COBIZ FINANCIAL INC
Form 10-K
February 12, 2016
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark one)

[X]Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the fiscal year ended December 31, 2015.

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

For the transition period from _______________ to ________________

Commission file number 001-15955

COBIZ FINANCIAL INC.

(Exact name of registrant as specified in its charter)

COLORADO	84-0826324
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
821 17th St., Denver, CO	80202
(Address of principal executive offices)	(Zip Code)

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act.

Yes No X

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No X

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

Yes X No

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

Yes X No

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

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

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

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

Yes No X

The aggregate market value of the voting common equity held by non-affiliates of the registrant at June 30, 2015, computed by reference to the closing price on the NASDAQ Global Select Market was $395,832,870. Shares of voting stock held by each officer and director and by each person who owns 5% or more of the outstanding voting stock (as publicly reported by such persons pursuant to Section 13 and Section 16 of the Securities Exchange Act of 1934) have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares outstanding of the registrant’s sole class of common stock as of February 10, 2016, was 41,118,765.

Documents incorporated by reference: Portions of the registrant’s proxy statement to be filed with the Securities and Exchange Commission in connection with the registrant’s 2016 annual meeting of shareholders are incorporated by reference into Part III of this Form 10-K.

Table of Contents

TABLE OF CONTENTS

PART I		
Item 1.	Business	4
Item 1A.	Risk Factors	16
Item 1B.	Unresolved Staff Comments	22
Item 2.	Properties	22
Item 3.	Legal Proceedings	22
Item 4.	Mine Safety Disclosures	23
PART II		
Item 5.	Market for Registrant’s Common Equity, Related Stockholder Matters And Issuer Purchases of Equity Securities	23
Item 6.	Selected Financial Data	25
Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	26
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	59
Item 8.	Financial Statements and Supplementary Data	62
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	62
Item 9A.	Controls and Procedures	63
Item 9B.	Other Information	63
PART III		
Item 10.	Directors, Executive Officers and Corporate Governance	63
Item 11.	Executive Compensation	63
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	63
Item 13.	Certain Relationships and Related Transactions and Director Independence	64
Item 14.	Principal Accounting Fees and Services	64
PART IV		
Item 15.	Exhibits and Financial Statement Schedules	65
SIGNATURES		67
Index to Consolidated Financial Statements		F-1

Table of Contents

A WARNING ABOUT FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements that describe CoBiz Financial's future plans, strategies and expectations. All forward-looking statements are based on assumptions and involve risks and uncertainties, many of which are beyond our control and which may cause our actual results, performance or achievements to differ materially from the results, performance or achievements contemplated by the forward-looking statements. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words such as "believe," "expect," "anticipate," "intend," "plan," "estimate" or words of similar meaning, or future or conditional verbs such as "would," "should," "could" or "may." Forward-looking statements speak only at the date they are made. Important factors that could cause actual results to differ materially from our expectations are disclosed under "Risk Factors" and elsewhere in this report, including, without limitation, in conjunction with the forward-looking statements included in this report.

We undertake no obligation to publicly update or otherwise revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Table of Contents

PART I

Item 1. Business

Overview

CoBiz Financial Inc. (CoBiz or the Company) is a diversified financial services company headquartered in Denver, Colorado. Through our subsidiary companies, we combine elements of personalized service found in community banks with sophisticated financial products and services traditionally offered by larger regional banks that we market to our targeted customer base of professionals, high-net-worth individuals and small to mid-sized businesses. At December 31, 2015, we had total assets of $3.4 billion, net loans of $2.7 billion and deposits of $2.7 billion. We were incorporated in Colorado on February 19, 1980.

Our wholly-owned subsidiary CoBiz Bank (the Bank) is a full-service business banking institution serving two markets, Colorado and Arizona. In Colorado, the Bank operates under the name Colorado Business Bank and has 13 locations, including nine in the Denver metropolitan area, and one each in Boulder, Colorado Springs, Fort Collins and Vail. In Arizona, the Bank operates under the name Arizona Business Bank and has five locations (excluding one bank location that closed in January 2016) serving the Phoenix metropolitan area and the surrounding area of Maricopa County. Each of the Bank's locations is led by a local president with substantial decision-making authority. We centrally support our bank and fee-based businesses with back-office services from our downtown Denver offices.

Our banking products are complemented by our fee-based business lines. Through a combination of internal growth and acquisitions, our fee-based business lines have grown to include employee benefits brokerage and consulting, insurance brokerage, and wealth management services. We believe offering such complementary products allows us to both broaden our relationships with existing customers and attract new customers to our core business.

Segments

We operate three distinct segments, as follows:

- Commercial Banking
- Fee-Based Lines
- Corporate Support and Other

Table of Contents

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

Commercial Banking through:	• Commercial banking
Colorado Business Bank	• Real estate banking
Arizona Business Bank	• Professional banking
	• Treasury management
	• Leveraged lending
Fee-Based Services through:	Wealth Management
CoBiz Wealth, LLC	• Retirement income strategy
CoBiz Insurance, Inc.	• Coordinated investment planning
	• Financial & insurance review
	• Will & trust review
	• Investment management
	Insurance - Employee Benefits
	• Performance-based analytics
	• 24/7 online benefit technology
	• Employee education
	• Multi-year planning
	Insurance - Risk Management
	• Business insurance including workers' compensation
	• Personal insurance including umbrella coverage
	• 24/7 online access to policy detail

During the first quarter of 2015, the Company ceased the operations of its investment banking division. In 2012, the Company closed its trust department and sold its wealth transfer business. The decision to exit these business lines was based on the Company’s desire to focus on activities that provide more predictable, recurring revenue. The operations of the trust department, wealth transfer and investment banking divisions have been reported as discontinued operations throughout this report (all within the Fee-Based Lines segment).

For a complete discussion of the segments included in our principal activities and certain financial information for each segment, see Note 19 to the consolidated financial statements.

Mission Statement

Our mission is to serve the complete financial needs of successful businesses, business owners, professionals and high-net-worth individuals. We create thoughtful, integrated, comprehensive solutions tailored to each customer’s

needs, thereby freeing them to succeed personally and professionally. Our long-term goal is to be recognized as the premier financial services provider to the business community in the markets we serve, creating engaged employees, longer term customer relationships and superior shareholder value.

Our core values are:

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

Table of Contents

Business Strategy

Our primary strategy is to differentiate ourselves from our competitors by providing our local presidents with substantial decision-making authority in developing their respective markets, and expanding our products and services to build long-term relationships that meet the needs of small to mid-sized businesses, business owners and professionals in high-growth Western markets. In all areas of our operations, we focus on attracting and retaining the highest-quality personnel by maintaining an environment which allows our employees to effectively respond to customer needs and manage those relationships. In order to realize our strategic objectives, we are pursuing the following strategies:

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

The following table details the Company's market share of deposits in Colorado and Arizona, as well as other banks headquartered in our market areas and out-of-state banks as reported by the Federal Deposit Insurance Corporation (FDIC) and SNL Financial at June 30, 2015 and 2014.

	June 30, 2015		June 30, 2014	
Market share	Colorado %	Arizona %	Colorado %	Arizona %
CoBiz Bank	1.80 %	0.58 %	1.66 %	0.52 %
Other in-state banks	32.22 %	9.36 %	32.93 %	9.94 %
Out-of-state banks	65.98 %	90.06 %	65.41 %	89.54 %
Total	100.00 %	100.00 %	100.00 %	100.00 %
Deposit market share rank	12th	17th	12th	17th

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

MSA	June 30, 2015 Deposit Market Share Rank	Market Share %	June 30, 2014 Deposit Market Share Rank	Market Share %
Denver-Aurora-Lakewood, CO	9th	2.52 %	8th	2.32 %
Boulder, CO	9th	3.57 %	9th	3.56 %
Edwards, CO	7th	2.23 %	8th	1.92 %
Fort Collins, CO	27th	0.10 %	29th	0.03 %
Colorado Springs, CO	37th	0.11 %	38th	0.01 %
Phoenix-Mesa-Glendale, AZ	13th	0.78 %	14th	0.70 %

Loan portfolio growth and diversification. We have emphasized expanding our overall loan products in order to diversify and grow the loan portfolio. In recent years, we have had growth initiatives focused on jumbo mortgage lending, public financing, Small Business Administration (SBA) lending, structured-finance lending and a niche focused on healthcare lending. The addition of these products has enabled the Bank to continue to grow its loan portfolio in a competitive and challenging environment.

Establishing strong brand awareness. We have developed a cohesive and comprehensive approach to our internal and external communications efforts to leverage the power of each subsidiary as part of the larger company. Our brand platform has unified the look and feel of the CoBiz identity across the Company. With a

Table of Contents

target market that is similar across subsidiaries, our strong brand awareness helps generate cross-sell opportunities while strengthening client relationships.

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

Maintaining asset quality. We seek to maintain asset quality through a program that includes regular reviews of loans and ongoing monitoring of the loan portfolio by a loan review department that reports to the Chief Operations Officer of the Company but submits reports directly to the Audit Committee of our Board of Directors. At December 31, 2015, our ratio of nonperforming loans to total loans was 0.60%, compared to 0.38% at December 31, 2014. The increase in the ratio of nonperforming loans in 2015 was driven by one large loan of $11.2 million that was impaired and placed on nonaccrual in the fourth quarter of 2015.

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

Focus on cost efficiencies. We have heavily invested in our current infrastructure in order to position us for future growth across all of our business units. As a result, our profitability and efficiency ratio has been adversely impacted. Going forward, we intend to place additional emphasis on expense management initiatives in order to improve efficiencies and our operating results.

Expansion. We intend to continue to explore acquisitions of financial institutions or financial service entities within our market areas. However, the focus of our approach to expansion is predicated on recruiting key personnel to lead new initiatives. While we normally consider an array of new locations and product lines as potential expansion initiatives, we will generally proceed only upon identifying quality management personnel with a loyal customer following in the community or experienced in the product line that is the target of the initiative. We believe focusing on individuals who are established in their communities and experienced in offering sophisticated financial products and services will enhance our market position and add growth opportunities. In 2014 we opened bank locations in two new markets in Colorado, Fort Collins and Colorado Springs.

Market Areas Served

We operate in two western markets in the United States – Colorado and Arizona. These markets are currently dominated by a number of large regional and national financial institutions. The Company's success is dependent to a significant degree on the economic conditions of these two geographical markets.

Colorado. Denver's economy is diversified with significant representation in several industries. While Colorado is known as an oil rich state, employment in the oil and gas industry has declined from 2.0% of total payrolls in 1982 to 1.0% in 2013. Colorado was the second-fastest growing state in the United States in terms of percentage population growth from July 2014 to July 2015. Colorado was also the fifth-ranked state in terms of net migration into the state from April 2010 to July 2015.

We have two locations in downtown Denver, two in Littleton, and one location each in Boulder, Colorado Springs, Commerce City, Cherry Creek, the Denver Technological Center (DTC), Fort Collins, Golden, Louisville and the Vail Valley.

Table of Contents

Arizona. Arizona consistently had one of the highest population growth rates in the nation during the latter half of the 20th century, and also was the second fastest-growing state in terms of percentage population growth from 2000 to 2010 and the ninth-fastest growing state from July 2014 to July 2015. Our banks are located in Maricopa County, one of the nation's largest counties in terms of population size.

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

Colorado Snapshot

Demographics
- Colorado population: 5.5 million
- Metropolitan Denver population: 2.8 million
- Population projected to increase 35% to 5.8 million as measured from 2000 to 2030
- Median household income 2014: $60,940
- Median home price for Metropolitan Denver at September 30, 2015: $353,000

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

Economic Outlook
- Preliminary unemployment rate at December 2015 was 3.5%, down from 4.2% in December 2014 (national average of 5.0%)
- State with the 18th highest job growth between November 2014 and November 2015

Arizona Snapshot

Demographics
- Arizona population: 6.8 million
- Metropolitan Phoenix population: 4.5 million
- Population projected to increase 109% to 10.7 million as measured from 2000 to 2030
- Median household income 2014: $49,254
- Median home price for Metropolitan Phoenix at September 30, 2015: $218,800

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

Economic Outlook
- Preliminary unemployment rate at December 2015 was 5.8%, down from 6.6% in December 2014 (national average of 5.0%)
- State with the 10th highest job growth between November 2014 and November 2015

Competition

CoBiz and its subsidiaries face competition in all of our principal business activities, not only from other financial holding companies and commercial banks, but also from savings and loan associations, credit unions, asset-based

lenders, finance companies, mortgage companies, leasing companies, insurance companies, investment advisors, mutual funds, securities brokers and dealers, investment banks, other domestic and foreign financial institutions, and various nonfinancial institutions.

Please see “Risk Factors” below, as well as the Market Share information provided above for additional information.

Employees

We had 532 full time equivalent employees at December 31, 2015. Employees of the Company are entitled to participate in a variety of employee benefit programs, including: equity plans; an employee stock purchase plan; a 401(k) plan; various comprehensive medical, accident and group life insurance plans; and paid vacations. No Company employee is covered by a collective bargaining agreement and we believe our relationship with our employees to be excellent.

Table of Contents

Supervision and Regulation

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

The Holding Company

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

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

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

The SBLF was available to participants in the Capital Purchase Program (CPP) as a method to refinance preferred stock issued through that program. On September 8, 2011, the Company entered into an agreement under the SBLF, pursuant to which the Company issued and sold to the Treasury, for an aggregate purchase price of $57.4 million, 57,366 shares of the Company’s Senior Non-Cumulative Perpetual Preferred Stock, Series C (Series C Preferred Stock), par value $0.01 per share, having a liquidation value of $1,000 per share. The proceeds from the issuance of the Series C Preferred Stock, along with other available funds, were used to redeem the Series B Preferred Stock

issued through the CPP. The dividend rate varied from 1% to 5% until it was fixed at 1% on September 30, 2013. The Company redeemed the Series C Preferred Stock on July 22, 2015, prior to a scheduled dividend rate increase to 9% in 2016.

Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). On July 21, 2010, President Obama signed into law the Dodd-Frank Act. The Dodd-Frank Act comprehensively reforms the regulation of financial institutions, products and services. Many of the provisions of the Dodd-Frank Act have been the subject of proposed and final rules by the SEC, FDIC and Federal Reserve. However, the full impact of the Dodd-Frank Act on our business and operations will not be known until all regulations implementing the statute are written and adopted. The Dodd-Frank Act may have a material impact on our operations, particularly through increased compliance costs resulting from possible future consumer and fair lending regulations. In October 2015, the Consumer Financial Protection Bureau, which was created pursuant to the Dodd-Frank Act, issued the TILA-RESPA Integrated Disclosure Rule which is effective for new consumer real estate loan applications. This rule has negatively impacted loan closing timelines and increased legal liability and costs of compliance.

Sound Incentive Compensation Policies. In 2010, the Federal Reserve, the Office of the Comptroller of the Currency (OCC), and FDIC issued final guidance to help ensure that incentive compensation policies at banking organizations do not encourage imprudent risk-taking and are consistent with the safety and soundness of the organization. The key principles within the guidance on incentive compensation arrangements are 1) they should appropriately balance risk and financial results to not encourage imprudent risk; 2) they should be compatible with effective controls and risk management; and 3) they should be supported by strong corporate governance, including active and effective oversight by the board of directors. The guidance applies to all employees who individually, or as part of a group, have the ability to expose the organization to material amounts of risk. At a minimum, these rules apply to named executive officers included within a public company's executive compensation disclosures. The Federal Reserve reviews the Company's policies and procedures for incentive compensation arrangements as part of the supervisory process.

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

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

Dividend Restrictions. Dividends on the Company's capital stock (common and preferred stock) are prohibited under the terms of the junior subordinated debenture agreements (see Note 9 to the consolidated financial statements) if the Company is in continuous default on its payment obligations to the capital trusts, has elected to defer interest payments on the debentures or extends the interest payment period. At December 31, 2015, the Company was not in default, had not elected to defer interest payments and had not extended the interest payment period on any of the subordinated debt issuances.

Capital Adequacy. The FRB monitors, on a consolidated basis, the capital adequacy of financial or bank holding companies by using a combination of risk-based and leverage ratios. Failure to meet the capital guidelines may result in the application by the FRB of supervisory or enforcement actions. Under the risk-based capital guidelines, different categories of assets, including certain off-balance sheet items, such as loan commitments 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.

On January 1, 2015, the Basel III regulatory capital rules (Regulation Q, Capital Adequacy of Bank Holding Companies) became effective for the Company. Basel III not only increased most of the required minimum regulatory capital ratios, but also introduced a new Common Equity Tier 1 Capital ratio and the concept of a capital conservation buffer. Basel III has maintained the general structure of the current prompt corrective action thresholds while incorporating the increased requirements, including the Common Equity Tier 1 Capital ratio. The prompt corrective action thresholds for “well-capitalized” organizations imply a cushion of 2% over the minimum capital ratios. In order to be a "well-capitalized" financial holding company or depository institution under Basel III, an institution must maintain a Common Equity Tier 1 Capital ratio of 6.5% or more; a Tier 1 Capital ratio of 8% or more; a Total Capital ratio of 10% or more; and a leverage ratio of 5% or more. Institutions also maintain a capital conservation buffer consisting of Common Equity Tier 1 Capital.

Table of Contents

For purposes of the Basel III risk-based capital guidelines, total capital is defined as the sum of "Common Equity Tier 1", "Additional Tier 1" (Common Equity Tier 1 combined with Additional Tier 1 gives total Tier 1 Capital) and "Tier 2" capital elements. Common Equity Tier 1 capital includes common shareholders' equity reduced by certain regulatory deductions. Additional Tier 1 capital includes noncumulative perpetual preferred stock and other capital instruments allowed by the institutions primary regulator (for the Company, this included the Series C preferred stock and previously issued junior subordinated debentures) and minority interests in consolidated subsidiaries, reduced by certain limitations and regulatory deductions. Tier 2 capital includes, with certain limitations, perpetual preferred stock, certain capital instruments not included in Additional Tier 1 and the allowance for loan losses (limited to 1.25% of risk-weighted assets). The regulatory guidelines require a minimum ratio of total capital to risk-weighted assets of 8% (of which at least 4.5% must be in the form of Common Equity Tier 1 capital and 6.0% in Tier 1 capital). The FRB has also implemented a leverage ratio, which is defined to be a company's Tier 1 capital divided by its average total consolidated assets. The FRB has established a minimum ratio of 4%.

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

	At December 31, 2015			
Ratio	Actual %		Minimum Required %	
Total capital to risk-weighted assets	13.7	%	8.0	%
Tier I capital to risk-weighted assets	10.5	%	6.0	%
Common equity tier 1 to risk-weighted assets	8.8	%	4.5	%
Tier I leverage ratio	9.8	%	4.0	%

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

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

Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act). The Sarbanes-Oxley Act is intended to address systemic and structural weaknesses of the capital markets in the United States that were perceived to have contributed to corporate scandals. The Sarbanes-Oxley Act also attempts to enhance the responsibility of corporate management by, among other things, (i) requiring the chief executive officer and chief financial officer of public companies to provide certain certifications in their periodic reports regarding the accuracy of the periodic reports filed with the SEC, (ii) prohibiting officers and directors of public companies from fraudulently influencing an accountant engaged in the audit of the company’s financial statements, (iii) requiring chief executive officers and chief financial officers to forfeit certain bonuses in the event of a restatement of financial results, (iv) prohibiting officers and directors found to be unfit from serving in a similar capacity with other public companies, (v) prohibiting officers and directors from trading in the company’s equity securities during pension blackout periods, and (vi) requiring the SEC to issue standards of

Table of Contents

professional conduct for attorneys representing public companies. In addition, public companies whose securities are listed on a national securities exchange or association must satisfy the following additional requirements: (a) the company’s audit committee must appoint and oversee the company’s auditors; (b) each member of the company’s audit committee must be independent; (c) the company’s audit committee must establish procedures for receiving complaints regarding accounting, internal accounting controls and audit-related matters; (d) the company’s audit committee must have the authority to engage independent advisors; and (e) the company must provide appropriate funding to its audit committee, as determined by the audit committee.

The Bank

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

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

USA Patriot Act of 2001. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the USA Patriot Act) is intended to allow the federal government to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing and broadened anti-money-laundering requirements.

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

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

Section 23B of the Federal Reserve Act requires that certain transactions between the Bank and any affiliate must be on substantially the same terms, or at least as favorable to the Bank, as those prevailing at the time for comparable transactions with, or involving, non-affiliated companies or, in the absence of comparable transactions, on terms and under circumstances, including credit standards, that in good faith would be

offered to, or would apply to, non-affiliated companies. The aggregate amount of the Bank's loans to its officers, directors and principal shareholders (or their affiliates) is limited to the amount of its unimpaired capital and surplus, unless the FDIC determines that a lesser amount is appropriate.

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

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

Anti-Tying Restrictions. Bank holding companies and their affiliates are prohibited from tying the provision of certain services, such as extensions of credit, to other services offered by a holding company or its affiliates.

Dividend Restrictions. Dividends paid by the Bank and management fees from the Bank and our Fee-Based Lines provide substantially all of the Company's cash flow. The approval of the Colorado Division of Banking is required prior to the declaration of any dividend by the Bank if the total of all dividends declared by the Bank in any calendar year exceeds the total of its net profits of that year combined with the retained net profits for the preceding two years. In addition, the FDICIA provides that the Bank cannot pay a dividend if it will cause the Bank to be "undercapitalized."

Capital Adequacy. Federal regulations establish minimum requirements for the capital adequacy of depository institutions that are generally the same as those established for bank holding companies. See "The Holding Company — Capital Adequacy." Banks with capital ratios below the required minimum are subject to certain administrative actions, including the termination of deposit insurance and the appointment of a receiver, and may also be subject to significant operating restrictions pursuant to regulations promulgated under the FDICIA. See "The Holding Company — Support of Banks."

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

	At December 31, 2015			
Ratio	Actual %		Minimum Required %	
Total capital to risk-weighted assets	12.1	%	8.0	%
Tier I capital to risk-weighted assets	10.9	%	6.0	%
Common equity tier 1 to risk-weighted assets	10.9	%	4.5	%
Tier I leverage ratio	10.1	%	4.0	%

Pursuant to the FDICIA, regulations have been adopted defining five capital levels: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Increasingly severe restrictions are placed on a depository institution as its capital level classification declines. An institution is critically undercapitalized if it has a tangible equity to total assets ratio less than or equal to 2%. An institution is adequately capitalized if it has a total risk-based capital ratio less than 10%, but greater than or equal to 8%; a Common Equity Tier 1 ratio less than 6.5% but greater than 4.5%; or a Tier 1 risk-based capital ratio less than 8%, but greater than or equal to 6%; or a leverage ratio less than 5%, but greater than or equal to 4%. An institution is well-capitalized if it has a total risk-based capital ratio of 10% or greater, a Common Equity Tier 1 ratio of 6.5% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, and a leverage ratio of 5% or greater; and the institution is not subject to an order, written agreement, capital directive or prompt corrective action directive to meet and maintain a specific capital level for any capital measure. Under these regulations, at December 31, 2015, the Bank was well-capitalized, which places no

significant restrictions on the Bank's activities. See "The Holding Company — Capital Adequacy" for a discussion of changes to the capital levels required under Basel III.

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

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

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

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

Deposit Insurance Premiums. Under current regulations, FDIC-insured depository institutions that are members of the FDIC pay insurance premiums at rates based on their assessment risk classification, which is determined, in part, based on the institution's capital ratios and factors that the FDIC deems relevant to determine the risk of loss to the FDIC.

The assessment base is calculated on average daily consolidated assets less average monthly tangible equity (which is defined as Tier 1 Capital). The base assessment rate for a Risk Category I institution is 5 to 9 basis points and the base assessment rates for Risk Categories II – IV range from 14 to 35 basis points. The amount an institution is assessed is based upon statutory factors that includes the degree of risk the institution poses to the insurance fund and may be reviewed semi-annually. A change in our risk category would negatively impact our assessment rates.

Additionally, all institutions insured by the FDIC Bank Insurance Fund are assessed fees to cover the debt of the Financing Corporation, the successor of the insolvent Federal Savings and Loan Insurance Corporation. The current assessment rate effective for the first quarter of 2016 is 0.145 basis points (0.58 basis points annually). The assessment rate is adjusted quarterly.

