	1.43%	1.78%
Nonperforming assets to total assets	0.40%	0.68%

- The loan portfolio at September 30, 2014 increased \$272.7 million, or 17.5% annualized, over the balance at December 31, 2013.
- The allowance for loan and credit losses decreased to 1.43% of total loans at September 30, 2014, from 1.78% at December 31, 2013. The decrease was primarily due to improvement in the credit quality of the loan portfolio, which resulted in a negative provision for loan losses.
- Noninterest-bearing demand deposits totaled \$1.0 billion at September 30, 2014 and comprise 42.3% of total deposits.
- Due to a concerted effort by the Company to transition clients out of customer repurchase agreements and into other deposit products, securities sold under agreements to repurchase declined \$62.5 million in 2014. Reducing the customer repurchase agreements allows the Company to reduce its investment portfolio and supports growth in the loan portfolio.
- In the second quarter of 2014, the Company entered into a \$20.0 million revolving line of credit with a one year term. While there are no current plans to use the line of credit, it will be used for general corporate purposes and backup liquidity. Interest on the line of credit is based on one month LIBOR plus 2.25%. The line of credit also bears a 0.25% non-usage fee on the unused portion of the commitment.
- The Company's total risk-based capital ratio was 15.7% at September 30, 2014 and December 31, 2013.

Critical Accounting Policies

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's Condensed Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions to Form 10-Q. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. In making those critical accounting estimates, we are required to make assumptions about matters that may be highly uncertain at the time of the estimate. Different estimates we could reasonably have used, or changes in the assumptions that could occur, could have a material effect on our financial condition or results of operations. In addition to the discussion on fair value measurements and deferred taxes below, a description of our critical accounting policies was provided in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of our Annual Report on Form 10-K for the year ended December 31, 2013.

Fair Value Measurements. The Company measures or monitors certain assets and liabilities on a fair value basis in accordance with GAAP. ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing an asset or liability. As a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). 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 and other real estate owned (OREO). Depending on the nature of the asset or liability, the Company uses

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various valuation techniques and assumptions in accordance with ASC 820 to determine the instrument's fair value. At September 30, 2014 there were \$478.8 million or 15.8% of total assets recorded at fair value on a recurring basis consisting of \$473.4 million in available for sale securities and \$5.3 million in derivative instruments. At September 30, 2014, \$9.2 million or 0.3% of total liabilities represents liabilities recorded at fair value on a recurring basis, consisting of derivative liabilities. Assets recorded at fair value on a nonrecurring basis at September 30, 2014, consist of impaired loans totaling \$14.7 million or 0.5% of total assets.

At September 30, 2014, the Company holds, as part of its investment portfolio, available for sale securities reported at fair value consisting of MBS, government agencies, municipal securities, and corporate debt securities. The fair value of the majority of these securities is determined using widely accepted valuation techniques, including matrix pricing and broker-quote based applications, considered Level 2 inputs. The Company also holds TPS, the majority of which are recorded at fair value based on quoted market prices, considered by the Company Level 1 inputs. Certain TPS are valued using broker-dealer quotes, valuations based on similar but not identical securities, or the most recent market trade. These securities are classified as Level 2 or Level 3 if the securities are highly illiquid and lack trading activity. Securities classified as Level 3 totaled \$6.9 million at September 30, 2014, representing 0.2% of total assets at the report date. For additional information on the fair value of certain financial assets and liabilities see Note 10 to the Condensed Consolidated Financial Statements.

Financial Condition

Total assets at September 30, 2014 were \$3.03 billion, increasing \$228.2 million or 8.1% from \$2.80 billion at December 31, 2013. Assets consist primarily of net loans and investment securities, accounting for 93% of total assets. Total liabilities at September 30, 2014, were \$2.73 billion, increasing \$206.5 million or 8.2% from \$2.52 billion at December 31, 2013. Liabilities consist primarily of deposits and securities sold under agreements to repurchase, comprising 90% of total liabilities. Shareholder's equity at September 30, 2014 was \$302.7 million, increasing \$21.6 million or 7.7% from \$281.1 million at December 31, 2013. The following paragraphs discuss changes in the relative mix of certain assets and liability classes and reasons for such changes.

Investments. The Company manages its investment portfolio to provide interest income and to meet the collateral requirements for public deposits, customer repurchases and wholesale borrowings. Investments account for 16.5% of total assets at September 30, 2014, compared to 19.9% at December 31, 2013.

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

portfolio is mainly comprised of six Fortune 100 issuers. Approximately 80% of the corporate debt securities portfolio is investment grade. None of the issuing institutions are in default, nor have interest payments on the TPS been deferred.

The net unrealized gain on available for sale securities increased \$3.9 million to \$12.1 million at September 30, 2014 from \$8.2 million at December 31, 2013. The Company did not recognize any OTTI in earnings during the three or nine months ended September 30, 2014.

AVAILABLE FOR SALE SECURITIES	At September 30, 2014		% of	Net	% of
(in thousands)	Amortized	Fair Value	portfolio	unrealized	unrealized
	Cost		gain	gain	gain
Mortgage-backed securities	\$ 289,417	\$ 296,763	62.7%	\$ 7,346	60.5%
Trust preferred securities	57,923	60,363	12.7%	2,440	20.1%
Corporate debt securities	99,431	101,556	21.5%	2,125	17.5%
Municipal securities	14,529	14,764	3.1%	235	1.9%
Total available for sale securities	\$ 461,300	\$ 473,446	100.0%	\$ 12,146	100.0%

Loans. Gross loans increased \$272.7 million to \$2.36 billion at September 30, 2014, from \$2.08 billion at December 31, 2013. During the nine months ended September 30, 2014, the Company advanced \$453.8 million in new credit relationships and an additional \$314.0 million on existing lines. Offsetting credit extensions were paydowns and maturities of \$493.3 million and gross charge-offs of \$1.8 million.

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LOANS (in thousands)	At September 30, 2014		At December 31, 2013		At September 30, 2013	
	Amount	% of portfolio	Amount	% of portfolio	Amount	% of portfolio
Commercial	\$ 962,438	41.4%	\$ 824,453	40.3%	\$ 815,424	40.6%
Owner-occupied real estate	476,279	20.5%	452,959	22.1%	446,976	22.3%
Investor real estate	487,821	21.0%	447,905	21.9%	443,516	22.1%
Construction & land	182,288	7.8%	127,952	6.3%	105,146	5.2%
Consumer	202,414	8.7%	181,056	8.8%	180,243	9.0%
Other	45,829	2.0%	50,034	2.4%	57,561	2.9%
Total loans	2,357,069	101.4%	2,084,359	101.8%	2,048,866	102.1%
Allowance for loan losses	(33,682)	(1.4)%	(37,050)	(1.8)%	(41,810)	(2.1)%
Total net loans	\$ 2,323,387	100.0%	\$ 2,047,309	100.0%	\$ 2,007,056	100.0%

Loan growth during the nine months ended September 30, 2014 was broad based with increases in most categories. During this period, Commercial loans increased \$138.0 million or 17%, real estate – mortgages (owner-occupied and investor) increased \$63.2 million or 7% and Construction & land loans increased \$54.3 million or 42%.