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

Table of Contents

Fee-Based Lines

CoBiz Wealth, LLC (CoBiz Wealth), is registered with the SEC under the Investment Advisers Act of 1940. The Investment Advisers Act of 1940 imposes numerous obligations on registered investment advisers, including fiduciary duties, recordkeeping requirements, operational requirements and disclosure obligations. Many aspects of CoBiz Wealth's business are subject to various federal and state laws and regulations. These laws and regulations generally grant supervisory agencies and bodies broad administrative powers, including the power to limit or restrict CoBiz Wealth from carrying on its investment management business in the event that they fail to comply with such laws and regulations. In such event, the possible sanctions which may be imposed include the suspension of individual employees, business limitations on engaging in the investment management business for specified periods of time, the revocation of any such company's registration as an investment adviser, and other censures or fines.

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

Changing Regulatory Structure

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

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

Monetary Policy

The monetary policy of the FRB has a significant effect on the operating results of financial or bank holding companies and their subsidiaries. Among the means available to the FRB to affect the money supply are open market

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

Website Availability of Reports Filed with the SEC

The Company maintains an Internet website located at www.cobizfinancial.com on which, among other things, the Company makes available, free of charge, various reports that it files with or furnishes to the SEC, including its annual reports, quarterly reports, current reports and proxy statements. These reports are made available as soon as reasonably practicable after they are filed with or furnished to the SEC. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. Additional information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file

Table of Contents

electronically with the SEC. The Company has also made available on its website its Audit, Compensation and Governance and Nominating Committee charters and corporate governance guidelines. The content on any website referred to in this filing is not incorporated by reference into this filing unless expressly noted otherwise.

Item 1A. Risk Factors

Our business may be adversely affected by the highly regulated environment in which we operate.

We are subject to extensive federal and state regulation, supervision and examination. Banking regulations are primarily intended to protect depositors' funds, FDIC funds, customers and the banking system as a whole, rather than stockholders. These regulations affect our lending practices, capital structure, investment practices, dividend policy and growth, among other things.

As a financial holding company, we are subject to regulation and supervision primarily by the FRB. The Bank, as a Colorado-chartered bank, is subject to regulation and supervision by the Colorado Division of Banking, the FRB and FDIC. We undergo periodic examinations by these regulators, which have extensive discretion and authority to prevent or remedy unsafe or unsound practices or violations of law by banks and financial service holding companies.

The primary federal and state banking laws and regulations that affect us are described in this report under the section captioned “Supervision and Regulation.” These laws, regulations, rules, standards, policies and interpretations are constantly evolving and may change significantly over time. Such changes, including changes regarding interpretations and implementation, could affect us in substantial and unpredictable ways and could have a material adverse effect on our business, financial condition and results of operations. Further, such changes could subject us to additional costs, limit the types of financial services and products we may offer, and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with applicable laws, regulations or policies could result in sanctions by regulatory agencies, civil monetary penalties, and/or damage to our reputation, which could have a material adverse effect on our business, financial condition and results of operations.

Our ability to grow is substantially dependent upon our ability to increase our deposits.

Our primary source of funding growth is through deposit accumulation. Our ability to attract deposits is significantly influenced by general economic conditions, changes in money market rates, prevailing interest rates and competition. If we are not successful in increasing our current deposit base to a level commensurate with our funding needs, we may have to seek alternative higher cost wholesale financing sources or curtail our growth.

Monetary policies and regulations of the Federal Reserve could adversely affect our business, financial condition and results of operations.

The policies of the Federal Reserve have a significant impact on us. Among other things, the Federal Reserve's monetary policies directly and indirectly influence the rate of interest earned on loans and paid on borrowings and interest-bearing deposits and can also affect the value of financial instruments we hold and the ability of borrowers to repay their loans, which could have a material adverse effect on our business, financial condition and results of operations.

Conditions in the financial services markets may adversely affect the business and results of operations of the Company.

The ability of our borrowers to pay interest and repay principal, which affects our financial performance, is highly dependent on the business environment of the overall economy and the business markets in which we operate. In prior years, the financial services industry has been adversely impacted by unfavorable economic

Table of Contents

and market conditions. Many lenders and institutional investors have reduced and, in some cases, ceased to provide funding to borrowers including other financial institutions. The Company has historically used federal funds purchased as a short-term liquidity source and, while the Company continues to actively use this source, credit tightening in the market could reduce funding lines available to the Company. Market turmoil and tightening of credit may lead to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of general business activity.

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

In general, all of our business segments were negatively impacted by market conditions in 2009-2011. During that period, there was a downturn in the real estate market, a slow-down in construction and an oversupply of real estate for sale. While the overall economy and the business of the Company has improved, softening in our real estate markets could hurt our business as a majority of our loans are secured by real estate. Real estate values and real estate markets are generally affected by changes in national, regional or local economic conditions, fluctuations in interest rates and the availability of loans to potential purchasers, changes in tax laws and other governmental statutes, regulations and policies and acts of nature.

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

Weakness in the economy and real estate markets could have a material adverse effect on our business, financial condition, results of operations and cash flows and on the market for our common stock.

Adverse economic factors affecting particular industries could have a negative effect on our customers and their ability to make payments to us.

In addition to the geographic concentration of our markets in Arizona and Colorado, certain industry-specific economic factors also affect us. For example, while we do not have a concentration in energy lending, the industry is cyclical and recently has experienced a significant drop in crude oil and natural gas prices. A severe and prolonged decline in oil and gas commodity prices would adversely affect that industry and, consequently, may adversely affect our customers who are interdependent with that industry and other sectors of the local economy.

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

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

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

Table of Contents

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

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

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

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

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

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

We rely heavily on communications, information systems (both internal and provided by third parties) and the internet to conduct our business. Our business is dependent on our ability to process and monitor large numbers of daily transactions in compliance with legal, regulatory and internal standards and specifications. In addition, a significant portion of our operations relies heavily on the secure processing, storage and transmission of personal and confidential information, such as the personal information of our customers and

Table of Contents

clients. These risks may increase in the future as we continue to increase mobile payments and other internet-based product offerings and expand our internal usage of web-based products and applications.

While we have policies and procedures designed to prevent or limit the effect of a possible failure, interruption or breach of our information systems, there can be no assurance that such action will not occur or, if any does occur, that it will be adequately addressed. For example, although we believe we maintain commercially reasonable measures to ensure the cybersecurity of our information systems, other financial service institutions and companies have reported breaches in the security of their websites or other systems. In addition, several U.S. financial institutions have recently experienced significant distributed denial-of-service attacks, some of which involved sophisticated and targeted attacks intended to disable or degrade service, or sabotage systems. Other potential attacks have attempted to obtain unauthorized access to confidential information or destroy data, often through the introduction of computer viruses or malware, cyber-attacks and other means. To date, none of these efforts has had a material effect on our business or operations. Such security attacks can originate from a wide variety of sources, including persons who are involved with organized crime or who may be linked to terrorist organizations or hostile foreign governments. Those same parties may also attempt to fraudulently induce employees, customers or other users of our systems to disclose sensitive information in order to gain access to our data or that of our customers or clients. We are also subject to the risk that our employees may intercept and transmit unauthorized confidential or proprietary information. An interception, misuse or mishandling of personal, confidential or proprietary information being sent to or received from a customer or third party could result in legal liability, remediation costs, regulatory action and reputational harm.

We could experience an unexpected inability to obtain needed liquidity.

Liquidity measures the ability to meet current and future cash flow needs as they become due. Our liquidity position reflects our ability to meet loan requests, accommodate deposit outflows, service principal and interest repayments on debt and to fund our strategic initiatives. Our ability to meet current financial obligations is a function of our balance sheet structure, ability to liquidate assets and access to alternative sources of funds. We seek to ensure that our funding needs are met by maintaining an appropriate level of liquidity through asset and liability management. If we become unable to obtain funds when needed, it could have a material adverse effect on our business, financial condition and results of operations.

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

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

made and could have a material adverse impact on the Company's results of operations and financial condition.

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

Table of Contents

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

The need to account for assets at market prices may adversely affect our results of operations.

We report certain assets, including securities, at fair value. Generally, for assets that are reported at fair value we use quoted market prices or valuation models that utilize market data inputs to estimate fair value. Because we carry these assets on our books at their fair value, we may incur losses even if the assets in question present minimal credit risk. We may be required to recognize other-than-temporary impairments in future periods with respect to securities in our portfolio. The amount and timing of any impairment recognized will depend on the severity and duration of the decline in fair value of the securities and our estimation of the anticipated recovery period.

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

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

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

The OCC, the FRB and the FDIC finalized joint supervisory guidance in 2006 on sound risk management practices for concentrations in commercial real estate lending. The guidance is intended to help ensure that institutions pursuing a significant commercial real estate lending strategy remain healthy and profitable while continuing to serve the credit needs of their communities. The agencies are concerned that rising commercial real estate loan concentrations may expose institutions to unanticipated earnings and capital volatility in the event of adverse changes in commercial real estate markets. The guidance reinforces and enhances existing regulations and guidelines for safe and sound real estate lending. The guidance provides supervisory criteria, including numerical indicators to assist in identifying institutions with potentially significant commercial real estate loan concentrations that may warrant greater supervisory scrutiny. The guidance does not limit banks' commercial real estate lending, but rather guides institutions in developing risk

management practices and levels of capital that are commensurate with the level and nature of their commercial real estate concentrations. Lending and risk management practices of the Company will be taken into account in supervisory evaluation of capital adequacy. Our commercial real estate portfolio at December 31, 2015 did not meet the definition of commercial real estate concentration as set forth in the final guidelines. If the Company is considered to have a concentration in the future and our risk management practices are found to be deficient, it could result in increased reserves and capital costs.

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

In certain situations, under various federal, state and local environmental laws, ordinances and regulations as well as the common law, a current or previous owner or operator of real property may be liable for the cost of removal or remediation of hazardous or toxic substances on such property or damage to property or personal injury. Such laws may impose liability whether or not the owner or operator was responsible for the presence

Table of Contents

of such hazardous or toxic substances. Environmental laws also may impose restrictions on the manner in which properties may be used or businesses may be operated, and these restrictions may require expenditures by one or more of our borrowers. Such laws may be amended so as to require compliance with stringent standards which could require one or more of our borrowers to make unexpected expenditures, some of which could be substantial. Environmental laws provide for sanctions in the event of noncompliance and may be enforced by governmental agencies or, in certain circumstances, by private parties. One or more of our borrowers may be responsible for such costs which would diminish the value of our collateral. The cost of defending against claims of liability, of compliance with environmental regulatory requirements or of remediating any contaminated property could be substantial and require a material portion of the cash flow of one or more of our borrowers, which would diminish the ability of any such borrowers to repay our loans.

Changes in interest rates may affect our profitability.

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

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

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

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

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

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

Table of Contents

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

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

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

At December 31, 2015, we had 13 bank locations, two fee-based locations and an operations center in Colorado and five bank locations (excluding one bank location that closed in January 2016) and a fee-based location in Arizona. Our executive offices are located at 821 17th St., Denver, Colorado 80202. We lease our executive offices and a branch location from entities partly owned or controlled by a director of the Company. See “Certain Relationships and Related Transactions and Director Independence” under Item 13 of Part III and Note 16 to the consolidated financial statements. The Company leases all of its facilities with the exception of a single Colorado branch which the

Company has owned since 2010. The terms of these leases expire between 2016 and 2024.

In January 2016, the Company entered into a new lease for facilities at 1401 Lawrence Street, Denver, CO, 80202. The leased space will become the new headquarters for the Company and includes approximately 44,000 square feet of office space and 4,000 square feet of ground level retail space for a bank location. The Company expects to take possession of the space on or about June 1, 2016 and will relocate and commence operations from that location in November 2016. The lease of the Company's current headquarters at 821 17th Street, Denver, CO 80202, which expires in May 2016, is expected to be extended for up to seven months to facilitate an orderly relocation in the second half of 2016.

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

Item 3. Legal Proceedings

Periodically and in the ordinary course of business, various claims and lawsuits which are incidental to our business are brought against or by us. We believe, based on the dollar amount of the claims outstanding at

the end of the year, the ultimate liability, if any, resulting from such claims or lawsuits will not have a material adverse effect on the business, financial condition, results of operations or cash flows of the Company.

Item 4. Mine Safety Disclosures

None.

PART II

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

Market for Registrant's Common Equity

The common stock of the Company is traded on the NASDAQ Global Select Market under the symbol "COBZ." At February 10, 2016, there were approximately 418 shareholders of record of CoBiz common stock.

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

	High	Low	Cash Dividends Declared
2014:			
First Quarter	$ 12.45	$ 10.07	$ 0.035
Second Quarter	11.85	9.84	0.035
Third Quarter	11.83	10.61	0.040
Fourth Quarter	13.60	11.05	0.040
2015:			
First Quarter	$ 13.23	$ 10.88	$ 0.040
Second Quarter	13.54	11.32	0.040

Third Quarter	13.44	12.25	0.045
Fourth Quarter	13.94	11.95	0.045

On January 21, 2016, the Board of Directors approved a quarterly dividend for the first quarter of 2016 of $0.045 per share. The timing and amount of future dividends declared by the Board of Directors of the Company will depend upon the consolidated earnings, financial condition, liquidity and capital requirements of the Company and its subsidiaries, the amount of cash dividends paid to the Company by its subsidiaries, applicable government regulations and policies, and other factors considered relevant by the Board of Directors of the Company. The Company is subject to certain covenants pursuant to the issuance of its junior subordinated debentures as described in Note 12 to the consolidated financial statements that could limit our ability to pay dividends.

On July 22, 2015, the Company redeemed all shares of the Series C Preferred Stock including all accrued dividends. As of the date of the redemption, the Company had paid all required dividends under the terms of the Series C securities purchase agreement when due and any potential restrictions imposed by the securities purchase agreement have been removed.

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

Table of Contents

The following table compares the cumulative total return on a hypothetical investment of $100 in CoBiz common stock on December 31, 2010 and the closing prices on each of the five years in the period ended December 31, 2015, with the hypothetical cumulative total return on the Russell 2000 Index and the SNL U.S. Bank NASDAQ Index for the comparable period.

	2010	2011	2012	2013	2014	2015
CoBiz Financial Inc.	$ 100.00	$ 95.53	$ 124.99	$ 202.78	$ 225.63	$ 233.86
SNL U.S. Bank NASDAQ	$ 100.00	$ 88.73	$ 105.75	$ 152.00	$ 157.42	$ 169.94
Russell 2000 Index	$ 100.00	$ 95.82	$ 111.49	$ 154.78	$ 162.35	$ 155.18

The table below summarizes shares acquired and amounts paid in net settlement of restricted stock awards during the quarter ended December 31, 2015:

Period	Total number of shares	Average price paid per share
December 1 - December 31, 2015	1,819	$ 13.42

Securities Authorized for Issuance under Equity Compensation Plans

The Company has adopted the Amended and Restated 2005 Equity Incentive Plan (the “2005 Plan”). Under the 2005 Plan, the Compensation Committee has the authority to determine the identity of the key employees, consultants, and directors who shall be granted options or restricted stock awards; the option price, which shall not be less than 85% the fair market value of the common stock on the date of grant; the vesting requirements; and the manner and times at which the options shall be exercisable. As of December 31, 2015, there were 2,642,346 shares available for grant under the 2005 Plan. The Company also has an Employee Stock Purchase Plan which had 233,879 shares available for issuance at December 31, 2015.

	Number of securities to be issued upon	Weighted-average exercise price	Number of securities remaining available for future

Plan Category	exercise of outstanding options, warrants and rights	of outstanding options, warrants and rights	issuance under equity compensation plans
Equity Compensation plans approved by security holders	461,050	$ 8.87	2,876,225
Equity compensation plans not approved by security holders	-	-	-
Total	461,050	$ 8.87	2,876,225

24

Table of Contents

Item 6. Selected Financial Data

The following table sets forth selected financial data for the Company for the periods indicated. Discontinued operations have been reported retrospectively for all periods presented in the following table as discussed in Note 2 to the consolidated financial statements.

	At or for the year ended December 31,				
(in thousands, except per share data)	2015	2014	2013	2012	2011
Statement of income data:					
Interest income	$ 121,266	$ 114,317	$ 106,127	$ 106,128	$ 111,264
Interest expense	9,590	8,429	10,426	12,750	14,863
Net interest income before provision for loan losses	111,676	105,888	95,701	93,378	96,401
Provision for loan losses	6,420	(4,155)	(8,804)	(4,733)	4,002
Net interest income after provision for loan losses	105,256	110,043	104,505	98,111	92,399
Noninterest income	30,667	27,909	28,606	26,720	23,578
Noninterest expense	100,177	94,136	90,912	87,022	89,934
Income before taxes	35,746	43,816	42,199	37,809	26,043
Provision (benefit) for income taxes	9,606	15,018	13,909	13,411	(6,313)
Net income from continuing operations	26,140	28,798	28,290	24,398	32,356
Net income (loss) from discontinued operations, net of tax	(71)	209	(679)	172	1,106
Net income	$ 26,069	$ 29,007	$ 27,611	$ 24,570	$ 33,462
Basic earnings per common share from continuing operations	$ 0.63	$ 0.69	$ 0.68	$ 0.55	$ 0.73
Diluted earnings per common share from continuing operations	$ 0.62	$ 0.69	$ 0.68	$ 0.55	$ 0.73
Basic earnings (loss) per common share from discontinued operations	$ -	$ 0.01	$ (0.02)	$ -	$ 0.03
Diluted earnings (loss) per common share from discontinued operations	$ -	$ 0.01	$ (0.02)	$ -	$ 0.03
Basic earnings per common share	$ 0.63	$ 0.70	$ 0.66	$ 0.55	$ 0.76
Diluted earnings per common share	$ 0.62	$ 0.70	$ 0.66	$ 0.55	$ 0.76
Cash dividends declared per common share	$ 0.17	$ 0.15	$ 0.12	$ 0.07	$ 0.04
Dividend payout ratio	27.42 %	21.43 %	18.18 %	12.73 %	5.26 %

Balance sheet data:					
Total assets	$ 3,351,767	$ 3,062,166	$ 2,800,691	$ 2,653,641	$ 2,423,504
Total investments	512,812	484,621	556,796	571,665	633,308
Loans	2,699,205	2,405,575	2,084,359	1,926,432	1,637,424
Allowance for loan losses	40,686	32,765	37,050	46,866	55,629
Deposits	2,741,712	2,492,291	2,279,037	2,129,260	1,918,406
Junior subordinated debentures	72,166	72,166	72,166	72,166	72,166
Subordinated notes payable	59,031	-	-	20,984	20,984
Shareholders' equity	273,536	308,769	281,085	257,051	220,082
Key ratios:					
Return on average total assets	0.83 %	0.99 %	1.02 %	0.98 %	1.39 %
Pre-tax, Core Earnings return on assets (PTCE ROA)(1)	1.54 %	1.40 %	1.36 %	1.41 %	1.46 %
Return on average shareholders' equity	8.77 %	9.82 %	10.29 %	10.15 %	16.23 %
Average shareholders' equity to average total assets	9.44 %	10.10 %	9.93 %	9.65 %	8.58 %
Net interest margin	3.86 %	3.91 %	3.81 %	3.99 %	4.23 %
Efficiency ratio(2)	67.91 %	70.31 %	70.88 %	71.84 %	71.85 %
Nonperforming assets to total assets	0.64 %	0.49 %	0.68 %	1.14 %	1.89 %
Nonperforming loans to total loans	0.60 %	0.38 %	0.67 %	1.02 %	1.66 %
Allowance for loan and credit losses to total loans	1.51 %	1.36 %	1.78 %	2.43 %	3.40 %
Allowance for loan and credit losses to nonperforming loans	250.81 %	357.89 %	265.78 %	237.75 %	204.38 %
Net (recoveries) charge-offs to average loans	(0.06) %	0.01 %	0.05 %	0.23 %	0.86 %

(1) Pre-tax, Core Earnings (PTCE) is a non-GAAP measure and is calculated as total revenue less noninterest expense (excluding impairment, valuation losses and other nonrecurring expenses). The Company believes that PTCE is a useful financial measure that enables investors and others to assess the Company's ability to generate capital to cover credit losses and is a reflection of earnings generated by the core business. The following is a reconciliation of PTCE earnings to its most comparable GAAP measure.

Table of Contents

	At and for the year ended December 31,				
(in thousands)	2015	2014	2013	2012	2011
Net income from continuing operations - GAAP	$ 26,140	$ 28,798	$ 28,290	$ 24,398	$ 32,356
Adjusted for:					
Taxable equivalent adjustment	5,720	3,807	2,760	1,907	1,184
Provision (benefit) for income taxes	9,606	15,018	13,909	13,411	(6,313)
Severance	1,043	-	-	-	-
Provision for loan and credit losses	6,420	(4,155)	(8,804)	(4,768)	3,976
Net other than temporary impairment losses on securities recognized in earnings	-	-	-	297	771
(Gain) loss on securities, other assets and other real estate owned	(369)	(2,597)	683	65	3,145
Pre-tax, Core Earnings	$ 48,560	$ 40,871	$ 36,838	$ 35,310	$ 35,119
Average assets	$ 3,149,310	$ 2,925,168	$ 2,702,211	$ 2,508,222	$ 2,403,960
PTCE ROA	1.54 %	1.40 %	1.36 %	1.41 %	1.46 %

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

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

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

Earnings are derived primarily from our net interest income, which is interest income less interest expense, and our noninterest income earned from Fee-Based Lines and banking service fees, offset by noninterest expense. As the majority of our assets are interest-earning and our liabilities are interest-bearing, changes in interest rates impact our net interest margin, the largest component of our operating revenue (which is defined as net interest income plus noninterest income). We manage our interest-earning assets and interest-bearing liabilities to reduce the impact of interest rate changes on our operating results. We also have focused on reducing our dependency on our net interest margin by increasing our noninterest income.

We concentrate on developing an organization with personnel, management systems and products that will allow us to compete effectively and position us for growth. Although we strive to minimize costs that do not impact customer service, we continue to invest in systems and business production personnel to strengthen our future growth prospects.

Industry Overview. At the December 2015 Federal Open Market Committee (FOMC) meeting, citing considerable improvement in labor market conditions and confidence that inflation will rise, over the medium term, to its 2% objective, the FOMC raised the target range for the federal funds rate to 25 to 50 basis points. The FOMC noted that it will continue to assess realized and expected economic conditions relative to its goals of maximum employment and 2% inflation when deciding on future adjustments to the federal funds rate.

The banking industry continues to be impacted by new legislative and regulatory reform proposals. Basel III became effective for “non-advanced approaches” banks, such as the Company, in 2015. Basel III raised both the quality and quantity requirements for regulatory capital. Overall, the total regulatory capital ratio for the industry fell in the first quarter of 2015.

The national unemployment rate decreased from 5.6% in December 2014 to 5.0% at December 2015. The unemployment rate has steadily decreased during 2015 and is at the lowest level since April 2008. The unemployment rate has now fallen below the maximum target level set by the FOMC, which supported the increase in the federal funds rate in December 2015.

Table of Contents

Bank failures continued to slow, with 6 in 2015 (through September) following 18 in 2014, the lowest levels since 2007. From 2008 to 2014, 507 banks failed and went into receivership with the FDIC, causing estimated losses of $74.01 billion to the Depository Insurance Fund. This compares to only 10 bank failures in the years from 2003 to 2007. The FDIC's "problem list" stood at 203 at September 30, 2015, down from a peak of 884 at the end of 2010.

In the third quarter of 2015, FDIC-insured banks reported industry revenue that was largely unchanged from the prior year. Earnings for the third quarter of 2015 were higher than the prior year quarter, driven primarily by a decrease in noninterest expense. The net interest margin for the industry remains near a historic low at 3.08% for the third quarter of 2015, a decline of 7 basis points from the prior-year quarter. A 30-year low on the net interest margin was set in the first quarter of 2015 at 3.02%. Industry-wide, provision for loan losses continued to trend upward with a five-quarter consecutive increase. Through September 2015, all FDIC-insured institutions reported a return on assets of 1.05%, a return on equity of 9.33%, a net charge-off ratio of 0.42% and an efficiency ratio of 60.0%.