The allowance for loan losses decreased \$3.4 million during the nine months ended September 30, 2014, through the release of net excess reserves of \$3.3 million and \$0.1 million in net charge-offs. The reduction in the allowance for loan losses, while the loan portfolio has increased, is the result of continued credit quality improvement. See the Provision and Allowance for Loan and Credit Losses section and Note 5 to the Condensed Consolidated Financial Statements for additional discussion.

Intangible Assets. Intangible assets primarily represent client relationship lists. During 2014, the Company purchased an insurance book of business resulting in a \$0.3 million increase in intangible assets. Offsetting the new intangible asset during 2014 was amortization of \$0.4 million.

Bank-Owned Life Insurance (BOLI). BOLI increased \$3.9 million during 2014 to \$47.7 million at September 30, 2014, compared to \$43.8 million at the end of 2013. The increase during 2014 relates to additional policy purchases of \$3.3 million and growth in the cash surrender value of \$0.9 million, offset by claims of \$0.3 million.

Deferred Income Taxes. Net deferred income tax assets decreased \$5.8 million to \$20.7 million at September 30, 2014, from \$26.5 million at December 31, 2013. The decrease was primarily related to the tax effect of the following events during the nine months ended September 30, 2014: decline in the allowance for loan and credit losses (\$3.4 million); bonus payments (\$1.6 million); settlement of stock and deferred compensation obligations (\$4.1

million); and valuation changes in derivatives and investment securities available for sale (\$3.5 million).

Other Real Estate Owned. OREO decreased \$1.3 million to \$3.7 million at September 30, 2014, from \$5.1 million at December 31, 2013. The decrease is the result of OREO sales with a carrying value of \$4.0 million, offset by additional foreclosures of \$2.7 million. At September 30, 2014, \$0.5 million of OREO was in Arizona and \$3.2 million was in Colorado.

Other Assets. Other assets were \$19.2 million at September 30, 2014, down \$8.4 million from December 31, 2013. The decrease is primarily due to reductions in accounts receivable (\$4.2 million), the fair market value of derivative assets (\$2.4 million) and the carrying value of equity method partnership investments (\$2.2 million).

Deposits. Total deposits increased \$87.3 million to \$2.37 billion at September 30, 2014 from \$2.28 billion at December 31, 2013. In the first quarter of 2014, the Company had an initiative to move customer balances out of securities sold under agreement to repurchase (Customer Repos) and into other deposit products. Most of the balances moved from Customer Repos and into interest-bearing demand accounts. Noninterest-bearing deposits at September 30, 2014 comprised 42% of total deposits. The Company has sustained noninterest-bearing deposit levels of 40% or more since the third quarter of 2012.

The Company views its reciprocal Certificate of Deposit Account Registry Service® (CDARS) accounts and Insured Cash Sweep (ICS) accounts as customer-related deposits. The CDARS and ICS programs are provided through a third party and are designed to provide full FDIC insurance on deposit amounts by exchanging or reciprocating larger depository relationships with other member banks. Depositor funds are broken into smaller amounts and placed with other banks that are members of the network. Each member bank issues deposit amounts at a level that the entire deposit is eligible for FDIC insurance. CDARS and ICS are technically brokered deposits; however, the Company considers the reciprocal

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deposits placed through these programs as core funding due to the customer relationship that generated the transaction and does not report the balances as brokered sources in its internal or external financial reports. The Company had balances of \$168.9 million and \$150.0 million in CDARS and ICS accounts at September 30, 2014 and December 31, 2013, respectively.

	At September 30, 2014		At December 31, 2013		At September 30, 2013	
DEPOSITS AND CUSTOMER REPURCHASE AGREEMENTS (in thousands)	Amount	% of portfolio	Amount	% of portfolio	Amount	% of portfolio
Money market	\$ 619,377	25.4%	\$ 572,175	23.8%	\$ 605,073	24.9%
Interest-bearing demand and NOW Savings	509,352	20.9%	487,037	20.1%	402,572	16.5%
Certificates of deposits under \$100	19,091	0.8%	12,803	0.5%	11,272	0.5%
Certificates of deposits \$100 and over	24,971	1.0%	27,726	1.1%	28,098	1.2%
Reciprocal CDARS	127,054	5.2%	134,418	5.6%	133,243	5.5%
Total interest-bearing deposits	64,610	2.6%	83,173	3.4%	98,748	4.0%
Noninterest-bearing demand deposits	1,364,455	55.9%	1,317,332	54.5%	1,279,006	52.6%
Customer repurchase agreements	1,001,921	41.0%	961,705	39.8%	990,187	40.7%
Total deposits and customer repurchase agreements	76,041	3.1%	138,494	5.7%	164,188	6.7%
	\$ 2,442,417	100.0%	\$ 2,417,531	100.0%	\$ 2,433,381	100.0%

Securities Sold Under Agreements to Repurchase. Customer Repos are transacted with customers as a way to enhance our customers' interest-earning ability. The Company does not consider Customer Repos to be a wholesale funding source, but rather an additional treasury management service provided to our customer base. Our customer repos are based on an overnight investment sweep that can fluctuate based on our customers' operating account balances. As discussed above, the Company intentionally shifted customers out of Customer Repos and into other deposit products allowing the Company more flexibility with its investment portfolio due to the reduced need of collateral for Customer Repos. Customer Repos decreased 45% during the nine months ended September 30, 2014.

Other Short-Term Borrowings. Other short-term borrowings consist of federal funds purchased and overnight and term borrowings from the FHLB. Short-term borrowings are used as part of our liquidity management strategy and fluctuate based on the Company's cash position. The Company's wholesale funding needs are largely dependent on core deposit levels which can be volatile in uncertain economic conditions and sensitive to competitive pricing. A decline in deposits and growth in the loan portfolio increases the Company's need for wholesale borrowings. At September 30, 2014, the Company had \$185.8 million in short-term borrowings outstanding. At December 31, 2013 the Company had no short-term borrowings outstanding. If the Company is unable to retain deposits or maintain deposit balances at a level sufficient to fund asset growth, the composition of interest-bearing liabilities may shift toward additional wholesale funds or other borrowings, which historically bear a higher interest cost than core deposits.

During the second quarter of 2014, the Company entered into an unsecured one-year \$20.0 million line of credit agreement that can be used to supplement funding needs of its operations. There was no balance on the credit line at September 30, 2014.