Company Overview. From December 31, 1995, the first complete fiscal year under the current management team, to December 31, 2015, our organization has grown from a bank holding company with two bank locations and total assets of $160.4 million to a diversified financial services holding company with 18 bank locations (excluding one bank location closed in January 2016) with total assets of $3.4 billion and expanded into wealth and insurance services.

The Company has a well-capitalized balance sheet that includes common equity, subordinated notes payable and subordinated debentures. The Company redeemed $57.4 million in preferred stock issued to the Treasury in 2015, prior to an increase in the dividend rate to 9.0%. The SBLF was redeemed through the issuance of $60.0 million in subordinated notes in June 2015.

As discussed in "Item 1. Business" and Note 2 to the consolidated financial statements, the Company ceased the operations of its investment banking division in the first quarter of 2015. The results of operations related to investment banking have been reported as discontinued operations. The prior period disclosures in the following table have been adjusted to conform to the new presentation.

Internally, management measures the contribution of the Fee-Based Lines before parent company management fees and overhead allocations. The Company believes this to be a more useful measurement as centralized administration expenses and overhead are generally not impacted by the Fee-Based Lines, but are most affected by the operations of the Bank. While the Company allocates a portion of the costs related to shared resources to the Fee-Based Lines, we measure their profitability based on a pre-allocation basis as it approximates the operating cash flow generated by the segment. A description of each segment is provided in Note 19 to the consolidated financial statements.

Table of Contents

Certain key metrics of our operating segments at or for the years ended December 31, 2015, 2014, and 2013 are as follows:

(in thousands, except per share data)	Commercial Banking	Fee-Based Lines	Corporate Support and Other	Consolidated
	2015			
Operating revenue (1)	$ 127,376	$ 17,837	$ (2,870)	$ 142,343
Net income (loss)	$ 29,786	$ (542)	$ (3,175)	$ 26,069
Diluted income (loss) per common share (2)	$ 0.73	$ (0.01)	$ (0.10)	$ 0.62
	2014			
Operating revenue (1)	$ 119,434	$ 16,851	$ (2,488)	$ 133,797
Net income (loss)	$ 32,264	$ 115	$ (3,372)	$ 29,007
Diluted income (loss) per common share (2)	$ 0.80	$ -	$ (0.10)	$ 0.70
	2013			
Operating revenue (1)	$ 112,431	$ 16,222	$ (4,346)	$ 124,307
Net income (loss)	$ 32,134	$ (693)	$ (3,830)	$ 27,611
Diluted income (loss) per common share (2)	$ 0.81	$ (0.02)	$ (0.13)	$ 0.66

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

Table of Contents

Noted below are some of the significant financial performance measures and operational results for 2015 and 2014:

2015	2014
Commercial Banking earnings per share were $0.73 and $0.80 in 2015 and 2014, respectively. While operating revenue increased 6.6% in 2015, net income declined $2.5 million, primarily due to a $10.2 million increase in the provision for loan losses.	Commercial Banking earnings per share were $0.80 and $0.81 in 2014 and 2013, respectively. Improved operating revenue was offset by higher noninterest expense and internal overhead allocations. Decreases in nonperforming assets and classified loans resulted in a negative provision for loan losses of $3.3 million in 2014.
Fee-Based Lines lost $0.01 per share in 2015, compared to break-even in 2014. While noninterest income increased 5.9% in 2015, noninterest expense increased 7.9% in the same period.	Earnings per share on the Fee-Based Lines broke-even in 2014, an improvement of $0.02 per share. A $0.8 million improvement in net income in 2014 compared to 2013 was due to higher noninterest income, offset in part by higher variable compensation and other operating costs.
Corporate Support and Other lost $0.10 per share in 2015 and 2014. The segment benefited from the recapture of past due interest income on a nonperforming loan portfolio that increased interest income $1.0 million in 2015. Offsetting this increase was additional interest expense of $1.8 million from the new subordinated notes issuance.	Corporate Support and Other lost $0.10 per share and $0.13 per share in 2014 and 2013, respectively. The improvement was attributed to lower interest expense from a 2013 debt retirement and reduced losses on Other Real Estate Owned (OREO) sold.
Total assets grew $289.6 million to $3.4 billion during 2015, primarily due to a 12% year-over-year increase in net loans.	Total assets grew $261.5 million to $3.1 billion during 2014, primarily relating to 15% year-over-year loan growth of $321.2 million offset by a decrease in the investment portfolio.
Average noninterest bearing deposits, the most valuable part of the deposit portfolio, represented 41.2% of total average deposits in 2015, compared to 42.5% in 2014.	Average deposits grew $218.2 million in 2014 and the Company maintained a favorable funding mix with noninterest bearing demand deposits comprising 43% of total average deposits. Overall deposit costs for 2014 fell to 0.17% from 0.22% in 2013.
Net income declined 10% to $26.1 million in 2015 from $29.0 million in 2014. Negatively impacting net income was a $10.6 million increase in provision for loan losses in 2015.	Net income grew 5% to $29.0 million in 2014 compared to $27.6 million in 2013, driven by higher net interest income. Partially offsetting the increase in net interest income was a decrease in the reversal of excess loan loss reserves in 2014 compared to 2013. In 2014, the Company recorded a negative provision for loan losses of $4.2 million, compared to a negative provision for loan losses of $8.8 million in 2013.
The net interest margin on a tax-equivalent basis contracted 5 basis points to 3.86%, due to the increased interest expense on the new subordinated notes that reduced the net interest margin by 6 basis points in 2015.	The net interest margin on a tax-equivalent basis expanded 10 basis points to 3.91% driven primarily by lower funding costs. Net interest income (taxable equivalent) increased $11.2 million to $109.7 million on higher average loan volumes.
In the first quarter of 2015, the Company ceased the operations of its investment banking division in order to focus on noninterest income sources that were less	The Company's total risk-based capital ratio was 15.7% at the end of 2014.

transactional in nature.

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

On June 25, 2015, the Company issued $60.0 million of unsecured fixed-to-floating rate subordinated notes due 2030 (Notes). Unless redeemed, the Notes will bear 5.625% annual interest until June 25, 2025 and thereafter until maturity in June 2030 at a floating rate equal to LIBOR plus 317 basis points.

On July 22, 2015, the Company redeemed the $57.4 million in preferred stock issued to the Treasury. The dividend rate on the preferred stock was scheduled to increase from 1.0% in 2015 to 9.0% in 2016.

The Company's total risk-based capital ratio was 13.7% at the end of 2015. Implementation of Basel III in 2015 had the effect of reducing total risk-based capital. Also impacting the composition of risk-based capital during 2015 was the issuance of the Notes which increased Tier 2 capital, while the redemption of the SBLF preferred stock in July 2015 decreased Tier 1 capital. See Note 17 – Regulatory Matters for additional information.

Table of Contents

This discussion should be read in conjunction with the consolidated financial statements and notes thereto included in this Form 10-K beginning on page F-1. For a discussion of the segments included in our principal activities and for certain financial information for each segment, see “Segments” discussed below and Note 19 to the consolidated financial statements.

Critical Accounting Policies

The Company's discussion and analysis of its consolidated financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. In making those critical accounting estimates, we are required to make assumptions about matters that are highly uncertain at the time of the estimate. Different estimates we could reasonably have used, or changes in the assumptions that could occur, could have a material effect on our consolidated financial condition or consolidated results of operations.

Allowance for Loan Losses

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

In determining the appropriate level of the allowance for loan losses, we analyze the various components of the loan portfolio, including impaired loans, on an individual basis. When analyzing the adequacy, we segment the loan portfolio into components with similar characteristics, such as risk classification, past due status, type of loan, industry or collateral. We have a systematic process to evaluate individual loans and pools of loans within our loan portfolio. We maintain a loan grading system whereby each loan is assigned a grade between 1 and 8, with 1 representing the highest quality credit, 7 representing a loan where collection or liquidation in full is highly questionable and improbable, and 8 representing a loss that has been or will be charged-off. Loans that are graded 5 or lower are categorized as non-classified credits, while loans graded 6 and higher are categorized as classified credits that have a higher risk of loss. Grades are assigned based upon the degree of risk associated with repayment of a loan in the normal course of business pursuant to the original terms.

Differences between the actual credit outcome of a loan and the risk assessment made by the Company could negatively impact the Company’s earnings by requiring additional provision for loan losses. As a hypothetical example, if $25.0 million of grade 3, non-classified loans were downgraded as classified at the same historical loss factor of existing classified loans, an additional $2.3 million of provision for loan losses would be required. Conversely, a $25.0 million decrease in classified loans would result in a $2.3 million reversal of provision for loan losses.

See Note 4 to the consolidated financial statements for further discussion on management’s methodology.

Fair Value

The Company has adopted ASC Topic 820, Fair Value Measurements and Disclosures (ASC 820), as it applies to financial assets and liabilities. ASC 820 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under ASC 820 as the exchange price that would be received for an

asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

As a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). Fair value may be used on a recurring basis for certain assets and liabilities such as available for sale securities and derivatives in which fair value is the primary basis of accounting. Similarly, fair value may be used on a nonrecurring basis to evaluate certain assets or liabilities, such as impaired loans. Depending on the nature of the asset or liability, the Company uses various valuation techniques and assumptions in accordance with ASC 820 to determine the instrument's fair value. At December 31, 2015, $157.6 million of total assets, consisting of $153.7 million in available for sale securities and $3.9 million in derivative instruments, represented assets recorded at fair value on a recurring basis. At December 31, 2014, $464.7 million of total assets, consisting of $459.8 million in available for sale securities and $4.9 million in derivative instruments, represented assets recorded at fair value on a recurring basis. At December 31, 2015, the Company had $5.8 million of single-issuer trust preferred securities (TPS) classified as Level 3. The fair value of these TPS is determined using broker-dealer quotes and trade data that may not be current. These TPS are classified as Level 3 due to lack of current market data and their illiquid nature. At December 31, 2015 and 2014, $9.9 million and $10.3 million, respectively, of total liabilities represented derivative instruments recorded at fair value on a recurring basis. Assets recorded at fair value on a nonrecurring basis consisted of impaired loans totaling $6.3 million and $15.7 million at December 31, 2015 and 2014, respectively. For additional information on the fair value of certain financial assets and liabilities see Note 18 to the consolidated financial statements.

Deferred Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance may be established. We consider the determination of this valuation allowance to be a critical accounting policy because of the need to exercise significant judgment in evaluating the amount and timing of recognition of deferred tax liabilities and assets, including projections of future taxable income. These judgments and estimates are reviewed on a continual basis as regulatory and business factors change. See Note 11 to the consolidated financial statements for additional information. A valuation allowance for deferred tax assets may be required in the future if the amounts of taxes recoverable through loss carry backs decline, if we project lower levels of future taxable income, or we project lower levels of tax planning strategies. Such valuation allowance would be established through a charge to income tax expense that would adversely affect our operating results.

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

Financial Condition

The Company had total assets of $3.4 billion and total liabilities of $3.1 billion at December 31, 2015 compared to total assets of $3.1 billion and total liabilities of $2.8 billion at December 31, 2014. The following

Table of Contents

sections address the specific components of the balance sheets and significant matters relating to those components at and for the years ended December 31, 2015 and 2014.

Lending Activities

General. We provide a broad range of lending services, including commercial loans, commercial and residential real estate construction loans, commercial and residential real estate-mortgage loans, consumer loans, revolving lines of credit, and tax-exempt financing. Our primary lending focus is commercial and real estate lending to small- and medium-sized businesses with annual sales of $5.0 million to $75.0 million, and businesses and individuals with borrowing requirements of $250,000 to $15.0 million. At December 31, 2015, substantially all of our outstanding loans were to customers within Colorado and Arizona. Interest rates charged on loans vary with the degree of risk, maturity, underwriting and servicing costs, principal amount, and extent of other banking relationships with the customer. Interest rates are further subject to competitive pressures, money market rates, availability of funds, and government regulations. See “Net Interest Income” for an analysis of the interest rates on our loans.

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

The Company’s credit approval process is as follows:

· Internal lending limits for loans extended to a single borrower are established by the Board of Directors of the Bank.
· Credits equal to the Bank’s internal lending limit require two signatures from either the CEO of the Bank, Chief Credit Officer or a Bank President/Senior Credit Officer.
· Loan authority of officers is approved by the Bank’s Board of Directors, reviewed annually and updated according to the growth of the Bank. The Board of Directors may designate different approval authorities depending on loan grade, loan type, and whether the loan is a new credit or renewal of credit.
· The Board of Directors of the Bank designates the approval authority of the corresponding market’s loan committee. The presence of two of the following is required for any committee loan approval: CEO of the Bank, Chief Credit Officer or a Bank President/Senior Credit Officer.
·

Loan officers are permitted within a 12-month period to approve up to $0.2 million in new credit per customer aggregate loan relationship. In cases where the aggregate credit size exceeds the loan credit officer’s individual authority, the Bank President may approve the additional credit.

Table of Contents

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

	At December 31, 2015		2014		2013		2012		2011	
n housands)	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
ommercial	$ 1,175,379	44.2 %	$ 977,699	41.2 %	$ 824,453	40.3 %	$ 729,442	38.8 %	$ 568,962	36.0 %
eal estate - ortgage	1,016,268	38.2 %	989,719	41.7 %	900,864	44.0 %	880,377	46.8 %	784,491	49.5 %
onstruction land	201,281	7.6 %	181,864	7.7 %	127,952	6.2 %	120,584	6.4 %	125,118	7.9 %
onsumer	253,317	9.5 %	207,955	8.8 %	181,056	8.8 %	149,638	8.0 %	116,676	7.4 %
ther	52,960	2.0 %	48,338	2.0 %	50,034	2.5 %	46,391	2.5 %	42,177	2.7 %
otal loans	$ 2,699,205	101.5 %	$ 2,405,575	101.4 %	$ 2,084,359	101.8 %	$ 1,926,432	102.5 %	$ 1,637,424	103.5 %
ess llowance or loan sses	(40,686)	(1.5) %	(32,765)	(1.4) %	(37,050)	(1.8) %	(46,866)	(2.5) %	(55,629)	(3.5) %
et loans	$ 2,658,519	100.0 %	$ 2,372,810	100.0 %	$ 2,047,309	100.0 %	$ 1,879,566	100.0 %	$ 1,581,795	100.0 %

Total loans increased $293.6 million and $321.2 million in 2015 and 2014, respectively. Although the Company saw growth across all its loan segments in 2015, the Commercial loan segment continued to be the main contributor to loan growth, increasing $197.7 million. Consumer loans, particularly driven by the Company's jumbo mortgage product, increased $45.4 million, or 21.8%, while Construction & land increased $19.4 million or 10.7% during 2015. In 2014, the Commercial loan segment was the primary contributor to loan growth, increasing $153.2 million. Also making a significant contribution to loan growth during 2014 were the Real estate – mortgage and Construction and land segments, increasing $88.9 million and $53.9 million, respectively.

Under state law, the aggregate amount of loans we can make to one borrower is generally limited to 15% of our unimpaired capital, surplus, undivided profits and allowance for loan losses. At December 31, 2015, our individual legal lending limit was $54.5 million. The Bank's Board of Directors has established an internal lending limit of $15.0 million for normal credit extensions and $20.0 million for the highest rated credits. To accommodate customers whose financing needs exceed our internal lending limits and to address portfolio concentration concerns, we may sell loan participations to outside participants. At December 31, 2015 and 2014, the outstanding balance of loan participations sold by us was $8.3 million and $7.5 million, respectively. At December 31, 2015 and 2014, we had loan participations purchased from other banks totaling $74.0 million and $80.0 million, respectively. We use the same analysis in deciding whether to purchase a participation in a loan as we would in deciding whether to originate the same loan.

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

	At December 31,					
	2015		2014		2013	
Credit Relationships	Number of relationships	% of loan portfolio	Number of relationships	% of loan portfolio	Number of relationships	% of loan portfolio
Greater than $6.0 million	98	32.9 %	77	29.1 %	54	22.7 %
$3.0 million to $6.0 million	124	19.2 %	112	19.9 %	108	22.1 %
$1.0 million to $3.0 million	406	25.1 %	363	25.1 %	345	27.7 %
$0.5 million to $1.0 million	445	11.8 %	420	12.7 %	373	12.9 %
Less than $0.5 million	3,844	11.0 %	3,981	13.2 %	4,002	14.6 %
	4,917	100.0 %	4,953	100.0 %	4,882	100.0 %

The majority of the loan relationships exceeding $3.0 million are in our real estate and commercial portfolios. At December 31, 2015 the Company had loans to lessors of nonresidential buildings in the amount of $337.9 million and loans to lessors of other real estate property in the amount of $281.3 million that exceeded 10% of total loans. There were no other concentrations in excess of 10% of the Company’s loan portfolio at December 31, 2015. The Company may be subject to additional regulatory supervisory oversight if its concentration in commercial real estate lending exceeds regulatory parameters. Pursuant to interagency

Table of Contents

guidance issued by the Federal Reserve and other federal banking agencies, supervisory criteria were put in place to define commercial real estate concentrations as:

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

At December 31, 2015 and 2014, the Company's exposure to commercial real estate lending was below the parameters discussed above.

In the ordinary course of business, we enter into various types of transactions that include commitments to extend credit. We apply the same credit standards to these commitments as we apply to our other lending activities and have included these commitments in our lending risk evaluations. Our exposure to credit loss under commitments to extend credit is represented by the amount of these commitments. See Note 16 to the consolidated financial statements for additional discussion on our commitments.

Commercial Loans. Commercial loans increased $197.7 million, or 20.2%, from $977.7 million at December 31, 2014 to $1.17 billion at December 31, 2015. Commercial lending consists of loans to small and medium-sized businesses in a wide variety of industries. We provide a broad range of commercial loans, including lines of credit for working capital purposes and term loans for the acquisition of equipment and other purposes. Commercial loans are generally collateralized by inventory, accounts receivable, equipment, real estate and other commercial assets, and may be supported by other credit enhancements such as personal guarantees. However, where warranted by the overall financial condition of the borrower, loans may be unsecured and based on the cash flow of the business. Terms of commercial loans generally range from one to five years, and the majority of such loans have floating interest rates.

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

	At December 31,								
	2015			2014			2013		
(in thousands)	Balance	% of Commercial loan portfolio		Balance	% of Commercial loan portfolio		Balance	% of Commercial loan portfolio	
Manufacturing	$ 135,058	11.5	%	$ 126,130	12.9	%	$ 105,756	12.8	%
	64,261	5.5	%	80,966	8.4	%	77,024	9.4	%

Finance and insurance												
Health care		126,771	10.8	%		91,969	9.4	%		100,078	12.1	%
Real estate services		118,923	10.1	%		112,913	11.5	%		100,230	12.2	%
Construction		58,081	4.9	%		56,638	5.8	%		51,905	6.3	%
Public administration		221,325	18.8	%		178,778	18.2	%		112,795	13.6	%
All other		450,960	38.4	%		330,305	33.8	%		276,665	33.6	%
	$	1,175,379	100.0	%	$	977,699	100.0	%	$	824,453	100.0	%

Real Estate - Mortgage Loans. Real estate mortgage loans increased $26.5 million, or 2.7%, from $989.7 million at December 31, 2014 to $1.02 billion at December 31, 2015. Real estate mortgage loans include various types of loans for which we hold real property as collateral. We generally restrict commercial real estate lending activity to owner-occupied properties or to investor properties that are owned by customers with which we have a current banking relationship. We make commercial real estate loans at both fixed-and-floating interest rates, with maturities generally ranging from five to 20 years. The Bank’s underwriting standards generally require that a commercial real estate loan not exceed 75% of the appraised value of the property securing the loan. In addition, we originate SBA 504 loans on owner-occupied properties with maturities of up to 25 years in which the SBA allows for financing of up to 90% of the project cost and takes a

Table of Contents

security position that is subordinated to us, as well as U.S. Department of Agriculture (USDA) Rural Development loans.

The properties securing the Company's real estate mortgage loan portfolio are located primarily in the states of Colorado and Arizona. At December 31, 2015 and 2014, 66% and 67% of the Company's outstanding real estate mortgage loans were in the Colorado market, respectively.

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

	At December 31,					
	2015		2014		2013	
(in thousands)	Balance	%	Balance	%	Balance	%
Residential & commercial owner-occupied	$ 436,643	43.0 %	$ 422,471	42.7 %	$ 452,959	50.3 %
Residential & commercial investor	579,625	57.0 %	567,248	57.3 %	447,905	49.7 %
	$ 1,016,268	100.0%	$ 989,719	100.0%	$ 900,864	100.0%

Construction and land. Construction and land increased $19.4 million, or 10.7%, from $181.9 million at December 31, 2014 to $201.3 million at December 31, 2015. We have a portfolio of loans for the acquisition and development of land for residential building projects. We also finance construction projects involving one- to four-family residences. We provide financing to residential developers that we believe have demonstrated a favorable record of accurately projecting completion dates and budgeting expenses. We provide loans for the construction of both pre-sold projects and projects built prior to the location of a specific buyer (speculative loan), although speculative loans are provided on a more selective basis. Residential construction loans are due upon the sale of the completed project and are generally collateralized by first liens on the real estate and have floating interest rates. In addition, these loans are generally secured by personal guarantees to provide an additional source of repayment. We typically require a permanent financing commitment or prequalification be in place before we make a residential construction loan. Moreover, we generally monitor construction draws monthly and inspect property to ensure that construction is progressing as projected. Our underwriting standards generally require that the principal amount of a speculative loan be no more than 75% of the appraised value of the completed construction project or 80% of pre-sold projects. Values are determined primarily by approved independent appraisers.

We also originate loans to finance the construction of multi-family, office, industrial, retail and tax credit projects. These projects are predominantly owned by the user of the property, or are sponsored by financially strong developers who maintain an ongoing banking relationship with us. Our underwriting standards generally require that the principal amount of these loans be no more than 75% of the appraised value. Values are determined primarily by approved independent appraisers.

Construction and land loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the construction and land portfolio are generally located in the states of Colorado and Arizona. At December 31, 2015 and 2014, 80% and 83%, respectively, of the Company's construction and land loans outstanding were generated in the Colorado market.

Consumer Loans. Consumer loans increased $45.4 million, or 21.8%, from $208.0 million at December 31, 2014 to $253.3 million at December 31, 2015. We provide a broad range of consumer loans to customers, including personal lines of credit, home equity loans and automobile loans. In order to improve customer service, continuity and customer retention, the same loan officer often services the banking relationships of both the business and business owners or management. As part of the Company's consumer mortgage products the Company offers jumbo mortgage loans. This residential mortgage financing program offers competitive pricing and terms for the purchase, refinance or permanent financing for non-conforming mortgage loans, which generally exceed $417,000. For primary residences, the standard loan-to-value is 75% for loans up to $2.0 million. The loan-to-value decreases as the size of the loan increases, with a standard loan-to-value of 55% on loans in excess of $3.0 million. In addition, we generally only finance 3/1, 5/1, and 7/1 adjustable-rate mortgage loans as well as 15-year fixed-rate loans. In addition, we broker 15-

Table of Contents

and 30-year fixed-rate conforming mortgages. Jumbo mortgage loans at December 31, 2015 and 2014, totaled $183.2 million or 72% and $157.8 million or 76%, respectively, of the consumer loan portfolio.

Nonperforming Assets

Our nonperforming assets consist of nonaccrual loans, restructured loans, loans past due 90 days or more, OREO and other repossessed assets. Nonaccrual loans are those loans for which the accrual of interest has been discontinued. Impaired loans are defined as loans for which, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement (all of which were on a nonaccrual basis). The following table sets forth information with respect to these assets at the dates indicated.

	At December 31,				
(in thousands)	2015	2014	2013	2012	2011
Nonperforming loans:					
Loans 90 days or more past due and still accruing interest	$ 505	$ 161	$ 19	$ 35	$ 212
Nonaccrual loans:					
Commercial	15,109	3,317	1,330	3,324	3,105
Real estate - mortgage	499	3,416	10,504	10,779	9,295
Construction and land	27	135	1,986	4,926	12,097
Consumer and other	82	2,126	101	648	2,527
Total nonaccrual loans	15,717	8,994	13,921	19,677	27,024
Total nonperforming loans	16,222	9,155	13,940	19,712	27,236
OREO and repossessed assets	5,079	5,819	5,097	10,577	18,502
Total nonperforming assets	$ 21,301	$ 14,974	$ 19,037	$ 30,289	$ 45,738
Performing renegotiated loans	$ 28,196	$ 27,275	$ 29,683	$ 43,321	$ 20,633
Allowance for loan losses	$ 40,686	$ 32,765	$ 37,050	$ 46,866	$ 55,629
Allowance for credit losses	-	-	-	-	35
Allowance for loan and credit losses	$ 40,686	$ 32,765	$ 37,050	$ 46,866	$ 55,664
Nonperforming assets to total assets	0.64 %	0.49 %	0.68 %	1.14 %	1.89 %
Nonperforming loans to total loans	0.60 %	0.38 %	0.67 %	1.02 %	1.66 %
Nonperforming loans and OREO to total loans and OREO	0.79 %	0.62 %	0.91 %	1.56 %	2.76 %
Allowance for loan and credit losses to total loans (excluding loans held for sale)	1.51 %	1.36 %	1.78 %	2.43 %	3.40 %
Allowance for loan and credit losses to nonperforming loans	250.81 %	357.89 %	265.78 %	237.75 %	204.38 %

Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts, the borrower's financial condition is such that the collection of interest is doubtful. A delinquent loan is generally placed on nonaccrual status when it becomes 90 days past due. When a loan is placed on nonaccrual status, all accrued and unpaid interest on the loan is reversed and deducted from earnings as a reduction of reported interest income. No additional interest is accrued on the loan balance until the collection of both principal and interest becomes reasonably certain. When the issues relating to a nonaccrual loan are finally resolved, there may ultimately be an actual write-down or charge-off of the principal balance of the loan, which may necessitate additional charges to earnings. Restructured loans are those for which concessions, including the reduction of interest rates below a rate otherwise available to the borrower, or the reduction of interest or principal, have been granted due to the borrower's weakened financial condition. Interest on restructured loans is accrued at the restructured rates when it is anticipated that no loss of original principal will occur. Interest income that would have been recorded had nonaccrual loans performed in accordance with their original contract terms during 2015, 2014 and 2013, was $0.2 million, $0.3 million and $0.6 million, respectively. OREO represents real property taken by the Company either through foreclosure or through a deed in lieu thereof from the borrower. Repossessed assets include vehicles and other commercial assets acquired under agreements with delinquent borrowers. Subsequent to acquisition at fair value, repossessed assets and OREO are carried at the lesser of cost or fair market value,

Table of Contents

less selling costs. See Note 18 to the consolidated financial statements for additional discussion on the valuation of OREO assets.

Nonperforming assets increased $6.3 million to $21.3 million at December 31, 2015, from $14.9 million at December 31, 2014. The following table summarizes nonperforming assets by type and market.

	2015					2014				
thousands)	Colorado	Arizona	Total	Total in category	NPAs as a %	Colorado	Arizona	Total	Total in category	NPAs as a %
mmercial	$ 14,255	$ 854	$ 15,109	$ 1,175,379	1.29 %	$ 2,716	$ 762	$ 3,478	$ 977,699	0.36
al estate - rtgage	-	499	499	1,016,268	0.05 %	1,003	2,413	3,416	989,719	0.35
nstruction & d	27	-	27	201,281	0.01 %	135	-	135	181,864	0.07
nsumer	82	505	587	253,317	0.23 %	2,126	-	2,126	207,955	1.02
her loans	-	-	-	52,960	- %	-	-	-	48,338	-
EO and ossessed ets	4,903	176	5,079	5,079	NA	5,517	302	5,819	5,819	NA
nperforming ets	$ 19,267	$ 2,034	$ 21,301	$ 2,704,284	0.79 %	$ 11,497	$ 3,477	$ 14,974	$ 2,411,394	0.62

All nonperforming loan categories, except commercial, reflected improvements year-over-year. The adverse change in commercial loans was due to the downgrade of one large credit, placed on nonaccrual during the fourth quarter of 2015, which the Company believes does not represent deterioration in the overall credit quality of the Company. The Company's OREO portfolio consisted of two properties at December 31, 2015, with a Colorado property comprising 97% of the overall OREO balance. At December 31, 2014, approximately 77% or $11.5 million and 23% or $3.5 million of nonperforming assets were concentrated in Colorado and Arizona, respectively. The Company has dedicated significant resources to the workout and resolution of nonaccrual loans and OREO and continues to closely monitor the financial condition of its clients.

In addition to the nonperforming assets described above, the Company had 41 customer relationships considered by management to be potential problem loans with outstanding principal of approximately $25.2 million. A potential problem loan is one as to which management has concerns about the borrower's future performance under the terms of the loan contract. These loans are current as to the principal and interest and, accordingly, are not included in the nonperforming asset categories. However, further deterioration may result in the loan being classified as nonperforming. The level of potential problem loans is factored into the determination of the adequacy of the allowance for loan losses.

Analysis of Allowance for Loan and Credit Losses. The allowance for loan losses represents management's recognition of the risks of extending credit and its evaluation of the quality of the loan portfolio. The allowance is maintained to provide for probable credit losses related to specifically identified loans and for probable incurred losses in the loan portfolio at the balance sheet date. The allowance is based on various factors affecting the loan portfolio, including a review of problem loans, business conditions, historical loss experience, evaluation of the quality of the underlying collateral, and holding and disposal costs. The allowance is increased by additional charges to operating income and reduced by loans charged off, net of recoveries.

The allowance for credit losses represents management's recognition of a separate reserve for off-balance sheet loan commitments and letters of credit. While the allowance for loan losses is recorded as a contra-asset to the loan portfolio on the consolidated balance sheets, the allowance for credit losses is recorded in Accrued Interest and Other Liabilities in the accompanying consolidated balance sheets. Although the allowances are presented separately on the consolidated balance sheets, any losses incurred from credit losses would be reported as a charge-off in the allowance for loan losses, since any loss would be recorded after the off-balance sheet commitment had been funded. Due to the relationship of these allowances, as

Table of Contents

extensions of credit underwritten through a comprehensive risk analysis, information on both the allowance for loan and credit losses positions is presented in the following table.

(in thousands)	For the year ended December 31, 2015	2014	2013	2012	2011
Balance of allowance for loan losses at beginning of period	$ 32,765	$ 37,050	$ 46,866	$ 55,629	$ 65,892
Charge-offs:					
Commercial	(588)	(1,956)	(613)	(1,122)	(4,559)
Real estate - mortgage	(186)	(52)	(3,055)	(2,789)	(7,064)
Construction & land	(107)	(50)	(796)	(4,002)	(6,753)
Consumer	(130)	(453)	(122)	(653)	(309)
Other	(285)	(6)	(5)	(34)	(61)
Total charge-offs	(1,296)	(2,517)	(4,591)	(8,600)	(18,746)
Recoveries:					
Commercial	239	373	1,035	2,021	1,377
Real estate - mortgage	1,112	435	1,099	746	1,472
Construction & land	1,155	1,519	1,399	1,760	1,348
Consumer	19	54	45	43	281
Other	272	6	1	-	3
Total recoveries	2,797	2,387	3,579	4,570	4,481
Net recoveries (charge-offs)	1,501	(130)	(1,012)	(4,030)	(14,265)
Provision for loan losses charged to operations	6,420	(4,155)	(8,804)	(4,733)	4,002
Balance of allowance for loan losses at end of period	$ 40,686	$ 32,765	$ 37,050	$ 46,866	$ 55,629
Balance of allowance for credit losses at beginning of period	$ -	$ -	$ -	$ 35	$ 61
Provision for credit losses charged to operations	-	-	-	(35)	(26)
Balance of allowance for credit losses at end of period	$ -	$ -	$ -	$ -	$ 35
Total provision for loan and credit losses charged to operations	$ 6,420	$ (4,155)	$ (8,804)	$ (4,768)	$ 3,976
Ratio of net (recoveries) charge-offs to average loans	(0.06) %	0.01 %	0.05 %	0.23 %	0.86 %
Average loans outstanding during the period	$ 2,517,766	$ 2,259,265	$ 1,991,251	$ 1,743,473	$ 1,651,247

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

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

Table of Contents

The methodology used in the periodic review of reserve adequacy, which is performed at least quarterly, is designed to be dynamic and responsive to changes in actual and expected credit losses. These changes are reflected in both the general and unallocated reserves. The historical loss ratios and estimated risk factors related to segmenting our loan portfolio, which are key considerations in this analysis, are updated quarterly. The review of reserve adequacy is performed by executive management and presented to the Audit Committee quarterly for its review and consideration. For additional information on the Company's methodology for estimating the allowance for loan and credit losses, see Note 4 to the consolidated financial statements.

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

	At December 31, 2015		2014		2013		2012		2011	
(in thousands)	Amount of allowance	Loans in category as a % of total gross loans	Amount of allowance	Loans in category as a % of total gross loans	Amount of allowance	Loans in category as a % of total gross loans	Amount of allowance	Loans in category as a % of total gross loans	Amount of allowance	Loans in category as a % of total gross loans
Commercial	$ 24,215	43.5 %	$ 14,614	40.6 %	$ 14,103	39.6 %	$ 13,448	37.9 %	$ 14,048	34.8 %
Real estate - mortgage	10,372	37.6 %	12,463	41.1 %	14,919	43.2 %	17,832	45.7 %	19,889	47.9 %
Construction & land	2,111	7.5 %	2,316	7.6 %	3,346	6.1 %	9,893	6.3 %	13,759	7.7 %
Consumer	2,592	9.4 %	2,329	8.7 %	2,471	8.7 %	3,061	7.8 %	4,837	7.1 %
Other	643	2.0 %	488	2.0 %	479	2.4 %	451	2.3 %	551	2.5 %
Unallocated	753	- %	555	- %	1,732	- %	2,181	- %	2,545	- %
Off-balance sheet commitments	-	- %	-	- %	-	- %	-	- %	35	- %
Total	$ 40,686	100.0 %	$ 32,765	100.0 %	$ 37,050	100.0 %	$ 46,866	100.0 %	$ 55,664	100.0 %

We believe that any allocation of the allowance into categories creates an appearance of precision that does not exist. The allocation table should not be interpreted as an indication of the specific amounts, by loan classification, to be charged to the allowance. We believe that the table is a useful device for assessing the adequacy of the allowance as a whole. The allowance is utilized as a single unallocated allowance available for all loans. As part of the overall allowance, the Company maintains an unallocated portion that is intended to capture the inherent risk that certain loans may be assigned an incorrect loan grade. The Company determines the level of the unallocated allowance by reference to its migration of historical losses and the percentage of loans identified as incorrectly graded through the loan review process.

The Company recorded a $6.4 million provision for loan losses during 2015 compared to a $4.1 provision for loan loss reversal in the prior year. The Company's loan loss provisioning during 2015 as compared to 2014 is consistent with the change in asset quality trends, where nonperforming and classified loans increased. The increase in nonperforming and classified loans is primarily due to a single commercial credit, which the Company believes is not indicative of deterioration in overall credit quality. Although the Company had gross charge-offs of $1.3 million and $2.5 million during 2015 and 2014, respectively, the Company had net recoveries of $1.5 million in 2015 and net charge-offs of only $0.1 million in 2014. Although the Company continues to record charge-offs, the Company's credit quality outlook remains favorable. Management believes the Company's allowance for loan and credit losses provides adequate coverage for probable loan and credit losses. The allowance for loan and credit losses to total loans was 1.51% and 1.36% at December 31, 2015 and 2014, respectively. The allowance for loan and credit losses to nonperforming loans was 250.8% and 357.9% at December 31, 2015 and 2014, respectively. It is possible management may determine a need to increase the allowance for loan and credit losses due to changes in the factors considered by management in evaluating the adequacy of the allowance for loan and credit losses. Such determination could have an adverse effect in the level of future loan and credit loss provisions and the Company's earnings.

Table of Contents

Investments

The investment portfolio is primarily comprised of residential mortgage-backed securities (MBS) explicitly (GNMA) and implicitly (FNMA and FHLMC) backed by the U.S. Government, with the majority of the portfolio either maturing or repricing within one to five years. The portfolio does not include any securities exposed to sub-prime mortgage loans. The investment portfolio also includes single-issuer TPS and corporate debt securities. The corporate debt securities portfolio is mainly comprised of six issuers in the Fortune 100. Approximately 86% of the corporate debt securities portfolio is investment grade. None of the issuing institutions are in default nor have interest payments on the TPS been deferred. Our investment strategies are reviewed in meetings of the Asset-Liability Management Committee (ALCO).

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

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

Our goals with respect to the securities portfolio are to:

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

The following table sets forth the book value of the securities in our investment portfolio by type at the dates indicated. See Note 3 to the consolidated financial statements for additional information.

(in thousands)	At December 31, 2015	2014	2013	2015 vs 2014 Increase (decrease) Amount	%	2014 vs 2013 Increase (decrease) Amount	%
Mortgage-backed securities	$ 312,658	$ 283,644	$ 333,386	$ 29,014	10.2 %	$ (49,742)	(14.9) %
Trust preferred securities	56,607	72,844	95,415	(16,237)	(22.3) %	(22,571)	(23.7) %
Corporate debt securities	103,736	101,210	110,982	2,526	2.5 %	(9,772)	(8.8) %
Municipal securities	27,350	15,446	8,616	11,904	77.1 %	6,830	79.3 %
Other investments	12,461	11,477	8,397	984	8.6 %	3,080	36.7 %
Total	$ 512,812	$ 484,621	$ 556,796	$ 28,191	5.8 %	$ (72,175)	(13.0) %

At December 31, 2015, investments represented 15.30% of total assets compared to 15.83% at December 31, 2014. Available for sale securities had a net unrealized gain of $2.8 million at December 31, 2015. Excluding the securities transferred to held to maturity, the unrealized gain on available for sale securities at December 31, 2014 was $3.7 million.

At December 31, 2015, the Company's available for sale securities in a temporary unrealized loss position of $0.6 million consisted primarily of TPS and corporate debt securities. The fair value of these securities is expected to recover as the securities approach their stated maturity or repricing date.

Table of Contents

Other investments consist primarily of FHLB stock required to support a borrowing base with the FHLB. FHLB stock holdings are largely dependent upon the Company's liquidity position. To the extent the need for wholesale funding increases or decreases, the Company may purchase additional or sell excess FHLB stock, respectively. During 2015, other investments increased $1.0 million due to net purchases of FHLB stock.

The following table sets forth the book value, maturity and approximate yield of the securities in our investment portfolio at December 31, 2015. Other investments include stock in the Federal Home Loan Bank and the Federal Reserve Bank, which have no maturity date. These investments have been included in the total column only.

	Maturity									
	Within 1 year		1-5 years		5-10 years		Over 10 years		Total book va	
	Amount	Yield %(1)	Amount	Yield %(1)	Amount	Yield %(1)	Amount	Yield %(1)	Amount	Y
ked	$ -	- %	$ 989	5.26 %	$ 14,478	4.51 %	$ 297,191	2.54 %	$ 312,658	2.
d	-	- %	-	- %	-	- %	55,369	3.87 %	55,369	3.
t	12,587	2.32 %	74,137	3.96 %	15,549	4.56 %	-	- %	102,273	3.
	531	5.00 %	18,219	4.26 %	7,951	3.93 %	570	5.00 %	27,271	4.
	-	- %	-	- %	-	- %	2,172	2.77 %	12,461	5.
	$ 13,118	2.43 %	$ 93,345	4.04 %	$ 37,978	4.41 %	$ 355,302	2.75 %	$ 510,032	3.

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

Excluding securities issued by government-sponsored entities, the investment portfolio at December 31, 2015 did not include any single issuer for which the aggregate carrying amount exceeded 10% of shareholders' equity.

Other Assets

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

	At December 31,			2015 vs 2014 Increase (decrease)		2014 vs 2013 Increase (decrease)	
(in thousands)	2015	2014	2013	Amount	%	Amount	%
Intangible assets, net	$ 1,926	$ 2,526	$ 2,798	$ (600)	(23.8) %	$ (272)	(9.7) %
Bank-owned life insurance	49,373	48,040	43,768	1,333	2.8 %	4,272	9.8 %
Premises and equipment, net	6,122	7,250	6,034	(1,128)	(15.6) %	1,216	20.2 %
Accrued interest receivable	10,362	9,617	8,770	745	7.7 %	847	9.7 %
Deferred income taxes, net	22,221	20,008	26,506	2,213	11.1 %	(6,498)	(24.5) %
Other real estate owned	5,079	5,819	5,097	(740)	(12.7) %	722	14.2 %
Other	18,041	19,910	27,585	(1,869)	(9.4) %	(7,675)	(27.8) %
Total	$ 113,124	$ 113,170	$ 120,558	$ (46)	- %	$ (7,388)	(6.1) %

Intangible Assets. Intangible assets primarily represent client relationship lists. The Company recognized $0.6 million of intangible asset amortization from continuing operations during the years ended December 31, 2015 and 2014. Other than amortization, no other activity occurred in intangible assets during 2015. In 2014, the Company purchased a $0.3 million insurance book of business.

Bank-Owned Life Insurance (BOLI). BOLI increased $1.3 million in 2015 to $49.4 million at December 31, 2015, solely due to changes in the cash surrender value of the underlying policies. BOLI increased $4.3 million during 2014 to $48.0 million at December 31, 2014. The increase during 2014 is due to the purchase of additional policies of $3.3 million and growth in the cash surrender value of $1.3 million, offset by claims of $0.3 million.

Table of Contents

Deferred Income Taxes, net. Deferred income taxes increased $2.2 million in 2015 to $22.2 million at December 31, 2015. The increase was primarily due to the tax effect of the $7.9 million increase in the allowance for loan losses, offset by a decline in deferred tax assets for net operating loss carryforwards and accrued bonuses. Deferred income taxes decreased $6.5 million in 2014, to $20.0 million at December 31, 2014. The decrease in net deferred income tax assets during 2014 was driven primarily by the tax effect of the reduction of the allowance for loan losses of $4.3 million. Also contributing to the overall decline in deferred income taxes during 2014 was the tax effect of $3.7 million in settlement of stock and deferred compensation obligation. See Note 11 to the consolidated financial statements for additional discussion of income taxes and deferred tax items.

Other Real Estate Owned. OREO decreased $0.7 million during 2015 to $5.1 million at December 31, 2015 due to sales activity. In 2014, OREO increased $0.7 million to $5.8 million at December 31, 2014. Additions to OREO of $5.0 million in 2014 were offset by sales totaling $4.3 million, resulting in a $0.7 million increase to OREO. At December 31, 2015, the Company held two properties, with one Colorado property comprising over 97% of the total OREO balance.

Other Assets. Other assets declined $1.9 million during 2015 to $18.0 million at December 31, 2015. The decline in other assets is primarily attributable to a $1.0 million decrease in the fair market value of derivative assets and a $0.9 million net decrease in various other assets.

Other assets decreased $7.7 million during 2014 to $19.9 million at December 31, 2014. The decline in other assets was primarily attributable to a $4.5 million decrease in accounts receivable relating to called securities in the process of settlement and a $2.9 million decrease in the fair market value of derivative assets.

Deposits

Our primary source of funds has historically been customer deposits. We offer a variety of accounts for depositors, which are designed to attract both short- and long-term deposits. These accounts include certificates of deposit (CDs), money market accounts, savings accounts, checking accounts, and individual retirement accounts. In the first quarter of 2014, the Company commenced an initiative to move customer balances out of securities sold under agreement to purchase (Customer Repurchases) and into other deposit products. Deposit growth during 2015 was generated primarily from money market accounts, contributing $147.9 million or 53% of the overall $277.3 million net increase in average deposit balances. Average interest and noninterest-bearing deposits at December 31, 2015 increased $97.0 million and $83.6 million, respectively, from $488.3 million and $993.7 million at December 31, 2014. We believe we receive a large amount of noninterest-bearing deposits because we provide customers the option of paying for treasury management services in cash or by maintaining additional noninterest-bearing account balances. The Company's noninterest-bearing deposits represented over 43% of total deposits at December 31, 2015 and 2014. Interest-bearing accounts earn interest at rates based on competitive market factors and our desire to increase or decrease certain types of maturities or deposits.

The Company views its reciprocal Certificate of Deposit Account Registry Service ® (CDARS) and Insured Cash Sweep (ICS) accounts as customer-related deposits. The CDARS and ICS programs are provided through a third party and are designed to provide full FDIC insurance on deposit amounts by exchanging or reciprocating larger depository relationships with other member banks. Depositor funds are broken into smaller amounts and placed with other banks that are members of the network. Each member bank issues deposit amounts at a level that the entire deposit is eligible for FDIC insurance. CDARS and ICS are technically brokered deposits; however, the Company considers the reciprocal deposits placed through these programs as core funding due to the customer relationship that generated the transaction and does not report the balances as brokered sources in its internal or external financial reports. The Company had balances of $236.7 million and $185.5 million in CDARS and ICS accounts at December 31, 2015 and December 31, 2014, respectively.

Table of Contents

The following tables present the average balances for each major category of deposits and the weighted average interest rates paid for interest-bearing deposits for the periods indicated.

	For the year ended December 31,								
	2015			2014			2013		
(in thousands)	Average balance	Weighted average interest rate %		Average balance	Weighted average interest rate %		Average balance	Weighted average interest rate %	
Money market	$ 758,389	0.28	%	$ 610,525	0.32	%	$ 595,922	0.41	%
Interest-bearing demand	585,241	0.13	%	488,255	0.18	%	375,581	0.23	%
Savings	18,015	0.06	%	15,140	0.07	%	13,349	0.06	%
Certificates of deposit	175,482	0.42	%	229,511	0.44	%	255,073	0.51	%
Total interest-bearing deposits	1,537,127	0.24	%	1,343,431	0.29	%	1,239,925	0.37	%
Noninterest-bearing demand accounts	1,077,283	-	%	993,685	-	%	878,985	-	%
Total deposits	$ 2,614,410	0.14	%	$ 2,337,116	0.17	%	$ 2,118,910	0.22	%

Maturities of CDs of $100,000 and more at December 31, 2015, are as follows:

(in thousands)	Amount
Remaining maturity:	
Three months or less	$ 58,030
Over three months through six months	27,556
Over six months through 12 months	31,835
Over 12 months	13,101
Total	$ 130,522

Deposits overall increased $249.4 million or 10.0% and $213.3 million or 9.4% to $2.7 billion and $2.5 million at December 31, 2015 and 2014, respectively. CDs decreased $58.0 million or 27.5% and $34.3 million or 14.0% at December 31, 2015 and 2014, respectively. The Company has intentionally priced CDs out of its portfolio due to the relatively high cost of these deposits.

Short-Term Borrowings

Our short-term borrowings include federal funds purchased, securities sold under agreements to repurchase, which generally mature within 90 days or less, and a line of credit with the FHLB typically used as an overnight borrowing source.

Table of Contents

The following table sets forth information relating to our short-term borrowings during the years ended December 31, 2015, 2014, and 2013. See the Liquidity and Capital Resources section below and Note 8 to the consolidated financial statements for further discussion.

	At or for the year ended December 31,		
(in thousands)	2015	2014	2013
Federal funds purchased			
Balance at end of period	$ -	$ -	$ -
Average balance outstanding for the period	1,250	9,290	10,249
Maximum amount outstanding at any month end during the period	7,841	96,044	85,287
Weighted average interest rate for the period	0.32 %	0.40 %	0.47 %
Weighted average interest rate at period end	- %	- %	- %
FHLB overnight advances			
Balance at end of period	$ 132,000	$ 112,469	$ -
Average balance outstanding for the period	61,078	104,213	33,211
Maximum amount outstanding at any month end during the period	132,000	260,000	91,000
Weighted average interest rate for the period	0.29 %	0.24 %	0.19 %
Weighted average interest rate at period end	0.48 %	0.25 %	- %
Securities sold under agreements to repurchase			
Balance at end of period	$ 47,459	$ 49,976	$ 138,494
Average balance outstanding for the period	57,280	83,543	154,502
Maximum amount outstanding at any month end during the period	68,613	115,309	178,703
Weighted average interest rate for the period	0.06 %	0.18 %	0.22 %
Weighted average interest rate at period end	0.06 %	0.08 %	0.22 %

The following tables contain supplemental information on securities sold under agreements to repurchase during the years ended December 31, 2015, 2014, and 2013. The Company uses Customer Repurchases as a way to enhance our customers' interest-earning ability. We do not consider Customer Repurchases to be a wholesale funding source but rather an additional treasury management service provided to our customer base. Due to a concerted effort by the Company to transition clients out of Customer Repurchases and into other deposit products, Customer Repurchases declined substantially in 2015 and 2014. Reducing Customer Repurchases has allowed the Company to reduce the investment portfolio and support growth in the loan portfolio.