Accrued Interest and Other Liabilities. Accrued interest and other liabilities decreased \$4.1 million from the end of 2013 to \$25.8 million at September 30, 2014. The decrease is attributed to bonus (\$1.6 million) and deferred compensation payments (\$2.4 million).

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Results of Operations

Overview

The following table presents the Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2014 and 2013.

INCOME STATEMENT (in thousands)	Three months ended		2014 vs 2013		Nine months ended		2014 vs 2013	
	September 30, 2014	2013	Increase (decrease) Amount	%	September 30, 2014	2013	Increase (decrease) Amount	%
Interest income	\$ 29,205	\$ 26,961	\$ 2,244	8.3%	\$ 84,706	\$ 79,173	\$ 5,533	7.0%
Interest expense	2,143	2,586	(443)	(17.1)%	6,386	8,248	(1,862)	(22.6)%
NET INTEREST INCOME BEFORE PROVISION	27,062	24,375	2,687	11.0%	78,320	70,925	7,395	10.4%
Provision for loan losses	(452)	(1,554)	1,102	70.9%	(3,281)	(4,209)	928	22.0%
NET INTEREST INCOME AFTER PROVISION	27,514	25,929	1,585	6.1%	81,601	75,134	6,467	8.6%
Noninterest income	9,739	7,759	1,980	25.5%	24,457	22,660	1,797	7.9%
Noninterest expense	25,047	23,814	1,233	5.2%	72,426	67,989	4,437	6.5%
INCOME BEFORE INCOME TAXES	12,206	9,874	2,332	23.6%	33,632	29,805	3,827	12.8%
Provision for income taxes	4,315	2,849	1,466	51.5%	11,607	9,642	1,965	20.4%
NET INCOME FROM CONTINUING OPERATIONS	7,891	7,025	866	12.3%	22,025	20,163	1,862	9.2%
Net income from discontinued operations	-	-	-	0.0%	-	173	(173)	(100.0)%
NET INCOME	\$ 7,891	\$ 7,025	\$ 866	12.3%	\$ 22,025	\$ 20,336	\$ 1,689	8.3%

Annualized ROA for the three and nine months ended September 30, 2014 was 1.05% and 1.02%, respectively, compared to 1.02% during the prior year periods. Annualized return on average shareholders' equity for the three and nine months ended September 30, 2014 was 10.46% and 10.09%, respectively, compared to 10.34% and 10.25% in the comparable prior year periods. Net income improved for both the three and nine months ended September 30, 2014, compared to the prior-year periods, driven by higher net interest income and noninterest income. Noninterest income as a percentage of operating revenue increased to 26.46% for the three months ended September 30, 2014 compared to 24.15% in the prior-year period and declined to 23.80% from 24.21% for the nine months ended September 30, 2014 and 2013, respectively. The Company's tax equivalent efficiency ratio(1) was 67.75% and

70.87% for the three and nine months ended September 30, 2014, respectively, compared to 73.41% and 72.46% a year earlier.

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

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

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

The following table sets forth the average amounts outstanding for each category of interest-earning assets and interest-bearing liabilities, the interest earned or paid on such amounts on a taxable equivalent basis, and the average rate earned or paid for the three and nine months ended September 30, 2014 and 2013. Historically, the Company has included the allowance for loan losses in total interest-earning assets. Beginning with the first quarter of 2014, the Company has excluded the allowance for loan losses from interest-earning assets. Prior periods have been changed to conform to the new presentation.

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(in thousands)	Three months ended September 30, 2014			2013		
	Average balance	Interest earned or paid	Average yield or cost(3)	Average balance	Interest earned or paid	Average yield or cost(3)
Assets						
Federal funds sold and other	\$ 19,971	\$ 23	0.45%	\$ 16,478	\$ 23	0.55%
Investment securities (1)	512,579	3,775	2.95%	573,375	4,116	2.87%
Loans (1)(2)	2,327,777	26,458	4.45%	2,031,282	23,564	4.54%
Total interest-earning assets	\$ 2,860,327	\$ 30,256	4.15%	\$ 2,621,135	\$ 27,703	4.15%
Noninterest-earning assets	123,166			113,489		
Total assets	\$ 2,983,493			\$ 2,734,624		
Liabilities and Shareholders' Equity						
Deposits						
Money market	\$ 626,199	\$ 508	0.32%	\$ 598,757	\$ 630	0.42%
Interest-bearing demand and NOW	499,467	209	0.17%	367,922	190	0.20%
Savings	16,791	3	0.07%	11,789	1	0.03%
Certificates of deposit						
Reciprocal	64,174	51	0.32%	95,401	86	0.36%
Under \$100	25,096	35	0.55%	28,457	34	0.47%
\$100 and over	143,040	164	0.45%	130,956	189	0.57%
Total interest-bearing deposits	\$ 1,374,767	\$ 970	0.28%	\$ 1,233,282	\$ 1,130	0.36%
Other borrowings						
Securities sold under agreements to repurchase						
	92,429	31	0.13%	160,514	86	0.21%
Other short-term borrowings	145,395	103	0.28%	60,245	34	0.22%
Long-term debt	72,166	1,039	5.63%	82,658	1,336	6.32%
Total interest-bearing liabilities	\$ 1,684,757	\$ 2,143	0.50%	\$ 1,536,699	\$ 2,586	0.66%
Noninterest-bearing demand accounts						
	976,563			895,826		
Total deposits and interest-bearing liabilities	2,661,320			2,432,525		
Other noninterest-bearing liabilities	22,769			32,605		
Total liabilities	2,684,089			2,465,130		
Total equity	299,404			269,494		
Total liabilities and equity	\$ 2,983,493			\$ 2,734,624		
Net interest income - taxable equivalent		\$ 28,113			\$ 25,117	
Net interest spread			3.65%			3.49%
Net interest margin			3.90%			3.80%
Ratio of average interest-earning assets to						
	169.78%			170.57%		

average interest-bearing
liabilities

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(in thousands)	Nine months ended September 30, 2014			2013		
	Average balance	Interest earned or paid	Average yield or cost(3)	Average balance	Interest earned or paid	Average yield or cost(3)
Assets						
Federal funds sold and other	\$ 18,976	\$ 71	0.49%	\$ 17,710	\$ 73	0.54%
Investment securities (1)	533,289	12,156	3.04%	565,136	12,588	2.97%
Loans (1)(2)	2,225,159	75,316	4.46%	1,971,927	68,515	4.58%
Total interest-earning assets	\$ 2,777,424	\$ 87,543	4.16%	\$ 2,554,773	\$ 81,176	4.20%
Noninterest-earning assets	121,487			116,897		
Total assets	\$ 2,898,911			\$ 2,671,670		
Liabilities and Shareholders' Equity						
Deposits						
NOW and money market	\$ 598,761	\$ 1,437	0.32%	\$ 591,576	\$ 1,902	0.43%
Interest-bearing demand	474,646	690	0.19%	361,225	635	0.24%
Savings	14,607	7	0.06%	13,900	6	0.06%
Certificates of deposit						
Reciprocal	71,253	174	0.33%	88,801	272	0.41%
Under \$100	32,131	94	0.39%	29,264	112	0.51%
\$100 and over	131,683	513	0.52%	138,309	635	0.61%
Total interest-bearing deposits	\$ 1,323,081	\$ 2,915	0.29%	\$ 1,223,075	\$ 3,562	0.39%
Other borrowings						
Securities sold under agreements to repurchase						
Other short-term borrowings	92,148	138	0.20%	151,542	252	0.22%
Long-term debt	121,352	250	0.27%	58,097	113	0.26%
Total interest-bearing liabilities	\$ 72,166	\$ 3,083	5.63%	\$ 89,614	\$ 4,321	6.36%
Noninterest-bearing demand accounts	\$ 1,608,747	\$ 6,386	0.53%	\$ 1,522,328	\$ 8,248	0.72%
Total deposits and interest-bearing liabilities	975,765			850,375		
Other noninterest-bearing liabilities	2,584,512			2,372,703		
Total liabilities	22,545			33,582		
Total equity	2,607,057			2,406,285		
Total liabilities and equity	291,854			265,385		
Net interest income - taxable equivalent	\$ 2,898,911			\$ 2,671,670		
		\$ 81,157			\$ 72,928	
Net interest spread			3.64%			3.48%
Net interest margin			3.91%			3.82%

Ratio of average interest-earning assets to average interest-bearing liabilities	172.65%	167.82%
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(1)Interest earned has been adjusted to reflect tax exempt assets on a fully tax-equivalent basis.

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

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

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Net interest income on a taxable equivalent basis for the three and nine months ended September 30, 2014 grew 11.9% and 11.3%, respectively, compared to the prior year periods, driven primarily by higher loan volume. Average interest-earning assets for the three and nine months ended September 30, 2014 increased \$239.2 million and \$222.7 million to \$2.86 billion and \$2.78 billion, respectively. The yield on average interest-earning assets was stable during the current quarter and down 4 basis points for the nine months ended September 30, 2014 compared to the prior year periods.

Including noninterest-bearing deposits, the Company's overall deposit interest cost was 16 basis points (0.16%) and 17 basis points (0.17%) during the three and nine months ended September 30, 2014, respectively, compared to 21 basis points (0.21%) and 23 basis points (0.23%) in the prior year periods. The average rate on total interest-bearing liabilities for the three and nine months ended September 30, 2014 decreased 16 and 19 basis points, respectively, driven primarily by the redemption of the 9.0% subordinated notes payable in August 2013. The tax-equivalent net interest margin increased 10 basis points to 3.90% during the current quarter and 9 basis points to 3.91% during the nine months ended September 30, 2014, largely the result of continued declines in the cost of deposits and debt.

The following table presents noninterest income for the three and nine months ended September 30, 2014 and 2013.

NONINTEREST INCOME (in thousands)	2014 vs 2013				2014 vs 2013			
	Three months ended September		Increase (decrease)		Nine months ended		Increase (decrease)	
	2014	2013	Amount	%	2014	2013	Amount	%
Service charges	\$ 1,424	\$ 1,359	\$ 65	4.8%	\$ 4,194	\$ 4,039	\$ 155	3.8%
Investment advisory income	1,418	1,306	112	8.6%	4,282	3,713	569	15.3%
Insurance income	2,622	2,862	(240)	(8.4)%	8,278	8,582	(304)	(3.5)%
Investment banking income	2,359	689	1,670	242.4%	4,040	1,331	2,709	203.5%
Other income	1,916	1,543	373	24.2%	3,663	4,995	(1,332)	(26.7)%
Total noninterest income	\$ 9,739	\$ 7,759	\$ 1,980	25.5%	\$ 24,457	\$ 22,660	\$ 1,797	7.9%

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

Investment Advisory Income. Investment advisory income increased \$0.1 million and \$0.6 million during the three and nine months ended September 30, 2014, respectively, compared to the prior year periods. Fees earned are generally based on a percentage of assets under management (AUM) and market volatility has a direct impact on

earnings. Average AUM for the current quarter and year-to-date 2014 grew 9% and 8%, respectively, compared to the prior year averages. AUM totaled \$849.7 million at September 30, 2014.

Insurance Income. Insurance income is derived from two main areas: benefits consulting and P&C. Revenue from benefits consulting and P&C are recurring revenue sources as policies and contracts generally renew or rewrite on an annual or more frequent basis. Insurance revenue declined \$0.2 million and \$0.3 million for the three and nine months ended September 30, 2014 compared to the prior year periods. The year-over-year declines are due to higher profit sharing bonuses in the prior year periods.

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 revenues increased \$1.7 million and \$2.7 million during the three and nine months ended September 30, 2014 over the prior year periods, due to success fees earned on deal closings during the current year.

Other Income. Other income is comprised of increases in the cash surrender value of bank-owned life insurance, earnings on equity method investments, swap fees, merchant charges, bankcard fees, wire transfer fees, foreign exchange fees and safe deposit income. Other income for the three and nine months ended September 30, 2014 increased \$0.4 million and decreased \$1.3 million, respectively, from the prior year periods. The year to date decline is primarily the result of a \$1.2 million loss on equity method investments recognized in the first quarter of 2014 and lower swap fees, offset in part by higher BOLI income. The Company has equity method investments in certain SBIC funds with a carrying value of \$5.6 million at September 30, 2014. In the first quarter of 2014, the Company had a loss on one of these passive investments related to a realized a loss. Higher BOLI income relates to the realization of claim benefits during the period.

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The following table presents noninterest expense for the three and nine months ended September 30, 2014 and 2013.