	Average balance for quarter ended			
(in thousands)	March 31,	June 30,	September 30,	December 31,
Year				
2015	$ 54,707	$ 61,626	$ 60,687	$ 52,090
2014	104,534	79,615	92,429	58,007

2013	144,737	149,203	160,514	163,284

	Ending balance for quarter ended			
(in thousands)	March 31,	June 30,	September 30,	December 31,
Year				
2015	$ 58,814	$ 58,328	$ 62,182	$ 47,459
2014	89,521	74,565	76,041	49,976
2013	124,882	133,402	164,188	138,494

	Highest monthly balance for quarter ended			
(in thousands)	March 31,	June 30,	September 30,	December 31,
Year				
2015	$ 59,920	$ 68,613	$ 62,182	$ 53,014
2014	115,309	81,700	112,371	61,803
2013	141,140	159,512	167,712	178,703

Table of Contents

Long-Term Debt

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

	At December 31,	
(in thousands)	2015	2014
Junior subordinated debentures:		
CoBiz Statutory Trust I	$ 20,619	$ 20,619
CoBiz Capital Trust II	30,928	30,928
CoBiz Capital Trust III	20,619	20,619
Total junior subordinated debentures	$ 72,166	$ 72,166
Other long-term debt:		
Subordinated notes payable ($60,000 face amount)	$ 59,031	$ -

For a discussion of long-term debt and for certain financial information for each issuance, see Note 9 to the consolidated financial statements.

Results of Operations

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

During the first quarter of 2015, the Company ceased the operations of its investment banking division. The table below reports, for all periods presented, the results of operations associated with this business line as discontinued operations, net of tax. Included in the 2013 discontinued operations are the results of two other business lines that were discontinued in 2012. See Note 2 to the consolidated financial statements for additional information.

For the year ended December 31,	2015 vs 2014	2014 vs 2013
	Increase (decrease)	Increase (decrease)

(in thousands)	2015	2014	2013	Amount	%	Amount	%
INCOME STATEMENT DATA							
Interest income	$ 121,266	$ 114,317	$ 106,127	$ 6,949	6.1 %	$ 8,190	7.7 %
Interest expense	9,590	8,429	10,426	1,161	13.8 %	(1,997)	(19.2) %
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	111,676	105,888	95,701	5,788	5.5 %	10,187	10.6 %
Provision for loan losses	6,420	(4,155)	(8,804)	10,575	254.5 %	4,649	52.8 %
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	105,256	110,043	104,505	(4,787)	(4.4) %	5,538	5.3 %
Noninterest income	30,667	27,909	28,606	2,758	9.9 %	(697)	(2.4) %
Noninterest expense	100,177	94,136	90,912	6,041	6.4 %	3,224	3.5 %
INCOME BEFORE INCOME TAXES	35,746	43,816	42,199	(8,070)	(18.4) %	1,617	3.8 %
Provision for income taxes	9,606	15,018	13,909	(5,412)	(36.0) %	1,109	8.0 %
NET INCOME FROM CONTINUING OPERATIONS	26,140	28,798	28,290	(2,658)	(9.2) %	508	1.8 %
Income (loss) from discontinued operations, net of tax	(71)	209	(679)	(280)	(134.0)%	888	130.8 %
NET INCOME	$ 26,069	$ 29,007	$ 27,611	$ (2,938)	(10.1) %	$ 1,396	5.1 %
Earnings per common share:							
Basic - continuing	$ 0.63	$ 0.69	$ 0.68				
Diluted - continuing	$ 0.62	$ 0.69	$ 0.68				
Basic - discontinued	$ -	$ 0.01	$ (0.02)				
Diluted - discontinued	$ -	$ 0.01	$ (0.02)				
Basic	$ 0.63	$ 0.70	$ 0.66				
Diluted	$ 0.62	$ 0.70	$ 0.66				
Cash dividends declared per common share	$ 0.17	$ 0.15	$ 0.12				

Table of Contents

Earnings Performance. Net income for the year ended December 31, 2015 was $26.1 million, a decline of 10.1% from $29.0 million a year earlier. Return on average assets declined to 0.83% for 2015 compared to 0.99% a year earlier. Return on average shareholders' equity also declined for 2015 to 8.77% from 9.82% in 2014. While net interest income expanded $5.8 million in 2015 over 2014, a $10.6 million increase in the provision for loan losses in 2015 over 2014 more than offset the increase. Net income in 2014 also benefited from a pre-tax net gain on securities, other assets and OREO of $2.6 million. The net gain from these items in 2015 totaled $0.4 million, a decline of $2.2 million from 2014.

Net income for the year ended December 31, 2014 increased 5.1% to $29.0 million from $27.6 million a year earlier. Return on average assets decreased to 0.99% for 2014 compared to 1.02% a year earlier. Return on average shareholders' equity also declined for 2014 to 9.82% from 10.29% in 2013. Growth in both average assets and average equity outpaced growth in net income, resulting in declines in both return measures. The benefit of higher net interest income in 2014 relative to 2013 was muted by a decline in the level of loan loss provision reversals.

Earnings per common share on a diluted basis (from continuing operations) for the year ended December 31, 2015, 2014, and 2013, was $0.62, $0.69, and $0.68, respectively.

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

The majority of our assets are interest-earning and our liabilities are interest-bearing. Accordingly, changes in interest rates may impact our net interest margin. The FOMC uses the federal funds rate, which is the interest rate used by banks to lend to each other, to influence interest rates and the national economy. Changes in the federal funds rate have a direct correlation to changes in the prime rate, the underlying index for most of the variable-rate loans issued by the Company. The FOMC had held the target federal funds rate at a range of 0-25 basis points since December 2008. On December 17, 2015, the FOMC increased the target rate to 25-50 basis points, the first increase since June 2006. As the Company is asset sensitive, low rates negatively impact the Company's earnings and net interest margin.

Table of Contents

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

	For the year ended December 31, 2015			2014			2013		
usands)	Average balance	Interest earned or paid	Average yield or cost (3)	Average balance	Interest earned or paid	Average yield or cost (3)	Average balance	Interest earned or paid	Averag yield c cost (3
l funds sold her	$ 24,142	$ 58	0.24 %	$ 20,518	$ 102	0.50 %	$ 26,150	$ 117	0.45
ment ies (1)	499,219	13,935	2.79 %	522,822	15,742	3.01 %	567,256	16,963	2.99
(1)(2)	2,517,766	112,994	4.49 %	2,259,265	102,281	4.53 %	1,991,251	91,807	4.61
nterest g-assets	$ 3,041,127	$ 126,987	4.18 %	$ 2,802,605	$ 118,125	4.21 %	$ 2,584,657	$ 108,887	4.21
terest-earning	108,183			122,563			117,554		
ssets	$ 3,149,310			$ 2,925,168			$ 2,702,211		
ties and holders'									
its									
y market	$ 758,389	$ 2,102	0.28 %	$ 610,525	$ 1,954	0.32 %	$ 595,922	$ 2,434	0.41
t-bearing d and NOW	585,241	789	0.13 %	488,255	886	0.18 %	375,581	862	0.23
gs	18,015	10	0.06 %	15,140	10	0.07 %	13,349	8	0.06
cates of t									
ocal	45,187	99	0.22 %	69,465	222	0.32 %	89,051	349	0.39
$100	22,687	90	0.40 %	25,888	110	0.42 %	28,901	144	0.50
nd over	107,608	550	0.51 %	134,158	685	0.51 %	137,121	819	0.60
t-bearing ts	$ 1,537,127	$ 3,640	0.24 %	$ 1,343,431	$ 3,867	0.29 %	$ 1,239,925	$ 4,616	0.37
borrowings ties sold agreements to hase	57,280	36	0.06 %	83,543	154	0.18 %	154,502	337	0.22
short-term vings	62,328	178	0.29 %	113,504	286	0.25 %	43,460	113	0.26
term debt	102,884	5,736	5.58 %	72,166	4,122	5.71 %	85,216	5,360	6.29
	$ 1,759,619	$ 9,590	0.55 %	$ 1,612,644	$ 8,429	0.52 %	$ 1,523,103	$ 10,426	0.68

t-bearing ies								
terest-bearing d accounts	1,077,283			993,685			878,985		
deposits and t-bearing ies	2,836,902			2,606,329			2,402,088		
erest-bearing ies	15,228			23,362			31,781		
iabilities	2,852,130			2,629,691			2,433,869		
equity	297,180			295,477			268,342		
iabilities and	$ 3,149,310			$ 2,925,168			$ 2,702,211		
terest income le equivalent		$ 117,397			$ 109,696			$ 98,461	
terest spread			3.63 %			3.69 %			3.53
terest margin			3.86 %			3.91 %			3.81
of average t-earning to average t-bearing ies	172.83 %			173.79 %			169.70 %		

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

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

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

Table of Contents

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

	2015 vs 2014 Increase (decrease)			2014 vs 2013 Increase (decrease)		
(in thousands)	Volume	Rate	Total	Volume	Rate	Total
Interest-earning assets						
Federal funds sold and other	$ 18	$ (62)	$ (44)	$ (25)	$ 10	$ (15)
Investment securities (1)	(711)	(1,096)	(1,807)	(1,329)	108	(1,221)
Loans (1)(2)	11,703	(990)	10,713	12,357	(1,883)	10,474
Total interest-earning assets	$ 11,010	$ (2,148)	$ 8,862	$ 11,003	$ (1,765)	$ 9,238
Interest-bearing liabilities						
Money market deposits	$ 473	$ (325)	$ 148	$ 60	$ (540)	$ (480)
Interest-bearing demand and NOW	176	(273)	(97)	259	(235)	24
Savings deposits	2	(2)	-	1	1	2
Certificates of deposit	(227)	(51)	(278)	(109)	(186)	(295)
Other borrowings						
Securities sold under agreements to repurchase	(48)	(70)	(118)	(155)	(28)	(183)
Other short-term borrowings	(129)	21	(108)	182	(9)	173
Long-term debt	1,755	(141)	1,614	(821)	(417)	(1,238)
Total interest-bearing liabilities	$ 2,002	$ (841)	$ 1,161	$ (583)	$ (1,414)	$ (1,997)
Net increase (decrease) in net interest income - taxable equivalent	$ 9,008	$ (1,307)	$ 7,701	$ 11,586	$ (351)	$ 11,235

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

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

Average interest-earning assets increased $238.5 million to $3.04 billion at December 31, 2015, driven by the loan portfolio, which grew average balances by 11.4% during 2015. Investment securities as a percentage of average earnings assets declined for the fifth consecutive year to 16.4% from 27.0% in 2011, as a result of a growing loan portfolio and reduction in collateralized Customer Repurchases. Taxable-equivalent interest income grew $8.9 million due to the growth in interest-earning assets. The yield on earning assets declined due to a decrease in loan and investment yields, partially offset by an improvement of the mix of earning assets.

Average interest-bearing liabilities increased $147.0 million during 2015 to $1.76 billion. The increase was due to a $193.7 million increase in interest-bearing demand deposits, offset by a $46.7 million net decrease in Customer Repurchases and short/long term borrowings. The average cost of liabilities increased in 2015, to 0.55%, from 0.52% in 2014. The increase in the yield on interest-bearing liabilities relates primarily to the issuance of $60.0 million of Notes on June 25, 2015 with an effective interest cost of 5.85% (including amortization of a debt discount).

Average interest-earning assets increased $217.9 million to $2.80 billion at December 31, 2014, driven by the loan portfolio, which grew average balances 13.5% in 2014. Investment securities as a percentage of average earnings assets declined for the fourth consecutive year to 18.7% from 27.0% in 2011, as a result of a growing loan portfolio and reduction in collateralized Customer Repurchases. Taxable-equivalent interest income grew $9.2 million due to the growth in interest-earning assets. The yield on earning assets was flat year-over-year due to an improvement in the mix of earning assets, offset by a decline in loan yields.

Average interest-bearing liabilities increased $89.5 million during 2014 to $1.61 billion. The increase related to higher levels of interest-bearing demand deposits and short-term borrowings, offset by a decline in Customer Repurchases. The average cost of liabilities continued to fall in 2014, reaching 0.52% compared to 0.68% in 2013. The decrease in the yield on interest-bearing liabilities related primarily to decreased rates on money markets and the redemption of $21.0 million in 9.0% notes in 2013.

Table of Contents

The Company has executed a series of interest-rate swap transactions designated as cash flow hedges. The swaps fix the effective interest rate for payments due on the junior subordinated debentures with the objective of reducing the Company's exposure to adverse changes in cash flows relating to payments on its LIBOR-based floating rate debt. During 2015 the weighted average interest rate paid (fixed-rate) was 5.48%. In 2013-2014, the weighted average interest rate paid was 5.73%. The decline in the rate during 2015 was due to the maturity of a swap in early 2015 with a fixed-rate of 6.04% that was replaced with a new swap with a fixed-rate of 4.99%. The remaining contractual maturities of the swaps vary between 5 and 9 years. Select critical terms of the cash flow hedges are as follows:

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

Provision and Allowance for Loan and Credit Losses. The following table presents provision for loan and credit losses for the years ended December 31, 2015, 2014 and 2013.

	For the year ended December 31,		
(in thousands)	2015	2014	2013
Provision for loan losses	$ 6,420	$ (4,155)	$ (8,804)
Provision for credit losses (included in other expenses)	-	-	-
Total provision for loan and credit losses	$ 6,420	$ (4,155)	$ (8,804)

The Company recorded a loan loss provision expense of $6.4 million in 2015, compared to loan loss provision reversals of $4.2 million and $8.8 million during 2014 and 2013, respectively. The provision for loan losses over the past three years has been consistent with the overall credit quality metrics as reflected by nonperforming asset and classified loan levels. Classified loans were $51.1 million at December 31, 2015, compared to $36.9 million and $46.5 million at December 31, 2014 and 2013, respectively. The increase in classified loans in 2015 was driven primarily by the addition of one large credit that had a specific reserve of $7.2 million at the end of 2015.

Nonperforming loans to total loans were 0.60%, 0.38%, and 0.67% at December 31, 2015, 2014 and 2013, respectively. At December 31, 2015, the allowance for loan and credit losses was $40.7 million or 250.8% of nonperforming loans compared to $32.8 million or 357.9% of nonperforming loans at December 31, 2014.

Noninterest Income. The following table presents noninterest income for the years ended December 31, 2015, 2014, and 2013.

	For the year ended December 31,			2015 vs 2014		2014 vs 2013	
NONINTEREST INCOME				Increase (decrease)		Increase (decrease)	
(in thousands)	2015	2014	2013	Amount	%	Amount	%
Deposit service charges	$ 5,862	$ 5,598	$ 5,315	$ 264	4.7 %	$ 283	5.3 %
Investment advisory income	5,832	5,736	5,077	96	1.7 %	659	13.0 %
Insurance income	12,047	11,150	11,199	897	8.0 %	(49)	(0.4) %
Other income	6,926	5,425	7,015	1,501	27.7 %	(1,590)	(22.7) %
Total noninterest income	$ 30,667	$ 27,909	$ 28,606	$ 2,758	9.9 %	$ (697)	(2.4) %

Service Charges. Deposit service charges primarily consist of fees earned from our treasury management services. Customers are given the option to pay for these services in cash or by offsetting the fees for these services against an earnings credit that is given for maintaining noninterest-bearing deposits. Fees earned from treasury management services will fluctuate based on the number of customers using the services and from changes in U.S. Treasury rates which are used as a benchmark for the earnings credit rate. Other

49

miscellaneous deposit charges are transactional by nature and may not be consistent period-over-period. As the earnings credit rate decreases, the amount of cash fees paid for service charges increases.

Investment Advisory Income. Investment advisory income increased $0.1 million or 1.7% to $5.8 million for the year ended December 31, 2015. For the year ended December 31, 2014, advisory income increased $0.7 million or 13.0% to $5.7 million compared to 2013. Revenues from this source are generally a function of the value of Assets Under Management (AUM) on the last day of each quarter. Discretionary assets under management at December 31, 2015 and 2014 were $859.2 million. Average AUM during 2015 of $876.0 million was 3.8% higher than the $844.0 million average in 2014. The equity markets have been volatile to start 2016, with most indexes declining in January. If this trend continues, future investment advisory income will be adversely impacted.

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. For the years ended December 31, 2015, 2014, and 2013, revenue earned from the insurance segment was composed of the following:

	2015	2014	2013
Benefits consulting	54.6%	53.1%	48.9%
Property and casualty	45.4%	46.9%	51.1%

From 2013 to 2015, the average P&C rate for the industry declined. As our revenue is typically derived as percentage of the premium, this has negatively impacted revenue. At the same time, the Company’s benefits consulting division has continued to grow. The combination of these two factors has caused the shift in the percentage of revenue in the table above.

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

Other income increased $1.5 million to $6.9 million during the year ended December 31, 2015, compared to a $1.6 million decrease to $5.4 million during the year ended December 31, 2014. In 2014, the Company realized a loss on equity method investments, causing most of the year-over-year variance. Similarly, the loss on equity method investments caused the decline in 2014 compared to 2013.

Noninterest Expense. The following table presents noninterest expense for the years ended December 31, 2015, 2014, and 2013.

NONINTEREST EXPENSES (in thousands)	For the year ended December 31, 2015	2014	2013	2015 vs 2014 Increase (decrease) Amount	%	2014 vs 2013 Increase (decrease) Amount	%
Salaries and employee benefits	$ 66,202	$ 62,882	$ 59,043	$ 3,320	5.3 %	$ 3,839	6.5 %
Stock-based compensation expense	3,324	3,126	2,710	198	6.3 %	416	15.4 %
Occupancy expenses, premises and equipment	13,079	13,100	12,831	(21)	(0.2) %	269	2.1 %
Amortization of intangibles	600	597	662	3	0.5 %	(65)	(9.8) %
FDIC and other assessments	1,813	1,737	1,690	76	4.4 %	47	2.8 %
Other real estate owned and loan workout costs	388	1,066	715	(678)	(63.6) %	351	49.1 %
(Gain) loss on securities, other assets and other real estate owned	(369)	(2,597)	683	2,228	85.8 %	(3,280)	(480.2) %
Other	15,140	14,225	12,578	915	6.4 %	1,647	13.1 %
Total noninterest expenses	$ 100,177	$ 94,136	$ 90,912	$ 6,041	6.4 %	$ 3,224	3.5 %

Our efficiency ratio on a taxable equivalent basis was 67.9% for the year ended December 31, 2015, compared to 70.3% and 70.9% for 2014 and 2013, respectively. The efficiency ratio is a measure of the Company's overhead, measuring the percentage of each dollar of income that is paid in operating expenses.

Table of Contents

In 2015, the Company was successful in improving its operating leverage by growing net interest income while limiting the growth in expenses. The Company maintains its goal of reducing the efficiency ratio over the next few years and is committed to exploring cost-reduction strategies. Further increases in the federal funds target rate by the FOMC will benefit the Company's net interest income and efficiency ratio.

Salaries and Employee Benefits. Salaries and employee benefits, excluding share-based compensation, increased $3.3 million or 5.3% during the year ended December 31, 2015. Included in the increase is approximately $1.0 million in severance the Company incurred in the fourth quarter of 2015 related to the termination of certain positions. Salaries were also impacted by the annual cost of living and merit increases effective in the second quarter of 2015.

Salaries and employee benefits, excluding share-based compensation, increased $3.8 million or 6.5% during the year ended December 31, 2014. The increase was the result of annual cost of living and merit increases effective in the second quarter of 2014 coupled with the full-year effect of 2013 staff additions from new bank locations.

The Company's full-time equivalent employee base at the end of 2015 was 532 compared to 524 in 2014.

Share-Based Compensation. ASC Topic 718 requires recognition of compensation costs associated with the grant-date fair value of awards issued. The Company uses share-based compensation to retain existing employees, recruit new employees and is considered an important part of overall compensation. The Company expects to continue using share-based compensation in the future. Costs associated with the plan are influenced by the number of participants in the stock bonus pool and the proportion of incentive compensation paid in cash versus stock.

Occupancy Costs. Occupancy costs consist primarily of rent, utilities, property taxes, insurance, depreciation and information systems maintenance. Occupancy costs in 2015 were flat compared with 2014. Occupancy costs in 2014 were slightly higher than 2013, increasing 2.1%. On January 21, 2016, the Company signed a new lease agreement for its corporate headquarters, which will increase future occupancy costs. Additionally, in January 2016 the Company closed a bank location with annual rent of $0.2 million in Arizona that it intends to sublease.

Amortization of Intangibles. Amortization of intangible assets has declined over the past three years as certain assets have fully amortized, offset in part by amortization of newly acquired intangibles.

FDIC and Other Assessments. FDIC and other assessments consist of premiums paid by FDIC-insured institutions and by Colorado chartered banks. The assessments by the FDIC and the Colorado Division of Banking are based on statutory and risk classification factors. FDIC and other assessments have slightly increased each year due to growth in the Company's balance sheet.

Other Real Estate Owned and Loan Workout Costs. Carrying costs and workout expenses of nonperforming loans and OREO decreased $0.7 million in 2015 from 2014. Total costs increased $0.4 million in 2014 compared to 2013. These costs are related to the level of nonperforming assets and while costs increased in 2014 due to a single large project, the Company has seen a general decline in workout costs over recent years.

Table of Contents

(Gain) Loss on Securities, Other Assets and Other Real Estate Owned. The Company recognized gains on securities, other assets and OREO of $0.4 million and $2.6 million in 2015 and 2014, respectively. In 2013, losses of $0.7 million were recognized. The (gain) loss on securities, other assets and real estate owned was comprised of the following:

	(Gain) loss for the year ended December 31,			Increase (decrease)	
(in thousands)	2015	2014	2013	2015 vs 2014	2014 vs 2013
Investment securities	$ (318)	$ (1,154)	$ (439)	$ 836	$ (715)
OREO and repossessed assets	(69)	(1,459)	708	1,390	(2,167)
Other	18	16	414	2	(398)
	$ (369)	$ (2,597)	$ 683	$ 2,228	$ (3,280)

Net gains on securities for the years presented were primarily from securities called/redeemed, as issuers of higher yielding trust preferred securities called those issuances that lost favorable regulatory capital treatment under Basel III.

In 2014, net gains on OREO and repossessed assets of $1.5 million were related to the sale of several properties. The Company does not expect to recognize gains of this magnitude in the future, as the number of properties in the OREO portfolio has significantly declined. In 2013, the Company recorded a $2.1 million valuation adjustment on the single, largest property located in Colorado. Offsetting this loss were gains on OREO sales during 2013.

Other Operating Expenses. Other operating expenses increased $0.9 million or 6.4% in 2015 and $1.6 million or 13.1% in 2014. The increase was primarily due to a $1.0 million increase in contract and professional service costs. The Company has continued to see an increase in this area due to ongoing regulatory compliance and information technology projects. The increase in 2014 was due primarily to higher marketing ($0.3 million), contract and professional service costs ($0.7 million) and negotiated settlements ($0.6 million).

Federal Income Taxes. The effective tax rate was 26.9%, 34.3%, and 33.0% for 2015, 2014, and 2013, respectively. An increase in tax-exempt income on loans and municipal investments has reduced the effective tax rate in 2015. In 2013, the Company made return-to-provision adjustments and derecognized estimated penalties and interest related to uncertain tax positions settled during the year, reducing tax expense by $0.5 million.

Permanent differences, primarily arising from changes in the cash surrender value of BOLI and tax-exempt income are the primary activities impacting the effective tax rate in each year.