NONINTEREST EXPENSE (in thousands)	2014 vs 2013				2014 vs 2013			
	Three months ended		Increase (decrease)		Nine months ended		Increase (decrease)	
	September 30, 2014	2013	Amount	%	September 30, 2014	2013	Amount	%
Salaries and employee benefits	\$ 16,996	\$ 16,373	\$ 623	3.8%	\$ 48,775	\$ 45,577	\$ 3,198	7.0%
Share-based compensation expense	704	694	10	1.4%	2,429	2,188	241	11.0%
Occupancy expenses, premises and equipment	3,288	3,289	(1)	(0.0)%	9,984	9,748	236	2.4%
Amortization of intangibles	147	152	(5)	(3.3)%	447	511	(64)	(12.5)%
FDIC and other assessments	373	403	(30)	(7.4)%	1,263	1,281	(18)	(1.4)%
Other real estate owned and loan workout costs	283	91	192	211.0%	848	379	469	123.7%
Gain on securities, other assets and OREO	(598)	(319)	(279)	(87.5)%	(2,428)	(1,439)	(989)	(68.7)%
Other expense	3,854	3,131	723	23.1%	11,108	9,744	1,364	14.0%
Total noninterest expense	\$ 25,047	\$ 23,814	\$ 1,233	5.2%	\$ 72,426	\$ 67,989	\$ 4,437	6.5%

Salaries and Employee Benefits. Salaries and employee benefits increased 3.8% or \$0.6 million and 7.0% or \$3.2 million for the three and nine months ended September 30, 2014 over the prior year periods. The increase relates to annual cost of living and merit increases effective in the second quarter of 2014, as well as the addition of new personnel to support three initiatives launched at the end of 2013: bank expansion into two new Colorado markets, Fort Collins and Colorado Springs, and the launch of CoBiz Private Bank. In addition, during the three and nine months ended September 30, 2014, variable compensation tied to revenue generation in the fee-based lines increased over the prior year periods due to the increase in noninterest income. The Company had 535 full-time equivalent employees at September 30, 2014, up from 510 a year earlier.

Share-based Compensation. The Company uses share-based compensation to recruit new employees and reward and retain existing employees. Share-based compensation increased during the nine months ended September 30, 2014 compared to the prior year period due to the issuance of restricted stock during the first quarter of 2014 and an increase in the grant-date fair value of awards. The Company recognizes compensation costs for the grant-date fair value of awards issued to employees and expects to continue using share-based compensation in the future.

Occupancy Costs. Occupancy costs consist primarily of rent, depreciation, utilities, property taxes and insurance. Occupancy costs increased for the nine months ended September 30, 2014, compared to the prior year period due to the new bank locations in Fort Collins and Colorado Springs and higher common area maintenance

costs.

FDIC and Other Assessments. FDIC and other assessments consist of premiums paid by the Company that are required for all FDIC-insured institutions and Colorado chartered banks. The assessments are based on statutory and risk classification factors to determine an assessment rate that is then applied to balance sheet metrics. Cost savings from a decline in assessment rates in the current year have been more than offset by balance sheet growth that has increased assessments.

OREO and Loan Workout Costs. Carrying costs and workout expenses of nonperforming loans and OREO increased \$0.2 million and \$0.5 million during the three and nine months ended September 30, 2014, respectively, compared to the prior year periods. These costs are related to the level of nonperforming assets. While costs increased slightly in 2014 over 2013 due to one large project, the Company has seen a general decline in these costs over the last few years.

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Gain on Securities, Other Assets, and OREO. (Gain) and loss on securities, assets and OREO is summarized in the following table:

(in thousands)	2014 vs 2013				2014 vs 2013			
	(Gain) loss for the three months ended September 30,		Increase (decrease)		(Gain) loss for the nine months ended September 30,		Increase (decrease)	
	2014	2013	Amount	%	2014	2013	Amount	%
Available for sale securities	\$ 6	\$ 28	\$ (22)	(78.6)%	\$ (1,164)	\$ (461)	\$ (703)	(152.5)%
OREO	(618)	(341)	(277)	(81.2)%	(1,281)	(1,392)	111	8.0%
Other	14	(6)	20	333.3%	17	414	(397)	(95.9)%
	\$ (598)	\$ (319)	\$ (279)	(87.5)%	\$ (2,428)	\$ (1,439)	\$ (989)	(68.7)%

Gains and losses on available for sale securities are recognized upon the sale or call of a security. Gains and losses on OREO are recognized upon sale or due to valuation changes on OREO held at the balance sheet date.

Other Operating Expenses. Other operating expenses consist primarily of business development expenses (meals, entertainment and travel), charitable donations, and professional services (auditing, legal, marketing and courier). Other operating expenses for the three and nine months ended September 30, 2014 increased \$0.7 million and \$1.4 million compared to the prior year periods relating primarily to legal settlement costs. Also contributing to higher expenses were service contract costs and sales and use taxes.

Provision for Income Taxes. The effective income tax rate for the three and nine months ended September 30, 2014 was 35%, compared to 29% and 32% in the respective prior year periods. Income from tax-exempt loans, investments and BOLI are the primary activities impacting the effective tax rate.

Provision and Allowance for Loan and Credit Losses

The following table presents the provision for loan and credit losses for the three and nine months ended September 30, 2014 and 2013:

(in thousands)	Three months ended September 30,			Nine months ended September 30,		
	2014	2013	Increase (decrease)	2014	2013	Increase (decrease)
Provision for loan losses	\$ (452)	\$ (1,554)	\$ 1,102	\$ (3,281)	\$ (4,209)	\$ 928
Provision for credit losses (included in other expenses)	-	-	-	-	-	-
Total provision for loan and credit losses	\$ (452)	\$ (1,554)	\$ 1,102	\$ (3,281)	\$ (4,209)	\$ 928

The improvement in credit quality, as reflected by a decrease in classified loans and charge-offs, has resulted in negative loan and credit loss provisions in both 2014 and 2013. While the Company has recorded negative loan and credit loss provisions for the three and nine months ended September 30, 2014 and 2013, the trend is not sustainable. Normally, the provision for loan and credit losses is an expense that reduces net income. While a negative provision expense may occur in the near-term, the Company does not expect a negative provision expense to continue in the long-term due to growth in the loan portfolio and a stabilization of credit quality. See Note 5 – Loans to the Condensed Consolidated Financial Statements.

All loans are continually monitored to identify potential problems with repayment and collateral deficiency. Classified loans decreased \$10.0 million to \$36.5 million at September 30, 2014 from \$46.5 million at December 31, 2013. At September 30, 2014, the allowance for loan and credit losses decreased to 1.43% of total loans from 1.78% at December 31, 2013, and 2.04% a year earlier primarily due to growth in the loan portfolio coupled with improved asset quality. The ratio of allowance for loan and credit losses to nonperforming loans increased to 407.13% at September 30, 2014 from 265.78% at December 31, 2013 and 225.87% a year earlier. Though management believes the current allowance provides adequate coverage of probable incurred losses in the loan portfolio as whole, negative economic trends could adversely affect future earnings and asset quality.

The allowance for loan losses represents management's recognition of the risks of extending credit and its evaluation of the quality of the loan portfolio. The allowance is maintained to provide for probable losses related to specifically identified loans and for losses inherent in the loan portfolio that have been incurred as of the balance sheet date. The allowance is based on various factors affecting the loan portfolio, including a review of problem loans, business conditions, historical

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loss experience, evaluation of the quality of the underlying collateral, and holding and disposal costs. The allowance is increased by additional charges to operating income and reduced by loans charged off, net of recoveries. The Company had net recoveries of \$0.2 million and net charge-offs of \$0.1 million during the three and nine months ended September 30, 2014, respectively. In prior year, the Company recorded recoveries of \$0.1 million and net charge-offs of \$0.8 million during the three and nine months ended September 30, 2013, respectively.