Segment Results

The Company has three segments: Commercial Banking, Fee-Based Lines and Corporate Support and Other. See Note 19 to the consolidated financial statements for additional discussion regarding segments. Certain financial metrics of each operating segment are presented below.

Table of Contents

Commercial Banking.

	Commercial Banking Year ended December 31,			2015 vs 2014 Increase (decrease)		2014 vs 2013 Increase (decrease)	
(in thousands)	2015	2014	2013	Amount	%	Amount	%
Income Statement							
Net interest income	$ 115,949	$ 109,494	$ 100,524	$ 6,455	5.9 %	$ 8,970	8.9 %
Provision for loan losses	6,837	(3,346)	(7,330)	10,183	304.3 %	3,984	54.4 %
Noninterest income	11,427	9,940	11,907	1,487	15.0 %	(1,967)	(16.5)%
Noninterest expense	37,849	35,602	35,265	2,247	6.3 %	337	1.0 %
Provision for income taxes	27,679	30,926	30,049	(3,247)	(10.5)%	877	2.9 %
Net income before management fees and overhead allocations	55,011	56,252	54,447	(1,241)	(2.2) %	1,805	3.3 %
Management fees and overhead allocations, net of tax	25,225	23,988	22,313	1,237	5.2 %	1,675	7.5 %
Net income	$ 29,786	$ 32,264	$ 32,134	$ (2,478)	(7.7) %	$ 130	0.4 %

The Commercial Banking segment reported net income of $29.8 million and $32.3 million during 2015 and 2014, respectively. Lower net income in 2015 resulted from the higher provision for loan losses which increased $10.2 million in 2015 compared to 2014, more than offsetting higher net interest income and noninterest income. Average loans in 2015 grew 11%, driving higher net interest income while average yields on interest-earning assets declined 3 basis points. The higher provision for loan losses in 2015 was largely driven by the impairment of a single loan during the fourth quarter as well as overall growth in the portfolio. Noninterest expense for 2015 included a $1.0 million charge relating to severance payments incurred at the end of the year as several positions were eliminated in the segment.

The Commercial Banking segment reported net income of $32.3 million and $32.1 million during 2014 and 2013, respectively. Net interest income increased $9.0 million on higher average loans, which grew 13% during 2014, and lower interest expense. The average yield on interest-earning assets was stable year-over-year, while deposit and funding related interest expense fell 16 basis points. The improvement in net interest income was offset by a reduction in the negative provision and lower noninterest income from equity method investments.

Fee-Based Lines.

(in thousands)	Fee-Based Lines Year ended December 31, 2015	2014	2013	2015 vs 2014 Increase (decrease) Amount	%	2014 vs 2013 Increase (decrease) Amount	%
Income Statement							
Net interest income	$ (42)	$ (35)	$ (50)	$ (7)	(20.0) %	$ 15	30.0 %
Noninterest income	17,879	16,886	16,272	993	5.9 %	614	3.8 %
Noninterest expense	16,331	15,140	14,508	1,191	7.9 %	632	4.4 %
Provision (benefit) for income taxes	643	690	769	(47)	(6.8) %	(79)	(10.3) %
Net income (loss) before management fees and overhead allocations	863	1,021	945	(158)	(15.5) %	76	8.0 %
Income from discontinued operations	(71)	209	(679)	(280)	(134.0) %	888	130.8 %
Management fees and overhead allocations, net of tax	1,334	1,115	959	219	19.6 %	156	16.3 %
Net income (loss)	$ (542)	$ 115	$ (693)	$ (657)	(571.3) %	$ 808	116.6 %

During the first quarter of 2015, the Company ceased operations of GMB, a provider of investment banking services that was a component of the Fee-Based Lines segment. The decision was based in part by increasing regulatory compliance costs related to maintaining GMB's broker-dealer license and earnings volatility which was highly dependent on deal volume. Results for GMB for all periods presented have been reclassified as discontinued operations. See Note 2 to the consolidated financial statements for additional discussion of discontinued operations.

Net income from continuing operations in the Fee-Based Lines segment declined 15.5% in 2015 compared to 2014. Noninterest income growth was driven primarily by insurance revenue which increased $0.9 million

Table of Contents

during the year. AUM of $859.2 million at December 31, 2015 was unchanged from the end of 2014. Noninterest expense in the segment is predominately compensation-related. A large part of salary expense is variable and directly related to revenue. Compensation costs in 2015 increased, in part, due to higher revenue and investments in new personnel. In addition, the segment also experienced a $0.1 million increase in professional and service contract expense in 2015 over 2014.

Net income for the segment improved $0.8 million over 2013 largely on higher investment banking income, now reported as discontinued operations. Net income from continuing operations during 2014 was stable compared to 2013. Improved noninterest income was due to higher investment advisory fees of $0.7 million. AUM increased to $859.2 million at December 31, 2014, compared to $811.6 million at the end of 2013 while insurance revenue for the segment declined slightly for the year. Compensation costs increased noninterest expense in 2014 due to higher revenue.

Corporate Support and Other.

	Corporate Support and Other Year ended December 31,			2015 vs 2014 Increase (decrease)		2014 vs 2013 Increase (decrease)	
(in thousands)	2015	2014	2013	Amount	%	Amount	%
Income Statement							
Net interest income	$ (4,231)	$ (3,571)	$ (4,773)	$ (660)	(18.5)%	$ 1,202	25.2 %
Provision for loan losses	(417)	(809)	(1,474)	392	48.5 %	665	45.1 %
Noninterest income	1,361	1,083	427	278	25.7 %	656	153.6%
Noninterest expense	45,997	43,394	41,139	2,603	6.0 %	2,255	5.5 %
Benefit for income taxes	(18,716)	(16,598)	(16,909)	(2,118)	(12.8)%	311	1.8 %
Net loss before management fees and overhead allocations	(29,734)	(28,475)	(27,102)	(1,259)	(4.4) %	(1,373)	(5.1) %
Management fees and overhead allocations, net of tax	(26,559)	(25,103)	(23,272)	(1,456)	(5.8) %	(1,831)	(7.9) %
Net loss	$ (3,175)	$ (3,372)	$ (3,830)	$ 197	5.8 %	$ 458	12.0 %

The Corporate Support and Other segment is comprised of activities of the parent company (Parent); non-production, back-office support operations; and eliminating transactions in consolidation. Non-production, back-office operations include human resources, accounting and finance, audit and compliance, information technology, Special Assets Group, 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. 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.

For the year ended December 31, 2015, the segment reported a net loss of $3.2 million, an improvement of $0.2 from the prior year. Net interest expense for 2015 increased due the issuance of $60.0 million of Notes in June, leading to an incremental increase in interest expense of $1.8 million in 2015. Proceeds of the issuance were used to redeem all $57.4 million of outstanding preferred stock issued under the U.S. Treasury's SBLF program. Offsetting higher interest costs was a recapture of $1.0 million of interest income relating to problem loan resolutions in the first quarter of 2015. Increased noninterest expense in 2015 is primarily compensation-related.

For the year ended December 31, 2014, the segment reported a net loss of $3.4 million, an improvement of $0.5 million from the prior year. Net interest expense for 2014 decreased as the Company redeemed all $21.0 million of its 9% fixed-rate subordinated notes payable in the third quarter of 2013. Noninterest income for 2014 relates to income earned from equity method investments held at the parent company. Noninterest expense increase is primarily compensation-related.

Table of Contents

The provision for loan losses relates to a portfolio of loans purchased by the Parent from the Bank. This portfolio has steadily decreased since the 2009 purchase due to loan repayments and collateral sales. The declining balance of the portfolio and the overall asset quality improvement has contributed to the trend of declining provision for loan losses.

Liquidity and Capital Resources

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

Liquidity management is the process by which the Company manages the continuing flow of funds necessary to meet its financial commitments on a timely basis and at a reasonable cost. The objective of liquidity management is to ensure the Company has the ability to satisfy the cash flow requirements of depositors and borrowers and to allow us to sustain our operations. These funding commitments include withdrawals by depositors, credit commitments to borrowers, shareholder dividends, debt payments, expenses of our operations and capital expenditures. Liquidity is monitored and closely managed by 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 $67.3 million at December 31, 2015, compared to $91.6 million at December 31, 2014. Additional asset liquidity sources include principal and interest payments from securities in the Company's investment portfolio and 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 98.4% at December 31, 2015, from 96.5% at December 31, 2014. At December 31, 2015 and 2014, the Company had $132.0 million and 112.5 million in outstanding wholesale borrowings, respectively. Average wholesale borrowings were $62.3 million and $113.5 million during the years ended December 31, 2015 and 2014.

The Company uses various forms of short-term borrowings for cash management and liquidity purposes, regularly accessing its federal funds and FHLB lines to manage its daily cash position. At December 31, 2015, the Bank has approved federal funds purchase lines with seven correspondent banks with an aggregate credit line of $155.0 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.

Table of Contents

Borrowings may also be used on a longer-term basis to support expanded lending activities and to match the maturity or repricing intervals of assets.

Available funding through correspondent lines and the FHLB at December 31, 2015, totaled $611.0 million or 18.9% of the Company's earning assets. Available funding is comprised of $155.0 million of federal fund lines and $456.0 million in secured FHLB borrowing capacity. The Company had $67.5 million in securities available to be pledged as collateral for additional FHLB borrowings at December 31, 2015. 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 Lines, proceeds from the issuance of common stock, and other capital markets activity. The main use of this liquidity is the quarterly payment of dividends on our common stock, quarterly interest payments on the subordinated debentures and notes payable, payments for mergers and acquisitions activity, and payments for the salaries and benefits for the employees of the holding company. In July 2015, the Company redeemed $57.4 million of preferred stock issued pursuant to the SBLF program. The redemption was funded with proceeds from the June 2015 issuance of $60.0 million of Notes.

The approval of the Colorado State Banking Board is required prior to the declaration of any dividend by the Bank if the total of all dividends declared by the Bank in any calendar year exceeds the total of its net profits for that year combined with the retained net profits for the preceding two years. In addition, the Federal Deposit Insurance Corporation Improvement Act of 1991 provides that the Bank cannot pay a dividend if it will cause the Bank to be "undercapitalized." At December 31, 2015, 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 (see Note 17 to the consolidated financial statements). The holding company has a liquidity policy that requires the maintenance of at least 18 months of liquidity on the balance sheet based on projected cash usages, exclusive of dividends from the Bank. At December 31, 2015, the Company had a liquidity position that exceeds the policy limit, and we believe the Company has the ability to continue paying dividends.

Net loss from discontinued operations for the year ended December 31, 2015 was $0.1 million and reasonably approximates the cash flows of those operations which are not separately stated in the Company's consolidated statements of cash flows.

Shareholders' equity was $273.5 million and $308.8 million at December 31, 2015 and 2014, respectively. Changes in shareholders' equity are due to the following:

(in thousands)	For the year ended December 31, 2015	2014
Beginning balance	$ 308,769	$ 281,085
Stock-based compensation, net	4,382	3,729
Redemption of preferred stock	(57,366)	-
Dividends paid-common	(6,953)	(6,076)
Dividends paid-preferred	(320)	(574)
Other comprehensive income (loss), net of tax	(1,045)	1,598
Net income	26,069	29,007
Ending balance	$ 273,536	$ 308,769

We anticipate that our cash and cash equivalents, expected cash flows from continuing 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

Table of Contents

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 and letters of credit, are assigned different risk weights, based generally on the perceived credit risk of the asset. These risk weights are multiplied by corresponding asset balances to determine a "risk-weighted" asset base. For purposes of the risk-based capital guidelines, total capital is defined as the sum of "Common Equity Tier 1", "Additional Tier 1" and "Tier 2" capital elements. Common Equity Tier 1 is comprised of common stock, related surplus and retained earnings. Additional Tier 1 capital includes, with certain restrictions, noncumulative perpetual preferred stock, certain grandfathered regulatory capital instruments and minority interests in consolidated subsidiaries. Tier 2 capital includes, with certain limitations, perpetual preferred stock not included in Tier 1 capital, subordinated debt, certain maturing capital instruments, and the allowance for loan and credit losses. At December 31, 2015, the Bank and Holding Company were well-capitalized with all capital ratios exceeding the well-capitalized requirement. During the third quarter of 2015, the Company redeemed all 57,366 shares of the preferred stock issued through the SBLF using proceeds from the issuance of the Notes. The preferred stock previously qualified as Tier 1 capital. The Notes issued in June 2015 qualify as additional Tier 2 capital.

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 contains a provision that preserves the current capital treatment of TPS issued by bank holding companies with less than $15 billion in total assets. The Company has $70.0 million of TPS included in regulatory capital at December 31, 2015 that are grandfathered under Basel III. The rules for non-advanced approaches banks and financial institutions like the Company have increased both the quantity and quality of required capital beginning January 1, 2015, with full implementation by 2018. The Company believes it will continue to be well-capitalized under the Basel III requirements through the phase-in period.

The Company's consolidated financial statements do not reflect various off-balance sheet commitments that are made in the normal course of business, which may involve some liquidity risk. Off-balance sheet arrangements are discussed in the following Contractual Obligations and Commitments section. The Company has commitments to extend credit under lines of credit and stand-by letters of credit. The Company has also committed to investing in certain partnerships. See the following section of this report and Note 16 to the consolidated financial statements for additional discussion on these commitments.

Contractual Obligations and Commitments

Summarized below are the Company’s contractual obligations (excluding deposit liabilities) to make future payments at December 31, 2015:

(in thousands)	Within one year	After one but within three years	After three but within five years	After five years	Total
FHLB overnight funds purchased (1)	$ 132,000	$ -	$ -	$ -	$ 132,000
Repurchase agreements (1)	47,459	-	-	-	47,459
Operating lease obligations	4,557	6,489	3,894	692	15,632
Long-term debt obligations (2)(3)	7,274	14,547	13,294	152,056	187,171
Total contractual obligations	$ 191,290	$ 21,036	$ 17,188	$ 152,748	$ 382,262

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

Table of Contents

(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 (see Note 10 to the consolidated financial statements) 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 2.83% and ranges from 2.05% to 3.48%.

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

The contractual amount of the Company's financial instruments with off-balance sheet risk, expiring by period at December 31, 2015, is presented below:

(in thousands)	Within one year	After one but within three years	After three but within five years	After five years	Total
Unfunded loan commitments	$ 599,179	$ 255,871	$ 44,589	$ 8,418	$ 908,057
Standby letters of credit	23,522	5,293	930	510	30,255
Commercial letters of credit	58	-	-	-	58
Unfunded commitments for unconsolidated investments	6,351	-	-	-	6,351
Company guarantees	2,195	-	-	755	2,950
Total commitments	$ 631,305	$ 261,164	$ 45,519	$ 9,683	$ 947,671

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

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

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

Approximately $46.3 million of total commitments at December 31, 2015 represent commitments to extend credit at fixed-rates of interest, which exposes the Company to some degree of interest rate risk.

Table of Contents

The Company has also entered into interest-rate swap agreements under which it is required to either receive or pay cash to a counterparty depending on changes in interest rates. The interest-rate swaps are carried at their fair value on the consolidated balance sheet with the fair value representing the net present value of expected future cash receipts or payments based on market interest rates at the balance sheet date. Interest-rate swaps recorded on the consolidated balance sheet at December 31, 2015, do not represent amounts that will ultimately be received or paid under the contract and are therefore excluded from the table above.

Effects of Inflation and Changing Prices

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Asset/Liability Management

Asset/liability management is concerned with the timing and magnitude of repricing assets compared to liabilities. It is our objective to generate stable growth in net interest income and to attempt to control risks associated with interest rate movements. In general, our strategy is to reduce the impact of changes in interest rates on net interest income by maintaining a favorable match between the maturities or repricing dates of our interest-earning assets and interest-bearing liabilities. We adjust interest sensitivity during the year through changes in the mix of assets and liabilities. Our asset and liability management strategy is formulated and monitored by the ALCO Committee, in accordance with policies approved by the Board of Directors of the Bank. This committee meets regularly to review, among other things, the sensitivity of our assets and liabilities to interest rate changes, the book and market values of assets and liabilities, unrealized gains and losses, purchase and sale activity, and maturities of investments and borrowings. The ALCO Committee also approves and establishes pricing and funding decisions with respect to our overall asset and liability composition. The committee reviews our liquidity, cash flow flexibility, maturities of investments, deposits and borrowings, deposit activity, current market conditions, and general levels of interest rates. To effectively measure and manage interest rate risk, we use simulation analysis to determine the impact on net interest income of changes in interest rates under various interest rate scenarios. From these simulations, interest rate risk is quantified and appropriate strategies are developed and implemented.

The following table presents an analysis of the interest rate sensitivity inherent in our net interest income for the next 12 months and market value of equity. The interest rate scenario presented in the table includes interest rates at December 31, 2015, as adjusted by rate changes upward of up to 200 basis points ramped over a 12-month period. Due to the current interest rate environment, the FOMC has a 25-50 basis point target federal funds rate at December 31, 2015, with prime set at 300 basis points above the FOMC target. Accordingly, the downward movement analysis was limited to a 100 basis point change. The market value sensitivity analysis presented includes assumptions that (i) the composition of our interest rate sensitive assets and liabilities existing at December 31, 2015 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

Table of Contents

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	+ 300
Impact on:						
Net interest income	n/a	(2.0) %	- %	2.0 %	4.4 %	7.2 %
Market value of equity	n/a	(18.8) %	- %	11.8 %	20.6 %	27.1 %

Our results of operations depend significantly on net interest income. Like most financial institutions, our interest income and cost of funds are affected by general economic conditions and by competition in the marketplace. Rising and falling interest rate environments can have various impacts on net interest income, depending on the interest rate profile (i.e., the difference between the repricing of interest-earning assets and interest-bearing liabilities), the relative changes in interest rates that occur when various assets and liabilities reprice, unscheduled repayments of loans and investments, early withdrawals of deposits, and other factors. As a general rule, banks with positive interest rate gaps are more likely to be susceptible to declines in net interest income in periods of falling interest rates, while banks with negative interest rate gaps are more likely to experience declines in net interest income in periods of rising interest rates. At December 31, 2015, our cumulative interest rate gap was a positive 40.2%. Therefore, assuming no change in our gap position, a rise in interest rates is likely to result in increased net interest income, while a decline in interest rates is likely to result in decreased net interest income. This is a point-in-time position that is continually changing and is not indicative of our position at any other time. While the gap position is a useful tool in measuring interest rate risk and contributes toward effective asset and liability management, shortcomings are inherent in gap analysis since certain assets and liabilities may not move proportionally as interest rates change. Consequently, in addition to gap analysis, we use the simulation model discussed above to test the interest rate sensitivity of net interest income and the balance sheet.

The following table sets forth the estimated maturity or repricing, and the resulting interest rate gap, of our interest-earning assets and interest-bearing liabilities at December 31, 2015. All amounts in the table are based on contractual repricing schedules, as adjusted for interest-rate hedges. Actual prepayment and withdrawal experience may vary significantly from the assumptions reflected in the table. For information on

Table of Contents

the fair value of our interest-earning assets and interest-bearing liabilities see Note 18 to the consolidated financial statements.

	Estimated maturity or repricing at December 31, 2015				
(in thousands)	Less than three months	Three months to less than one year	One to five years	Over five years	Total
Interest-earning assets:					
Interest bearing deposits and federal funds sold	$ 18,647	$ -	$ -	$ -	$ 18,647
Fixed-rate loans, gross	34,727	66,434	554,719	386,076	1,041,956
Floating-rate loans, gross	927,980	54,936	587,105	87,228	1,657,249
Investment securities held to maturity and available for sale	1,741	95,004	237,390	166,216	500,351
Total interest-earning assets	$ 983,095	$ 216,374	$ 1,379,214	$ 639,520	$ 3,218,203
Interest-bearing liabilities:					
Interest-bearing demand	$ 17,888	$ 53,663	$ 62,651	$ 451,322	$ 585,524
Money market	13,433	40,299	676,915	74,130	804,777
Savings	7	23	11	18,037	18,078
Time deposits under $100	8,020	12,133	2,253	70	22,476
Time deposits $100 and over	58,030	59,391	13,101	-	130,522
Securities sold under agreements to repurchase	47,459	-	-	-	47,459
Other short-term borrowings	132,000	-	-	-	132,000
Subordinated notes payable	-	-	-	59,031	59,031
Subordinated debentures	-	-	-	72,166	72,166
Total interest-bearing liabilities	$ 276,837	$ 165,509	$ 754,931	$ 674,756	$ 1,872,033
Interest rate gap	$ 706,258	$ 50,865	$ 624,283	$ (35,236)	$ 1,346,170
Cumulative interest rate gap	$ 706,258	$ 757,123	$ 1,381,406	$ 1,346,170	
Cumulative interest rate gap to total assets	21.07 %	22.59 %	41.21 %	40.16 %	

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

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

The following table presents, at December 31, 2015, loans by maturity or repricing in each major category of our portfolio. Actual maturities may differ from the contractual maturities shown below as a result of renewals and prepayments. Loan renewals are evaluated in the same manner as new credit applications.

	At December 31, 2015			
(in thousands)	Less than one year	One to five years	Over five years	Total
Commercial	$ 496,353	$ 436,559	$ 242,467	$ 1,175,379
Real estate - mortgage	327,050	578,174	111,044	1,016,268
Construction & land	186,749	11,972	2,560	201,281
Consumer	72,955	96,992	83,370	253,317
Other	970	18,127	33,863	52,960
Total loans	$ 1,084,077	$ 1,141,824	$ 473,304	$ 2,699,205

Of the $1.62 billion of loans with maturities or repricing of one year or more, approximately $940.8 million were fixed-rate loans and $674.3 million were variable-rate loans at December 31, 2015.

To augment our asset and liability management strategy, we use interest-rate swaps on our loan portfolio with the overall goal of minimizing the impact of interest rate fluctuations on our net interest margin. Interest-rate

Table of Contents

swaps involve the exchange of fixed-rate and variable-rate interest payment obligations without the exchange of the underlying notional amounts.

Under the interest-rate swap agreements, we receive a fixed-rate and pay a variable-rate based on LIBOR. The swaps qualify as cash flow hedges under ASC Topic 815, Derivatives and Hedging (ASC 815), and are designated as hedges of the variability of cash flows we received from certain of our LIBOR-based loans. In accordance with ASC 815, these swap agreements are measured at fair value and reported as assets or liabilities on the consolidated balance sheets. The portion of the change in the fair value of the swaps that is deemed effective in hedging the cash flows of the designated assets is recorded in AOCI, net of tax effects, and reclassified to interest income when such cash flows occur in the future. Any ineffectiveness resulting from the hedges is recorded as a gain or loss in the consolidated statements of income as a part of noninterest income.

Information on outstanding interest rate swaps at December 31, 2015 is as follows:

Swap Effective Date (in thousands)	Maturity date	Fixed-rate		Notional	Fair market value
September 5, 2013	September 1, 2017	1.44	%	$ 15,000	$ 137
November 8, 2013	November 1, 2018	1.44	%	15,000	106
January 1, 2014	January 1, 2019	1.53	%	15,000	137
January 9, 2014	January 1, 2018	1.31	%	15,000	99
April 1, 2014	April 1, 2018	1.34	%	15,000	99
Total				$ 75,000	$ 578

Since 2009, the Company has managed a series of interest-rate swap transactions designated as cash flow hedges. The intent of the transactions was to fix the effective interest rate of payments due on its junior subordinated debentures with the objective of reducing the Company’s exposure to adverse changes in cash flows relating to payments on its LIBOR-based floating-rate debt. The swap agreements in effect at December 31, 2015, have a total notional value of $70.0 million, fix the interest rates between 5.0% and 6.0% and mature over varying lengths of time from seven to nine years.

The Company has initiated certain interest-rate swap transactions designated as fair value hedges under ASC 815. The objective of these transactions is to exchange interest payments received on fixed-rate loans for variable-rate payments. At December 31, 2015, the notional value of these swaps was $55.1 million.

During the years ended December 31, 2015, 2014 and 2013, net interest income decreased $2.0 million, $2.0 million and $2.6 million, respectively, from settlement of the interest-rate swaps.