	Nine months ended September 30, 2014	Year ended December 31, 2013	Nine months ended September 30, 2013
(in thousands)			
Allowance for loan losses at beginning of period	\$ 37,050	\$ 46,866	\$ 46,866
Charge-offs:			
Commercial	(1,648)	(613)	(438)
Real estate - mortgage	(52)	(3,055)	(2,007)
Construction & land	(54)	(796)	(632)
Consumer	(10)	(122)	(104)
Other	(5)	(5)	(2)
Total charge-offs	(1,769)	(4,591)	(3,183)
Recoveries:			
Commercial	381	1,035	935
Real estate - mortgage	333	1,099	552
Construction & land	905	1,399	812
Consumer	55	45	37
Other	8	1	-
Total recoveries	1,682	3,579	2,336
Net charge-offs	(87)	(1,012)	(847)
Provision for loan losses charged to operations	(3,281)	(8,804)	(4,209)
Allowance for loan losses at end of period	\$ 33,682	\$ 37,050	\$ 41,810
Ratio of net charge-offs to average loans	0.00%	0.05%	0.04%
Average loans outstanding during the period	\$ 2,225,159	\$ 1,991,251	\$ 1,971,927

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Nonperforming Assets

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

(in thousands)	At September 30, 2014	At December 31, 2013	At September 30, 2013
Nonperforming loans:			
Loans 90 days or more past due and still accruing interest	\$ -	\$ 19	\$ -
Nonaccrual loans:			
Commercial	3,565	1,330	3,303
Real estate - mortgage	3,957	10,504	12,530
Construction & land	136	1,986	2,156
Consumer & other	615	101	522
Total nonaccrual loans	8,273	13,921	18,511
Total nonperforming loans	8,273	13,940	18,511
OREO and repossessed assets	3,750	5,097	6,960
Total nonperforming assets	\$ 12,023	\$ 19,037	\$ 25,471
Performing renegotiated loans	\$ 29,121	\$ 29,683	\$ 28,814
Classified loans	\$ 36,534	\$ 46,476	\$ 48,735
Allowance for loan losses	\$ 33,682	\$ 37,050	\$ 41,810
Allowance for credit losses	-	-	-
Allowance for loan and credit losses	\$ 33,682	\$ 37,050	\$ 41,810
Nonperforming assets to total assets	0.40%	0.68%	0.91%
Nonperforming loans to total loans	0.35%	0.67%	0.90%
Nonperforming loans and OREO to total loans and OREO	0.51%	0.91%	1.24%
Allowance for loan and credit losses to total loans (excluding loans held for sale)	1.43%	1.78%	2.04%
Allowance for loan and credit losses to nonperforming loans	407.13%	265.78%	225.87%

Nonperforming assets decreased \$7.0 million or 36.84% at September 30, 2014, from December 31, 2013 and decreased \$13.5 million or 52.8% from the prior year period. Approximately 55% or \$6.7 million of nonperforming

assets at September 30, 2014 were concentrated in Colorado, while the remaining 45% or \$5.3 million were in Arizona. Nonperforming loans represent 68.8% of total nonperforming assets with the remaining 31.2% comprised of OREO. Nonperforming loans in Arizona totaled \$4.8 million while nonperforming loans in Colorado totaled \$3.5 million at September 30, 2014.

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Segment Results

The Company has historically reported five segments: Commercial Banking, Investment Banking, Insurance, Wealth Management and Corporate Support and Other. Beginning in the first quarter of 2014, the Company has realigned into three segments: Commercial Banking, Fee-Based Lines and Corporate Support and Other. The new Fee-based Lines segment is an aggregation of the previously reported Investment Banking, Wealth Management and Insurance segments. All prior period disclosures have been conformed to the new presentation. See Note 9 to the Condensed Consolidated Financial Statements for additional discussion regarding segments and the segment realignment.

Certain financial metrics and discussion of results for each segment for the three and nine months ended September 30, 2014 and 2013 are presented below.

Commercial Banking Income Statement (in thousands)	Three months ended September 30,		2014 vs 2013 Increase (decrease) Amount %		Nine months ended September 30,		2014 vs 2013 Increase (decrease) Amount %	
	2014	2013			2014	2013		
Net interest income	\$ 27,987	\$ 25,573	\$ 2,414	9.4%	\$ 81,037	\$ 74,845	\$ 6,192	8.3%
Provision for loan losses	(197)	(1,449)	1,252	86.4%	(2,572)	(3,302)	730	22.1%
Noninterest income	2,740	2,795	(55)	(2.0)%	6,968	8,712	(1,744)	(20.0)%
Noninterest expense	8,534	8,612	(78)	(0.9)%	26,280	25,744	536	2.1%
Provision for income taxes	8,021	7,402	619	8.4%	22,944	21,690	1,254	5.8%
Net income before management fees and overhead allocations	14,369	13,803	566	4.1%	41,353	39,425	1,928	4.9%
Management fees and overhead allocations, net of tax	5,725	5,592	133	2.4%	17,676	16,111	1,565	9.7%
Net income	\$ 8,644	\$ 8,211	\$ 433	5.3%	\$ 23,677	\$ 23,314	\$ 363	1.6%

Net income for the Commercial Banking segment during the three and nine months ended September 30, 2014 increased \$0.4 million compared to the prior year periods. While the net interest margin continues to be impacted from the low rate environment, volume increases in the loan portfolio have driven a \$2.4 million and \$6.2 million increase in net interest income during the three and nine months ended September 30, 2014, respectively over the prior-year periods. In 2014 and 2013, Commercial Banking has benefited from a negative provision for loan losses due to the improvement in credit quality metrics.

Noninterest income decreased in 2014 as a result of a loss on a passive equity method investment in the first quarter of 2014, offset in part by growth in deposit service charges and bank-owned life insurance income. Noninterest expense declined slightly during the current quarter compared to the prior year period and increased \$0.6 million for the nine months ended September 30, 2014 over the prior year period. The year-to-date increase was primarily a result of investments in the Colorado market expansions in Fort Collins and Colorado Springs, and the launch of private banking.

Fee-Based Lines Income Statement (in thousands)	Three months ended September 30,		2014 vs 2013 Increase (decrease)		Nine months ended September 30,		2014 vs 2013 Increase (decrease)	
	2014	2013	Amount	%	2014	2013	Amount	%
Net interest income	\$ (7)	\$ (12)	\$ 5	41.7%	\$ (27)	\$ (39)	\$ 12	30.8%
Noninterest income	6,399	4,858	1,541	31.7%	16,600	13,631	2,969	21.8%
Noninterest expense	5,460	4,496	964	21.4%	14,357	13,637	720	5.3%
Provision for income taxes	414	141	273	193.6%	893	70	823	nm
Net loss before management fees and overhead allocations	518	209	309	147.8%	1,323	(115)	1,438	nm
Net income from discontinued operations	-	-	-	0.0%	-	173	(173)	(100.0)%
Management fees and overhead allocations, net of tax	270	229	41	17.9%	807	752	55	7.3%
Net income (loss)	\$ 248	\$ (20)	\$ 268	nm	\$ 516	\$ (694)	\$ 1,210	174.4%

The Fee-Based Lines segment is composed of financial service activities that are complementary to the Company's core Commercial Banking segment. Revenue from this segment includes investment banking fees, investment advisory fees and insurance income. Net income for the Fee-Based Lines for the three and nine months ended September 30, 2014 improved compared to the prior year periods due to an increase in investment banking fees, which grew \$1.7 million and \$2.7 million, respectively. Compensation of production employees in the fee-based lines is variable and tied to revenues and was the primary driver of higher noninterest expense in 2014 compared to the 2013 periods.

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Corporate Support and Other Income Statement (in thousands)	2014 vs 2013				2014 vs 2013			
	Three months ended September 30,		Increase (decrease)		Nine months ended September 30,		Increase (decrease)	
	2014	2013	Amount	%	2014	2013	Amount	%
Net interest income	\$ (918)	\$ (1,186)	\$ 268	22.6%	\$ (2,690)	\$ (3,881)	\$ 1,191	30.7%
Provision for loan losses	(255)	(105)	(150)	(142.9)%	(709)	(907)	198	21.8%
Noninterest income	600	106	494	466.0%	889	317	572	180.4%
Noninterest expense	11,053	10,706	347	3.2%	31,789	28,608	3,181	11.1%
Benefit for income taxes	(4,120)	(4,694)	574	12.2%	(12,230)	(12,118)	(112)	(0.9)%
Net loss before management fees and overhead allocations	(6,996)	(6,987)	(9)	(0.1)%	(20,651)	(19,147)	(1,504)	(7.9)%
Management fees and overhead allocations, net of tax	(5,995)	(5,821)	(174)	(3.0)%	(18,483)	(16,863)	(1,620)	(9.6)%
Net loss	\$ (1,001)	\$ (1,166)	\$ 165	14.2%	\$ (2,168)	\$ (2,284)	\$ 116	5.1%

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

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

Net interest income for the three and nine months ended September 30, 2014, improved compared to the prior year periods due to a reduction in interest expense associated with the \$21.0 million notes payable redemption during the third quarter of 2013. Income on equity method investments held by the parent company contributed to higher noninterest income. 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. Net gains recorded in noninterest expense during 2013 reduced total noninterest expense during that year. Lower net gains recorded in 2014 have resulted in an increase in noninterest expense for the nine months ended September 30, 2014 over the prior year period.

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Contractual Obligations and Commitments

Summarized below are the Company's contractual obligations (excluding deposit liabilities) to make future payments at September 30, 2014:

(in thousands)	Within one year	After one but within three years	After three but within five years	After five years	Total
Federal funds purchased (1)	\$ 19,753	\$ -	\$ -	\$ -	\$ 19,753
FHLB overnight funds purchased (1)	166,000	-	-	-	166,000
Repurchase agreements (1)	76,041	-	-	-	76,041
Operating lease obligations	5,560	8,557	5,536	2,294	21,947
Long-term debt obligations (2)	3,401	5,681	5,681	77,779	92,542
Preferred Stock, Series C dividend (3)	574	57,509	-	-	58,083
Total contractual obligations	\$ 271,329	\$ 71,747	\$ 11,217	\$ 80,073	\$ 434,366

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

(2) Principal repayment of the junior subordinated debentures is assumed to be at the contractual maturity, currently beyond five years. Interest on the junior subordinated debentures is calculated at the fixed rate associated with the applicable hedging instrument through the instrument maturity date and is reported in the "due within" categories during which the interest expense is expected to be incurred. Interest payments on junior subordinated debentures after maturity of the related fixed interest rate swap hedges are variable and no estimate of those payments has been included in the preceding table. The weighted average variable rate applicable to the junior subordinated debentures as of the date of this report is 2.60% and ranges from 1.68% to 3.18%.

(3) Series C Preferred Stock issued to U.S. Department of Treasury in September 2011 includes dividends payable at 1%, the rate in effect at September 30, 2014. The preferred shares are shown in the table as being due in the "After one but within three years" category which assumes \$57.4 million of preferred stock will be redeemed in the year prior to the contractual dividend rate step up to 9% effective 4.5 years after issuance.

The contractual amount of the Company's financial instruments with off-balance sheet risk at September 30, 2014, is presented below, classified by the type of commitment and the term within which the commitment expires:

(in thousands)	Within one year	After one but within three years	After three but within five years	After five years	Total
Unfunded loan commitments	\$ 518,852	\$ 155,854	\$ 49,025	\$ 14,995	\$ 738,726
Standby letters of credit	34,491	4,147	100	1,660	40,398
Commercial letters of credit	1,762	-	-	-	1,762
Unfunded commitments for unconsolidated investments	7,678	-	-	-	7,678
Company guarantees	1,395	-	-	555	1,950
Total commitments	\$ 564,178	\$ 160,001	\$ 49,125	\$ 17,210	\$ 790,514

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

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

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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 \$73.9 million of total loan commitments at September 30, 2014 represent commitments to extend credit at fixed rates of interest, which exposes the Company to some degree of interest-rate risk.

The Company has also entered into interest-rate swap agreements under which it is required to either receive cash or pay cash to the counterparty depending on changes in interest rates. The interest-rate swaps are carried at fair value on the Condensed Consolidated Balance Sheets with the fair value representing the net present value of expected future cash receipts or payments based on market interest rates as of the balance sheet date. The fair value of interest-rate swaps recorded on the balance sheet at September 30, 2014 do not represent the actual amounts that will ultimately be received or paid under the contracts since the fair value is based on estimated future interest rates and are therefore excluded from the table above.

Liquidity and Capital Resources

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

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

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

Liquidity from asset categories is provided through cash and interest-bearing deposits with other banks, which totaled \$93.7 million at September 30, 2014, compared to \$76.0 million at December 31, 2013. Additional asset liquidity sources include principal and interest payments from securities in the Company's investment portfolio and cash flows from its amortizing loan portfolio. Liability liquidity sources include attracting deposits at competitive rates and maintaining wholesale borrowing (short-term borrowings and brokered CDs) credit relationships.