The Company has initiated foreign exchange forward contracts to mitigate exposure to foreign exchange rate risk on foreign currency holdings. Foreign currencies held include the British pound, Euro, Swiss franc, Mexican peso, Japanese yen, and Australian, New Zealand and Canadian dollars. At December 31, 2015, the aggregate notional value of the foreign currency forwards was $8.3 million and all contracts settle within three months or less of date of this report. The effect of foreign currency forwards on noninterest income was immaterial for the years ended December 31, 2015 and 2014.

Item 8. Financial Statements and Supplementary Data

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

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

None.

Table of Contents

Item 9A. Controls and Procedures

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

Changes in Internal Control over Financial Reporting. During the fourth quarter of 2015, no change in the Company's internal control over financial reporting was identified in connection with this evaluation that has materially affected or is reasonably likely to materially affect internal control over financial reporting.

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

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information concerning the Company's directors and officers called for by this item will be included in the Company's definitive Proxy Statement prepared in connection with the 2016 Annual Meeting of Shareholders (the 2016 Proxy Statement) and is incorporated herein by reference. Information regarding audit committee financial experts and the audit committee will be included in our 2016 Proxy Statement and is hereby incorporated by reference. Information regarding disclosure of compliance with Section 16(a) of the Exchange Act will also be included in our 2016 Proxy Statement and is hereby incorporated by reference.

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

Item 11. Executive Compensation

Information concerning the compensation of Company executives called for by this item will be included in the Company’s 2016 Proxy Statement and is incorporated herein by reference.

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

Certain information required by this Item 12 is included under “Securities Authorized for Issuance under Equity Compensation Plans” in Part II, Item 5 of this Annual Report on Form 10-K. The other information required by this Item is incorporated herein by reference to the 2016 Proxy Statement.

Table of Contents

Item 13. Certain Relationships and Related Transactions and Director Independence

Information concerning certain relationships and transactions between CoBiz and its affiliates called for by this item will be included in the Company’s 2016 Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

Information required by this Item will be included in the Company’s 2016 Proxy Statement and is incorporated herein by reference.

Table of Contents

PART IV

Item 15. Exhibits and Financial Statement Schedules

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

Management's Report on Internal Control Over Financial Reporting;

Reports of Independent Registered Public Accounting Firm;

Consolidated Balance Sheets at December 31, 2015 and 2014;

Consolidated Statements of Income for the Years Ended December 31, 2015, 2014, and 2013;

Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2015, 2014, and 2013;

Consolidated Statements of Equity for the Years Ended December 31, 2015, 2014, and 2013;

Consolidated Statements of Cash Flows for the Years Ended December 31, 2015, 2014, and 2013;

Notes to Consolidated Financial Statements at and for the Years Ended December 31, 2015, 2014, and 2013.

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

(3) Exhibits and Index of Exhibits:

			Incorporated by Reference			
Exhibit Number	Exhibit Description	Filed Herewith	Form	File No.	Exhibit	Filing Date
3.1	Amended and Restated Articles of Incorporation of the Registrant.		SB-2	333-50037	3.1	4/14/1998
3.2	Amendment to Articles of Incorporation.		8-K	001-15955	3.2	3/23/2001
3.3	Amendment to Articles of Incorporation.		10-Q	001-15955	3.3	8/14/2002
3.4	Amendment to Articles of Incorporation.		DEF 14A	001-15955		4/14/2005
3.5	Amended and Restated Bylaws of the Registrant.		8-K	001-15955	3	12/18/2006
3.6	Amendment to Articles of Incorporation.		10-Q	001-15955	3.7	8/9/2007
3.7	Amendment to Articles of Incorporation.		8-K	001-15955	3.1	12/23/2008
3.8	Amendment to Articles of Incorporation.		8-K	001-15955	3.1	9/9/2011
3.9	Amendment to Articles of Incorporation		DEF 14A	001-15955		4/4/2014
4.1	Form of the Warrant to Purchase 895,968 shares of Common Stock originally issued December 19, 2008 to the United States Department of the Treasury (original warrant holder) and subsequently transferred on November 23, 2011 to CSS LLC.		10-K	001-15955	4.5	3/8/2012
4.2	Form of Subordinated Indenture, to be dated as of June 25, 2015.		8-K	001-15955	4.1	6/25/2015
4.3	Form of First Supplemental Indenture, to be dated as of June 25, 2015.		8-K	001-15955	4.2	6/25/2015
10.1	Employment Agreement, dated at March 1, 1995, by and between Equitable Bankshares of Colorado, Inc. and Jonathan C. Lorenz.		SB-2	333-50037	10.8	4/14/1998
10.2	Employment Agreement, dated at January 3, 1998, by and between Colorado Business Bankshares, Inc. and Richard J. Dalton.		SB-2	333-50037	10.10	4/14/1998
10.3	Lease Agreement between Kesef, LLC and Colorado Business Bankshares, Inc. dated May 1, 1998.		10-QSB	000-24445	10.1	11/13/1998
10.4			10-Q	001-15955	10.35	11/14/2000

	First Amendment to Lease Agreement between Kesef, LLC and Colorado Business Bankshares, Inc. dated August 1, 2000.				
10.5	Employment Agreement, dated August 12, 2003, by and between CoBiz Inc. and Lyne B. Andrich.	10-Q	001-15955	10.14	11/13/2003
10.6	Lease Agreement between Dorit, LLC and Colorado Business Bank, N.A. dated March 31, 2003.	10-K	001-15955	10.17	3/12/2004
10.7	Employment Agreement, dated November 19, 2004, by and between CoBiz Inc. and Steven Bangert.	8-K	001-15955	10.1	11/24/2004

Incorporated by Reference						
Exhibit Number	Exhibit Description	Filed Herewith	Form	File No.	Exhibit	Filing Date
10.8	Indemnification Agreements dated December 19, 2006 between CoBiz Inc. and each the following directors and executive officers of the Corporation: Lyne B. Andrich, Steven Bangert, Michael B. Burgamy, Jerry W. Chapman, Richard J. Dalton, Morgan Gust, Thomas M. Longust, Jonathan C. Lorenz, Evan Makovsky, Harold F. Mosanko, Robert B. Ostertag, Howard R. Ross, Noel N. Rothman, Timothy J. Travis, Mary Beth Vitale and Mary White.		8-K	001-15955	10	12/20/2006
10.9	Employment Agreement, dated August 7, 2006, by and between CoBiz Inc. and Troy R. Dumlao.		10-Q	001-15955	10.20	8/9/2006
10.10	Amendments dated March 16, 2006 to the Employment Agreements between CoBiz Inc. and each of Steven Bangert, Jonathan C. Lorenz, Richard J. Dalton, Lyne B. Andrich and Robert B. Ostertag.		8-K	001-15955	99	3/20/2006
10.11	Indemnification Agreement dated March 5, 2007 between CoBiz Inc. and Troy R. Dumlao.		10-K	001-15955	10.22	3/15/2007
10.12	Form of Indemnification Agreement dated January 16, 2009 between CoBiz Financial Inc. and Directors Douglas L. Polson and Mary Rhinehart, and on October 27, 2011 for Bruce Schroffel.		8-K	001-15955	10.1	1/20/2009
10.13	Form of Amended and Restated Executive Split Dollar Life Insurance Plan and Agreements, dated December 31, 2007 between CoBiz Financial Inc. and each of Steven Bangert, Richard J. Dalton, Lyne B. Andrich and Robert B. Ostertag.		10-K	001-15955	10.21	3/17/2008
10.14	Second and Third Amendments to Lease Agreement between Kesef, LLC and Colorado Business Bankshares, Inc. dated August 1, 2000.		8-K	001-15955	10.1 & 10.2	4/4/2008
10.15	Employment agreement, dated April 22, 2002, by and between CoBiz Inc. and David Pass.		10-Q	001-15955	10.1	7/29/2011
10.16	Employment agreement, dated June 23, 2009, by and between CoBiz Bank and Scott Page.		10-K	001-15955	10.29	3/8/2012

10.17	Incentive Compensation Plan for named executive officers.		8-K	001-15955	N/A	6/12/2012
10.18	Form of employment agreement, dated February 13, 2014, between CoBiz Financial Inc., and Chris Huss and Sue Hermann.		10-K	001-15955	10.23	2/14/2014
10.19	Amended and Restated 2005 Equity Incentive Plan		DEF 14A	001-15955		4/4/2014
10.20	CoBiz Financial Inc. Employee Stock Purchase Plan and Amendments		DEF 14A	001-15955		4/4/2014
10.21	Revolving credit agreement, dated June 19, 2015, between CoBiz Financial Inc. and U.S. Bank N.A.		8-K	001-15955		6/19/2015
10.22	Separation and Release agreement, dated December 31, 2015, by and between CoBiz Financial Inc. and Jonathan C. Lorenz.	X				
10.23	Lease Agreement between Renshan L.P. and CoBiz Financial Inc. dated January 21, 2016.	X				
14	Code of Conduct and Ethics.		10-K	001-15955	14	2/14/2014
21	List of subsidiaries.	X				
23	Consent of Independent Registered Public Accounting firm (Crowe Horwath LLP).	X				
31.1	Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer.	X				
31.2	Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer.	X				
32.1	Section 1350 Certification of the Chief Executive Officer.	X				
32.2	Section 1350 Certification of the Chief Financial Officer.	X				
101.INS	XBRL Instance Document.	X				
101.SCH	XBRL Taxonomy Extension Schema Document.	X				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	X				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	X				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.	X				
101.PRE	XBRL Taxonomy Presentation Linkbase Document.	X				

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

(c) Financial Statement Schedules - See Item 15(a)(2) of this Annual Report on Form 10-K.

66

Table of Contents

SIGNATURES

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

Dated: February 12, 2016 CoBiz Financial Inc.

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

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

Signature:	Title:	Date:
/s/ Steven Bangert Steven Bangert	Chairman of the Board and Chief Executive Officer	February 12, 2016
/s/ Lyne B. Andrich Lyne B. Andrich	Executive Vice President and Chief Financial Officer	February 12, 2016
/s/ Troy R. Dumlao Troy R. Dumlao	Chief Accounting Officer	February 12, 2016
/s/ Michael B. Burgamy Michael B. Burgamy	Director	February 12, 2016
/s/ Evan Makovsky Evan Makovsky	Director	February 12, 2016
/s/ Richard L. Monfort Richard L. Monfort	Director	February 12, 2016
/s/ Douglas L. Polson Douglas L. Polson	Director	February 12, 2016
/s/ Mary K. Rhinehart Mary K. Rhinehart	Director	February 12, 2016
/s/ Noel N. Rothman Noel N. Rothman	Director	February 12, 2016

/s/ Bruce H. Schroffel Bruce H. Schroffel	Director	February 12, 2016
/s/ Timothy J. Travis Timothy J. Travis	Director	February 12, 2016
/s/ Mary Beth Vitale Mary Beth Vitale	Director	February 12, 2016
/s/ Mary M. White Mary M. White	Director	February 12, 2016

Table of Contents

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Management’s Report on Internal Control Over Financial Reporting	F-2
Reports of Independent Registered Public Accounting Firm	F-3
Consolidated Balance Sheets at December 31, 2015 and 2014	F-5
Consolidated Statements of Income for the Years Ended December 31, 2015, 2014 and 2013	F-6
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2015, 2014 and 2013	F-7
Consolidated Statements of Equity for the Years Ended December 31, 2015, 2014 and 2013	F-8
Consolidated Statements of Cash Flows for the Years Ended December 31, 2015, 2014 and 2013	F-9
Notes to Consolidated Financial Statements at and for the Years Ended December 31, 2015, 2014 and 2013	F-10

Table of Contents

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management's Report on Internal Control over Financial Reporting

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

As of December 31, 2015, management assessed the effectiveness of the Company's internal control over financial reporting based on the framework established in the 2013 Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2015, is effective.

Crowe Horwath LLP, the independent registered public accounting firm that audited the 2015 consolidated financial statements included in this annual report on Form 10-K, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting at December 31, 2015, which is included herein.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

CoBiz Financial Inc.

Denver, Colorado

We have audited CoBiz Financial Inc. and Subsidiaries (the “Company”) internal control over financial reporting as of December 31, 2015, based on criteria established in the 2013 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in the 2013 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets and the related consolidated statements of income, comprehensive income, equity, and cash flows of CoBiz Financial Inc. and Subsidiaries and our report dated February 12, 2016 expressed an unqualified opinion on those financial statements.

/s/ Crowe Horwath LLP

Sherman Oaks, California

February 12, 2016

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

CoBiz Financial Inc.

Denver, Colorado

We have audited the accompanying consolidated balance sheets of CoBiz Financial Inc. and Subsidiaries (the "Company") as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2015 and 2014, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2015, based on criteria established in the 2013 Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 12, 2016 expressed an unqualified opinion thereon.

/s/ Crowe Horwath LLP

Sherman Oaks, California

February 12, 2016

Table of Contents

COBIZ FINANCIAL INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AT DECEMBER 31, 2015 AND 2014

(in thousands, except share and per share amounts)	2015	2014
Assets		
Cash and due from banks	$ 48,665	$ 54,629
Interest-bearing deposits and federal funds sold	18,647	36,936
Total cash and cash equivalents	67,312	91,565
Investment securities available for sale (cost of $150,905 and $448,253, respectively)	153,685	459,815
Investment securities held to maturity (fair value of $345,576 and $13,616, respectively)	346,666	13,329
Other investments	12,461	11,477
Total investments	512,812	484,621
Loans - net of allowance for loan losses of $40,686 and $32,765, respectively	2,658,519	2,372,810
Intangible assets - net of amortization of $6,504 and $6,197, respectively	1,926	2,526
Bank-owned life insurance	49,373	48,040
Premises and equipment - net of depreciation of $39,504 and $37,953, respectively	6,122	7,250
Accrued interest receivable	10,362	9,617
Deferred income taxes, net	22,221	20,008
Other real estate owned - net of valuation allowance of $8,666 and $8,760, respectively	5,079	5,819
Other	18,041	19,910
TOTAL ASSETS	$ 3,351,767	$ 3,062,166
Liabilities		
Deposits		
Noninterest-bearing demand	$ 1,180,335	$ 1,073,164
Interest-bearing demand	585,524	531,365
Money market	804,777	661,519
Savings	18,078	15,236
Certificates of deposits	152,998	211,007
Total deposits	2,741,712	2,492,291
Securities sold under agreements to repurchase	47,459	49,976
Other short-term borrowings	132,000	112,469
Accrued interest and other liabilities	25,863	26,495
Subordinated notes payable - net of unamortized discount and issuance costs of $969 and $0, respectively	59,031	-
Junior subordinated debentures	72,166	72,166
TOTAL LIABILITIES	3,078,231	2,753,397

Commitments and contingencies - see note 16

Shareholders' Equity		
Preferred stock, $.01 par value; 2,000,000 shares authorized; 0 and 57,366 issued and outstanding ($0 and $57,366 liquidation value, respectively)	-	1
Common stock, $.01 par value; 100,000,000 shares authorized; 41,122,119 and 40,770,390 issued and outstanding, respectively	406	401
Additional paid-in capital	192,768	245,020
Accumulated earnings	77,079	59,019
Accumulated other comprehensive income (AOCI), net of income tax of $2,013 and $2,655, respectively	3,283	4,328
TOTAL SHAREHOLDERS' EQUITY	273,536	308,769
TOTAL LIABILITIES AND EQUITY	$ 3,351,767	$ 3,062,166

See Notes to Consolidated Financial Statements

Table of Contents

COBIZ FINANCIAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

(in thousands, except per share amounts)	2015	2014	2013
INTEREST INCOME:			
Interest and fees on loans	$ 107,622	$ 98,627	$ 89,071
Interest and dividends on investment securities:			
Taxable securities	12,487	14,810	16,607
Nontaxable securities	609	271	38
Dividends on securities	432	507	294
Interest on federal funds sold and other	116	102	117
Total interest income	121,266	114,317	106,127
INTEREST EXPENSE:			
Interest on deposits	3,640	3,866	4,616
Interest on short-term borrowings and securities sold under agreements to repurchase	214	441	450
Interest on subordinated debentures and notes payable	5,736	4,122	5,360
Total interest expense	9,590	8,429	10,426
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	111,676	105,888	95,701
Provision for loan losses	6,420	(4,155)	(8,804)
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	105,256	110,043	104,505
NONINTEREST INCOME:			
Service charges	5,862	5,598	5,315
Investment advisory income	5,832	5,736	5,077
Insurance income	12,047	11,150	11,199
Other income	6,926	5,425	7,015
Total noninterest income	30,667	27,909	28,606
NONINTEREST EXPENSE:			
Salaries and employee benefits	69,526	66,008	61,753
Occupancy expenses, premises and equipment	13,079	13,100	12,831
Amortization of intangibles	600	597	662
FDIC and other assessments	1,813	1,737	1,690
Other real estate owned and loan workout costs	388	1,066	715
Net (gain) loss on securities, other assets and other real estate owned	(369)	(2,597)	683
Other expense	15,140	14,225	12,578
Total noninterest expense	100,177	94,136	90,912
INCOME BEFORE INCOME TAXES	35,746	43,816	42,199
Provision for income taxes	9,606	15,018	13,909
NET INCOME FROM CONTINUING OPERATIONS	26,140	28,798	28,290
DISCONTINUED OPERATIONS:			

Income (loss) from discontinued operations	(113)	338	(1,151)
Provision (benefit) for income taxes	(42)	129	(472)
Net income (loss) from discontinued operations	(71)	209	(679)
NET INCOME	$ 26,069	$ 29,007	$ 27,611
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$ 25,749	$ 28,433	$ 26,667
EARNINGS PER COMMON SHARE:			
Basic - Continuing	$ 0.63	$ 0.69	$ 0.68
Diluted - Continuing	$ 0.62	$ 0.69	$ 0.68
Basic - Discontinued	$ -	$ 0.01	$ (0.02)
Diluted - Discontinued	$ -	$ 0.01	$ (0.02)
Basic	$ 0.63	$ 0.70	$ 0.66
Diluted	$ 0.62	$ 0.70	$ 0.66

See Notes to Consolidated Financial Statements

Table of Contents

COBIZ FINANCIAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

(in thousands)	2015	2014	2013
Net income	$ 26,069	$ 29,007	$ 27,611
Other comprehensive income items:			
Available for sale securities:			
Net unrealized gain (loss)	358	4,491	(8,183)
Reclassification to operations	(318)	(1,154)	(439)
Net unrealized holding gains transferred to held to maturity	(8,821)	-	-
	(8,781)	3,337	(8,622)
Held to maturity securities:			
Net unrealized gain on securities transferred	8,821	-	-
Reclassification to operations	(1,904)	-	-
	6,917	-	-
Cash flow hedges:			
Net unrealized gain (loss)	(905)	(2,067)	3,126
Reclassification to operations	1,082	1,310	2,095
	177	(757)	5,221
Total other comprehensive income items	$ (1,687)	$ 2,580	$ (3,401)
Income tax provision:			
Available for sale securities:			
Net unrealized gain (loss)	$ 136	$ 1,708	$ (3,110)
Reclassification to operations	(121)	(439)	(167)
Net unrealized holding gains transferred to held to maturity	(3,352)	-	-
	(3,337)	1,269	(3,277)
Held to maturity securities:			
Net unrealized gain on securities transferred	3,352	-	-
Reclassification to operations	(724)	-	-
	2,628	-	-
Cash flow hedges:			
Net unrealized gain (loss)	(344)	(785)	1,188
Reclassification to operations	411	498	796
	67	(287)	1,984
Total income tax provision	$ (642)	$ 982	$ (1,293)
Other comprehensive income (loss), net of tax	(1,045)	1,598	(2,108)
Comprehensive income	$ 25,024	$ 30,605	$ 25,503

See Notes to Consolidated Financial Statements

Table of Contents

COBIZ FINANCIAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

		CoBiz Financial Inc. Shareholders						
		Preferred Stock		Common Stock				
(in thousands, except share and per share amounts)	Total	Shares Issued (Redeemed)	Amount	Shares Issued	Amount	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Comprehensi Income
BALANCE - December 31, 2012	$ 257,051	57,366	$ 1	39,789,759	$ 391	$ 236,384	$ 15,437	$ 4,838
Options exercised	1,560	-	-	240,683	2	1,558	-	-
Employee stock purchase plan	400	-	-	47,296	1	399	-	-
Shares withheld in net settlement of restricted stock	(297)	-	-	(35,256)	3	(300)	-	-
Restricted stock awards, net of forfeitures	-	-	-	325,526	-	-	-	-
Stock-based compensation expense	2,742	-	-	-	-	2,742	-	-
Tax deficit from stock-based compensation	(123)	-	-	-	-	(123)	-	-
Dividends paid-common ($0.12 per share)	(4,807)	-	-	-	-	-	(4,807)	-
Dividends paid/accumulated-preferred stock (1.6% on $1,000 per share liquidation value)	(944)	-	-	-	-	-	(944)	-
Other comprehensive loss, net of income taxes of $1,293	(2,108)	-	-	-	-	-	-	(2,108)
Net income	27,611	-	-	-	-	-	27,611	-
BALANCE - December 31, 2013	281,085	57,366	1	40,368,008	397	240,660	37,297	2,730
Options exercised	1,116	-	-	154,091	4	1,112	-	-
Employee stock purchase plan	454	-	-	43,449	1	453	-	-
Shares withheld in net settlement of restricted stock	(1,045)	-	-	(92,340)	(1)	(409)	(635)	-

Restricted stock awards, net of forfeitures	-	-	-	297,182	-	-	-	-
Stock-based compensation expense	3,141	-	-	-	-	3,141	-	-
Tax benefit from stock-based compensation	63	-	-	-	-	63	-	-
Dividends paid-common ($0.15 per share)	(6,076)	-	-	-	-	-	(6,076)	-
Dividends paid/accumulated-preferred stock (1.0% on $1,000 per share liquidation value)	(574)	-	-	-	-	-	(574)	-
Other comprehensive income, net of income taxes of $(982)	1,598	-	-	-	-	-	-	1,598
Net income	29,007	-	-	-	-	-	29,007	-
BALANCE - December 31, 2014	308,769	57,366	1	40,770,390	401	245,020	59,019	4,328
Options exercised	1,275	-	-	166,589	5	1,270	-	-
Employee stock purchase plan	458	-	-	39,309	1	457	-	-
Shares withheld in net settlement of restricted stock	(1,207)	-	-	(103,763)	(1)	(470)	(736)	-
Restricted stock awards, net of forfeitures	-	-	-	249,594	-	-	-	-
Stock-based compensation expense	3,324	-	-	-	-	3,324	-	-
Tax benefit from stock-based compensation	532	-	-	-	-	532	-	-
Redemption of preferred stock	(57,366)	(57,366)	(1)	-	-	(57,365)	-	-
Dividends paid-common ($0.17 per share)	(6,953)	-	-	-	-	-	(6,953)	-
Dividends paid/accumulated-preferred stock (1.0% on $1,000 per share liquidation value)	(320)	-	-	-	-	-	(320)	-
Other comprehensive loss, net of income taxes of $642	(1,045)	-	-	-	-	-	-	(1,045)
Net income	26,069	-	-	-	-	-	26,069	-
BALANCE - December 31, 2015	$ 273,536	-	$ -	41,122,119	$ 406	$ 192,768	$ 77,079	$ 3,283

See Notes to Consolidated Financial Statements

F-8

Table of Contents

COBIZ FINANCIAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

(in thousands)	For the year ended December 31, 2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 26,069	$ 29,007	$ 27,611
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and accretion	4,112	3,309	5,908
Provision for loan and credit losses	6,420	(4,155)	(8,804)
Stock-based compensation	3,324	3,141	2,742
Federal Home Loan Bank stock dividend	(186)	(268)	(60)
Deferred income taxes	(1,572)	5,519	4,782
Bank-owned life insurance	(1,334)	(1,271)	(1,295)
Net (gain) loss on securities, other assets and other real estate owned	(369)	(2,618)	683
Other operating activities, net	(1,575)	(625)	(2,080)
Changes in operating assets and liabilities:			
Other assets	(529)	(1,393)	2,898
Other liabilities	(237)	(3,375)	(5,634)
Net cash provided by operating activities	34,123	27,271	26,751
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of other investments	(13,765)	(20,859)	(2,992)
Proceeds from other investments	14,428	19,456	4,100
Purchase of investment securities available for sale	(28,049)	(13,053)	(139,628)
Purchase of investment securities held to maturity	(108,052)	-	(7,765)
Proceeds from sale of investment securities available for sale	-	11,590	-
Maturity, call and principal payments on investment securities available for sale	36,919	83,515	146,540
Maturity, call and principal payment on investment securities held to maturity	68,960	34	30
Restricted cash	-	-	4,540
Acquisition of client relationships	(75)	(250)	-
Purchase of bank-owned life insurance	-	(3,335)	-
Net proceeds from sale of loans, OREO and repossessed assets	2,499	12,392	11,266
Loan originations and repayments, net	(291,573)	(326,658)	(165,813)
Purchase of premises and equipment	(1,547)	(4,226)	(1,956)
Other investing activities, net	-	(1,976)	24
Net cash used in investing activities	(320,255)	(243,370)	(151,654)

CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in demand, money market and savings accounts	307,430	247,564	164,829
Net decrease in certificates of deposits	(58,009)	(34,310)	(15,052)
Net increase in short-term borrowings	19,531	112,469	-
Net increase (decrease) in securities sold under agreements to repurchase	(2,517)	(88,518)	10,607
Redemption of subordinated notes payable	-	-	(20,984)
Proceeds from issuance of subordinated notes payable	59,250	-	-
Proceeds from issuance of common stock	1,733	1,570	1,960
Taxes paid in net settlement of restricted stock	(1,207)	(1,045)	(297)
Redemption of preferred stock	(57,366)	-	-
Dividends paid on common stock	(6,953)	(6,076)	(4,820)
Dividends paid on preferred stock	(463)	(574)	(1,465)
Other financing activities, net	450	556	260
Net cash provided by financing activities	261,879	231,636	135,038
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(24,253)	15,537	10,135
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	91,565	76,028	65,893
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 67,312	$ 91,565	$ 76,028

See Notes to Consolidated Financial Statements

Table of Contents

COBIZ FINANCIAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AT AND FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

1. Nature of Operations and Significant Accounting Policies

The accounting and reporting practices of CoBiz Financial Inc. (Parent) and its wholly owned subsidiaries: CoBiz Bank (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 and prevailing practices within the banking industry. The operations of the Company are comprised predominantly of the Bank, which operates in its Colorado market areas under the name Colorado Business Bank (CBB) and in its Arizona market areas under the name Arizona Business Bank (ABB).