The Company's loan to core deposit ratio increased to 99.6% at September 30, 2014, from 91.5% at December 31, 2013. At September 30, 2014, the Company had \$185.8 million in wholesale borrowings. Average wholesale borrowings were \$145.4 million and \$121.4 million during the three and nine months ended September 30, 2014, respectively. Average wholesale borrowings were \$43.5 million during 2013.

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The Company uses various forms of short-term borrowings for cash management and liquidity purposes, regularly accessing its federal funds and FHLB lines to manage its daily cash position. At September 30, 2014, the Bank has approved federal funds purchase lines with seven correspondent banks with an aggregate credit line of \$175.0 million. The Bank also has a line of credit from the FHLB that is limited by the amount of eligible collateral available to secure it and the Company's investment in FHLB stock. Borrowings under the FHLB line are required to be secured by unpledged securities and qualifying loans. Borrowings may also be used on a longer-term basis to support expanded lending activities and to match the maturity or repricing intervals of assets.

Available funding through correspondent lines and the FHLB at September 30, 2014, totaled \$493.4 million. Available funding is comprised of \$155.2 million through the unsecured federal fund lines and \$338.2 million in secured FHLB borrowing capacity. Access to funding through correspondent lines is dependent upon the cash position of the correspondent banks and there may be times when certain lines are not available. In addition, certain lines require a 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 Company has \$57.4 million in preferred stock issued pursuant to the SBLF program currently paying a 1% dividend that increases to a 9% dividend rate in 2016. The Company expects to redeem the preferred stock at or before the date the dividend rate increases. During the second quarter of 2014, the Company entered into a revolving line of credit for an aggregate amount of up to \$20.0 million, all of which was available at September 30, 2014. Funds drawn will be used for general corporate purposes and backup liquidity.

The approval of the Colorado State Banking Board is required prior to the declaration of any dividend by the Bank if the total of all dividends declared by the Bank in any calendar year exceeds the total of its net profits for that year combined with the retained net profits for the preceding two years. In addition, the Federal Deposit Insurance Corporation Improvement Act of 1991 provides that the Bank cannot pay a dividend if it will cause the Bank to be "undercapitalized." At September 30, 2014, the Bank was not otherwise restricted in its ability to pay dividends to the holding company. The Company's ability to pay dividends on its common stock depends upon the availability of dividends from the Bank, earnings from its fee-based lines, and upon the Company's compliance with the capital adequacy guidelines of the Federal Reserve Board of Governors. The holding company has a liquidity policy that requires the maintenance of at least 18 months of liquidity on the balance sheet based on projected cash usages, exclusive of dividends from the Bank. At September 30, 2014, the holding company had a liquidity position that exceeds the policy limit and the Company believes it has the ability to continue paying dividends.

At September 30, 2014, shareholders' equity totaled \$302.7 million, a \$21.6 million increase from December 31, 2013, primarily related to current period earnings of \$22.0 million. Also contributing to the increase was \$3.4 million increase related to stock-based compensation, sales of stock under the employee stock purchase plan and stock option

exercises; and an increase of \$2.2 million in AOCI associated with changes in the fair value of AFS securities and derivatives. Offsetting these increases were common and preferred dividends of \$4.9 million and a \$1.0 million decline associated with the Company's acquisition of its common stock through net share settlements of equity compensation awards.

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

We are subject to minimum risk-based capital limitations as set forth by federal banking regulations at both the consolidated Company level and the Bank level. Under the risk-based capital guidelines, different categories of assets, including certain off-balance sheet items, such as loan commitments in excess of one year and letters of credit, are assigned different risk weights, based generally on the perceived credit risk of the asset. These risk weights are multiplied by corresponding asset balances to determine a "risk-weighted" asset base. For purposes of the risk-based capital guidelines, total capital is defined as the sum of "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 September 30, 2014, the Bank was well-capitalized with a Tier 1 Capital ratio of 12.4% and Total Capital ratio

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of 13.6%. 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 September 30, 2014, was 14.5% and its Total Capital ratio 15.7%. In order to comply with the regulatory capital constraints, the Company and its Board of Directors constantly monitor the capital level and its anticipated needs based on the Company's growth. The Company has identified sources of additional capital that could be used if needed, and monitors the costs and benefits of these sources, which include both the public and private markets.

In July 2013, the Federal Reserve Board finalized rules, known as Basel III, reforming the regulatory capital framework for banking institutions. The U.S. banking regulatory agencies have implemented the reforms which are designed to ensure that banks maintain strong capital positions even in the event of severe economic downturns or unforeseen losses. Basel III contained a provision that preserves the current capital treatment of TPS issued by bank holding companies with less than \$15 billion in total assets. The Company has \$70.0 million of TPS included in regulatory capital at September 30, 2014, that will be grandfathered under Basel III. The rules will increase both the quantity and quality of required capital beginning January 1, 2015, with full implementation by 2018.

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

Effects of Inflation and Changing Prices

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

Forward Looking Statements

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

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

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•The risks identified under “Risk Factors” in Item 1A of our annual report on Form 10-K for the year ended December 31, 2013.

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Asset/Liability Management

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

The following table presents an analysis of the interest-rate sensitivity inherent in our net interest income for the next 12 months and market value of equity. The interest rate scenario presented in the table includes interest rates at September 30, 2014, as adjusted by rate changes upward of up to 200 basis points ramped over a 12-month period. Due to the current interest rate environment, the FOMC has a 0-25 basis point target federal funds rate at September 30, 2014, with prime set at 300 basis points above the FOMC target, the downward movement analysis was limited to a 100 basis point change. The market value sensitivity analysis presented includes assumptions that (i) the composition of our interest rate sensitive assets and liabilities existing at September 30, 2014, 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	(1.4)%	0.0%	1.5%	3.7%
Market value of equity	n/a	(32.2)%	0.0%	22.2%	36.8%

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

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures at September 30, 2014, the end of the period covered by this report ("Evaluation Date"), pursuant to Exchange Act Rule 13a-15(e). Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic SEC filings.

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

Changes in Internal Control. During the quarter that ended on the Evaluation Date, there were no changes in internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

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

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

Period	Total number of shares	Average price paid per share
August 1 - August 31, 2014	184	\$ 11.12
Total	184	\$ 11.12

Item 6. Exhibits

Exhibits and Index of Exhibits.

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.
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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SIGNATURES

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

COBIZ FINANCIAL INC.

Date: October 24, 2014 By: /s/ Steven
Bangert
Steven
Bangert
Chairman
and Chief
Executive
Officer

Date: October 24, 2014 By: /s/ Lyne B.
Andrich
Lyne B.
Andrich
Executive
Vice
President
and Chief
Financial
Officer