Organization - The Bank is a commercial banking institution with nine locations in the Denver metropolitan area; one in Boulder; one near Vail; one in Colorado Springs; one in Fort Collins; and five (excluding one bank closed in January 2016) 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 IM provides wealth planning and investment management to institutions and individuals through its SEC-registered investment advisor subsidiary, CoBiz Wealth, LLC. CoBiz GMB, Inc. provided investment banking services to middle-market companies through its wholly-owned subsidiary, Green Manning & Bunch, Ltd. (GMB), until its discontinuation on March 31, 2015. The operating results of GMB have been retrospectively presented as discontinued operations for all periods presented. See Note 2 – Discontinued Operations for additional information on the discontinued operations of GMB and the two lines of the Wealth Management Division.

Use of Estimates – In preparing its financial statements, the company is required to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

Reclassifications – Certain reclassifications have been made to prior years' consolidated financial statements and related notes to conform to current year presentation including: the effects of discontinued operations and the aggregation of certain line items in the consolidated statements of cash flows. Refer to Note 2 – Discontinued Operations for additional information.

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

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

Table of Contents

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 December 31, 2015 or December 31, 2014.

Cash and Cash Equivalents — The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents include amounts that the Company is required to maintain at the Federal Reserve Bank of Kansas City to meet certain regulatory reserve balance requirements. At December 31, 2015 and 2014, the Company had reserve requirements of $18.2 million and $13.4 million, respectively. The following table shows supplemental disclosures of certain cash and noncash items:

	For the year ended December 31,		
(in thousands)	2015	2014	2013
Cash paid during the period for:			
Interest	$ 9,256	$ 8,295	$ 10,409
Income taxes, net	9,919	11,061	11,197
Other noncash activities:			
Loans transferred to held for sale	1,628	7,087	8,044
Loans transferred to OREO	-	2,660	449
Financed sales of OREO and loans held for sale	-	-	2,000
Trade date accounting for investment securities	795	-	-
Available for sale securities transferred to held to maturity	288,598	-	-

Restricted Cash – Restricted cash consists of cash deposits that are contractually restricted as collateral for outstanding letters of credit. There was no restricted cash at December 31, 2015 and 2014.

Investments — The Company classifies its investment securities as held to maturity, available for sale or trading, according to management's intent. Investment security transactions are recorded on a trade date basis. At December 31, 2015 and 2014, the Company had no trading securities.

Available for sale securities consist of bonds, notes and debentures (including corporate debt and 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 residential mortgage-backed securities (MBS), bonds, notes, 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). See Note 3 – Investments.

Bank Stocks — Federal Home Loan Bank of Topeka (FHLB), Federal Reserve Bank and other correspondent bank stocks are accounted for under the cost method. See Note 3 – Investments.

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

Table of Contents

or discounts on purchased loans. Interest is accrued and credited to income daily based on the principal balance outstanding. The accrual of interest income is generally discontinued when a loan becomes 90 days past due as to principal and interest. When a loan is designated as nonaccrual, the current period’s accrued interest receivable is charged against current earnings while any portions relating to prior periods are charged against the allowance for loan losses. Interest payments received on nonaccrual loans are generally applied to the principal balance of the loan. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured and there has been demonstrated performance in accordance with contractual terms. The Company may elect to continue the accrual of interest when the loan is in the process of collection and the realizable value of collateral is sufficient to cover the principal balance and accrued interest.

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

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

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

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 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. See Note 4 – Loans.

Intangible Assets —Intangible assets, primarily consisting of customer contracts and relationships, are being amortized by the straight-line method over 10 to 15 years. See Note 6 – Intangible Assets.

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 are recorded in the consolidated statements of income under the caption "Other Income".

Premises and Equipment – Premises and equipment are stated at cost less accumulated depreciation and amortization, which is calculated using the straight-line method over the estimated useful lives of generally three to five years. Leasehold improvements are capitalized and amortized using the straight-line method over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. The Company reviews the carrying value of property and equipment for indications of impairment in accordance with ASC Topic 360-10-35, Impairment or Disposal of Long-Lived Assets. See Note 5 – Premises and Equipment.

Other Assets – Included in other assets are certain investments, where the Company has the ability to exercise significant influence or has ownership between 20% and 50% that are accounted for under the equity method. The Funds are equity method investments licensed as Small Business Investment Companies that invest primarily in subordinated debt securities. In certain circumstances, the Funds may also receive warrants or other equity positions as part of their investments. There were no significant transactions between the Company and the Funds for the years ended December 31, 2015, 2014, and 2013. The Company recognized income (loss) from the Funds of $1.3 million, $(0.1) million, and $0.9 million for the years ended December 31, 2015, 2014, and 2013, respectively, which is included in "Other Income" in the consolidated statements of income.

Repossessed Assets – Assets acquired through repossession are held for sale and initially recorded at estimated fair value at the date of repossession. Subsequent to repossession, valuations are periodically performed by management

and the assets are carried at the lower of carrying amount or fair value less costs to sell. Repossessed assets are reported in the consolidated balance sheets under the caption "Other Assets." There were no repossessed assets at December 31, 2015 and 2014.

Other Real Estate Owned (OREO) – OREO held for sale acquired through foreclosure, physical possession or in settlement of debt is valued at estimated fair value, less estimated costs to sell, at the date of receipt. Subsequent to foreclosure, OREO is carried at the lower of carrying amount or fair value less costs to sell. Subsequent declines in value are charged to operations. Activity in the valuation allowance on OREO for the years ended December 31, 2015, 2014, and 2013 is as follows:

	For the year ended December 31,		
(in thousands)	2015	2014	2013
Beginning balance	$ 8,760	$ 8,674	$ 8,055
Additions	33	398	2,185
Deductions due to sales	(127)	(312)	(1,566)
Ending balance	$ 8,666	$ 8,760	$ 8,674

Securities Sold Under Agreements to Repurchase – The Company sells certain securities under agreements to repurchase with its customers. The agreements transacted with its customers are utilized as an overnight investment product. These agreements are treated as secured borrowings, where the agreements are reflected as a liability of the Company and the securities underlying the agreements are reflected as a Company asset in accordance with ASC Topic 860, Transfers and Servicing. See Note 8 – Borrowed Funds.

Derivative Instruments — Derivative financial instruments are accounted for at fair value. The Company utilizes interest rate swaps to hedge a portion of its exposure to interest rate changes. These instruments are accounted for as cash flow hedges, as defined by ASC Topic 815, Derivatives and Hedging (ASC 815). The 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 net cash flows from the cash flow and fair value hedges are classified in operating activities within the consolidated statements of cash flows with the hedged items. The Company also has a derivative program that offers interest-rate caps, floors, swaps and collars to customers of the Bank. The fair value amounts recognized for derivative instruments and the fair value amounts recognized for the right to reclaim or obligation to return cash collateral are not offset when represented under a master netting arrangement. The Company also uses foreign currency forward contracts (FX forwards) giving it the right to sell underlying currencies at specified future dates and predetermined prices in order to mitigate foreign exchange risk associated with long positions. FX forwards are carried at fair value with changes in value recognized in current earnings as the contracts are not designated as hedging instruments. See Note 10 – Derivatives.

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

Investment Advisory Income – Fees earned from providing investment advisory services are based on the market value of assets under management and are collected at the end of each quarter.

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

Income From Discontinued Operations, Net of Income Taxes – Income from discontinued operations, net of income taxes for the years ended December 31, 2015, 2014, and 2013 includes the closure of GMB and two other lines of business, which is discussed in Note 2 – Discontinued Operations.

Income Taxes – A deferred income tax liability or asset is recognized for temporary differences which exist in the recognition of certain income and expense items for financial statement reporting purposes in periods different than for tax reporting purposes. The provision for income taxes is based on the amount of current and deferred income taxes payable or refundable at the date of the financial statements as measured by the provisions of current tax laws. A valuation allowance is provided when it is more likely than not that some portion or all of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the period in which related temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, taxes paid in prior carryback years, projected future taxable income and tax planning strategies in its assessment of a valuation allowance. See Note 11 – Income Taxes.

Stock-Based Compensation — Pursuant to ASC Topic 718, Compensation – Stock Compensation (ASC 718), the Company recognizes the fair value of stock-based awards to employees as compensation cost over the requisite service period. See Note 15 – Employee Benefit and Stock Compensation Plans.

Earnings Per Common Share — Basic and diluted earnings per share is based on the two-class method prescribed in ASC Topic 260, Earnings Per Share (ASC 260). The weighted-average number of shares

outstanding used to compute diluted earnings per share include the number of additional common shares that would be outstanding if the potential dilutive common shares and common share equivalents had been issued at the beginning of the period. See Note 14 – Earnings per Common Share.

Segment Information - The Company has disclosed separately the results of operations relating to its segments in Note 19 – Segments.

Fair Value Measurements — The Company measures financial assets, financial liabilities, nonfinancial assets and nonfinancial liabilities pursuant to ASC Topic 820, Fair Value Measurements and Disclosures (ASC 820). ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. See Note 18 - Fair Value Measurements.

Recent Accounting Pronouncements — In August 2015, the Financial Accounting Standard Board (FASB) issued Accounting Standard Update (ASU) No. 2015-14, Revenue from Contracts with Customers (Topic 606) (ASU 2015-14). In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606), with an original effective date for annual reporting periods beginning after December 15, 2016. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2015-14 deferred the effective date of ASU 2014-09 to annual periods and interim periods within those annual periods beginning after December 15, 2017. The Company is currently evaluating the effects of ASU 2015-14 on its financial statements and disclosures, if any. Preliminarily, the Company expects ASU 2015-14 to have more of an impact to the Fee-Based Lines segment rather than Commercial Banking segment, which generates the majority of the Company's revenue.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01). The main objective of ASU 2016-01 is to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. ASU 2016-01 addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Some of the amendments in ASU 2016-01 include the following: 1) Require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; 2) Simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; 3) Require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; 4) Require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value; among others. For public business entities, the amendments of ASU 2016-01 are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the effects of ASU 2016-01 on its financial statements and disclosures, if any.

2. Discontinued Operations

During the first quarter of 2015, the Company ceased operations of GMB due to increasing regulatory compliance costs and in order to focus on activities that provide recurring revenue. The net carrying value of the assets and liabilities of GMB was $0.8 million and were transferred to the parent Company at the end of the first quarter of 2015. The results of operations for GMB have been retrospectively presented as discontinued operations in all periods presented.

During the fourth quarter of 2012, the Company made the decision to close its trust department and sell its wealth transfer business. Both of these lines were within the Wealth Management division. The operating results associated with the trust and wealth transfer lines have been retrospectively presented as discontinued operations in all periods presented.

The table below presents the results of the discontinued operations of GMB, trust and wealth transfer for the years ended December 31, 2015, 2014, and 2013. Net income (loss) before income taxes approximates total

Table of Contents

cash flows from operating activities of the discontinued operations. Cash flows from investing activities were not material.

(in thousands)	For the year ended December 31, 2015	2014	2013
Noninterest income	$ 623	$ 4,166	$ 2,639
Noninterest expense	736	3,828	3,790
Income (loss) before income taxes	(113)	338	(1,151)
Provision (benefit) for income taxes	(42)	129	(472)
Net income (loss) from discontinued operations	$ (71)	$ 209	$ (679)

3. Investments

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

	December 31, 2015				December 31, 2014			
(in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available for sale securities (AFS):								
Mortgage-backed securities	$ -	$ -	$ -	$ -	$ 275,855	$ 8,052	$ 403	$ 283,504
Trust preferred securities	44,845	1,684	446	46,083	57,974	2,127	446	59,655
Corporate debt securities	102,273	1,632	169	103,736	99,249	2,186	225	101,210
Municipal securities	3,787	99	20	3,866	15,175	280	9	15,446
Total AFS	$ 150,905	$ 3,415	$ 635	$ 153,685	$ 448,253	$ 12,645	$ 1,083	$ 459,815

Held to maturity securities (HTM):								
Mortgage-backed securities	$ 312,658	$ 99	$ 2,059	$ 310,698	$ 140	$ 4	$ -	$ 144
Trust preferred securities	10,524	816	85	11,255	13,189	294	11	13,472
Municipal securities	23,484	151	12	23,623	-	-	-	-
Total HTM	$ 346,666	$ 1,066	$ 2,156	$ 345,576	$ 13,329	$ 298	$ 11	$ 13,616

During the first quarter of 2015, the Company transferred MBS and municipal securities with a book value of $279.8 million and fair value of $288.6 million from AFS to HTM. The Company believes the HTM category is more consistent with the Company's intent for these securities. Transfers of securities from AFS to HTM were made at fair value at the time of transfer. The unamortized portion of the $8.8 million unrealized holding gain at the time of transfer is retained in AOCI and in the carrying value of HTM securities. Accordingly, the balance of HTM securities in the "Amortized cost" column in the table above includes a net unamortized unrealized gain of $6.9 million at December 31, 2015. Such amounts are amortized over the remaining life of the securities.

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

	For the year ended December 31,		
(in thousands)	2015	2014	2013
Proceeds	$ -	$ 11,590	$ -
Gains	343	1,242	552
Losses	(25)	(88)	(113)

Table of Contents

The amortized cost and estimated fair value of investments in debt securities at December 31, 2015, by contractual maturity are shown below. Expected maturities can differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties.

	Available for sale		Held to maturity	
(in thousands)	Amortized cost	Fair value	Amortized cost	Fair value
Due in one year or less	$ 13,118	$ 13,216	$ -	$ -
Due after one year through five years	74,588	75,647	17,768	17,862
Due after five years through ten years	18,353	18,739	5,146	5,190
Due after ten years	44,846	46,083	11,094	11,826
Mortgage-backed securities	-	-	312,658	310,698
	$ 150,905	$ 153,685	$ 346,666	$ 345,576

Investment securities with a fair value of $157.3 million and $171.1 million were pledged to secure public deposits of $113.6 million and $122.3 million at December 31, 2015 and 2014, respectively.

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

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

There were 168 and 24 securities in the tables below at December 31, 2015 and 2014, respectively, in an unrealized loss position.

	December 31, 2015					
	Less than 12 months		12 months or greater		Total	
(in thousands)	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
AFS						
Trust preferred securities	$ 15,294	$ 439	$ 995	$ 7	$ 16,289	$ 446
Corporate debt securities	33,591	169	-	-	33,591	169
Municipal securities	431	20	-	-	431	20
Total AFS	$ 49,316	$ 628	$ 995	$ 7	$ 50,311	$ 635
HTM						
Mortgage-backed securities	$ 281,547	$ 2,059	$ -	$ -	$ 281,547	$ 2,059
Trust preferred securities	-	-	780	85	780	85
Municipal securities	2,604	12	-	-	2,604	12
Total HTM	$ 284,151	$ 2,071	$ 780	$ 85	$ 284,931	$ 2,156

Table of Contents

	December 31, 2014					
	Less than 12 months		12 months or greater		Total	
(in thousands)	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
AFS						
Mortgage-backed securities	$ 9,699	$ 12	$ 26,470	$ 391	$ 36,169	$ 403
Trust preferred securities	17,175	48	6,145	398	23,320	446
Corporate debt securities	5,856	117	4,924	108	10,780	225
Municipal securities	773	9	-	-	773	9
Total AFS	$ 33,503	$ 186	$ 37,539	$ 897	$ 71,042	$ 1,083
HTM						
Trust preferred securities	$ 845	$ 11	$ -	$ -	$ 845	$ 11

There was no OTTI recognized in earnings during the years ended December 31, 2015, 2014, and 2013.

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

	December 31,	
(in thousands)	2015	2014
Bank stocks — at cost	$ 10,289	$ 9,305
Investment in statutory trusts — equity method	2,172	2,172
	$ 12,461	$ 11,477

Bank stocks consist primarily of stock in the FHLB which is part of the Federal Home Loan Bank System (FHLB System). The purpose of the FHLB investment relates to maintenance of a borrowing base with the FHLB. FHLB stock holdings are largely dependent upon the Company's liquidity position. To the extent the need for wholesale funding increases or decreases, the Company may purchase additional or sell excess FHLB stock, respectively. The Company evaluates impairment in this investment based on the ultimate recoverability of the par value and at December 31, 2015 and 2014, did not consider the investment to be other-than-temporarily impaired.

4. Loans

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

· Commercial loans – Commercial loans consist of loans to small and medium-sized businesses in a wide variety of industries. The Bank’s areas of emphasis in commercial lending include, but are not limited to, loans to wholesalers, manufacturers, municipalities, and 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

Table of Contents

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, acquisition and development, construction, or consumer loans.

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

	December 31,	
(in thousands)	2015	2014
Commercial	$ 1,174,570	$ 977,628
Real estate - mortgage	1,017,072	990,594
Construction & land	202,011	182,869
Consumer	253,240	207,921
Other	52,616	47,904
Loans held for investment	2,699,509	2,406,916
Allowance for loan losses	(40,686)	(32,765)
Unearned net loan fees	(304)	(1,341)
Total net loans	$ 2,658,519	$ 2,372,810

At December 31, 2015 and 2014, overdraft demand deposits totaling $0.2 million and $0.9 million, respectively, were reclassified from deposits to loans.

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

Table of Contents

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 December 31, 2015 and 2014 is summarized below:

	At December 31, 2015		
(in thousands)	Non-classified	Classified	Total
Commercial			
Manufacturing	$ 132,083	$ 2,967	$ 135,050
Finance and insurance	64,243	36	64,279
Health care	126,049	462	126,511
Real estate services	117,283	1,580	118,863
Construction	56,581	1,325	57,906
Public administration	211,373	9,739	221,112
Other	425,233	25,616	450,849
	1,132,845	41,725	1,174,570
Real estate - mortgage			
Residential & commercial owner-occupied	431,805	5,050	436,855
Residential & commercial investor	577,835	1,057	578,892
Other	1,325	-	1,325
	1,010,965	6,107	1,017,072
Construction & land	201,984	27	202,011
Consumer	252,869	371	253,240
Other	49,768	2,848	52,616
Total loans held for investment	$ 2,648,431	$ 51,078	$ 2,699,509
Unearned net loan fees			(304)
Net loans held for investment			$ 2,699,205

	At December 31, 2014		
(in thousands)	Non-classified	Classified	Total
Commercial			
Manufacturing	$ 121,617	$ 4,501	$ 126,118
Finance and insurance	80,948	99	81,047
Health care	91,631	180	91,811
Real estate services	110,031	2,357	112,388
Construction	53,513	2,982	56,495
Public administration	178,653	-	178,653

Other	325,495	5,621	331,116
	961,888	15,740	977,628
Real estate - mortgage			
Residential & commercial owner-occupied	409,659	12,749	422,408
Residential & commercial investor	563,657	4,349	568,006
Other	180	-	180
	973,496	17,098	990,594
Construction & land	181,641	1,228	182,869
Consumer	205,131	2,790	207,921
Other	47,820	84	47,904
Total loans held for investment	$ 2,369,976	$ 36,940	$ 2,406,916
Unearned net loan fees			(1,341)
Net loans held for investment			$ 2,405,575

Table of Contents

Transactions in the ALL by segment for the years ended December 31, 2015 and 2014 are summarized below:

	For the year ended December 31,	
(in thousands)	2015	2014
Allowance for loan losses, beginning of period		
Commercial	$ 14,614	$ 14,103
Real estate - mortgage	12,463	14,919
Construction & land	2,316	3,346
Consumer	2,329	2,471
Other	488	479
Unallocated	555	1,732
Total	32,765	37,050
Provision		
Commercial	$ 9,950	$ 2,094
Real estate - mortgage	(3,017)	(2,839)
Construction & land	(1,253)	(2,499)
Consumer	374	257
Other	168	9
Unallocated	198	(1,177)
Total	6,420	(4,155)
Charge-offs		
Commercial	$ (588)	$ (1,956)
Real estate - mortgage	(186)	(52)
Construction & land	(107)	(50)
Consumer	(130)	(453)
Other	(285)	(6)
Total	(1,296)	(2,517)
Recoveries		
Commercial	$ 239	$ 373
Real estate - mortgage	1,112	435
Construction & land	1,155	1,519
Consumer	19	54
Other	272	6
Total	2,797	2,387
Allowance for loan losses, end of period		
Commercial	$ 24,215	$ 14,614
Real estate - mortgage	10,372	12,463
Construction & land	2,111	2,316
Consumer	2,592	2,329

Other	643	488
Unallocated	753	555
Total	$ 40,686	$ 32,765

Table of Contents

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

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

For collateral dependent loans that have been specifically identified as impaired, the Company measures fair value based on third-party appraisals, adjusted for estimated costs to sell the property. Upon impairment, the Company will obtain a new appraisal if one had not been previously obtained in the last 12 months. For credits over $2.0 million, the Company engages an additional third-party appraiser to review the appraisal. For credits under $2.0 million, the Company’s internal appraisal department reviews the appraisal. All appraisals are reviewed for reasonableness based on recent sales transactions that may have occurred subsequent to or 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.

- 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.

Table of Contents

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 multifamily loans.

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

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

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

	At December 31, 2015				At December 31, 2014			
	Individually evaluated for impairment		Collectively evaluated for impairment		Individually evaluated for impairment		Collectively evaluated for impairment	
(in thousands)	Loans held for investment	Allowance loan for losses	Loans held for investment	Allowance loan for losses	Loans held for investment	Allowance loan for losses	Loans held for investment	Allowance loan for losses
Commercial	$ 33,927	$ 10,975	$ 1,141,452	$ 13,240	$ 20,415	$ 3,441	$ 957,284	$ 11,173
Real estate - mortgage	6,521	320	1,009,747	10,052	17,803	281	971,916	12,182
Construction & land	2,610	192	198,671	1,919	4,004	280	177,860	2,036
Consumer	855	56	252,462	2,536	2,506	139	205,449	2,190
Other	-	-	52,960	643	84	6	48,254	482
Unallocated	-	-	-	753	-	-	-	555

Total	$ 43,913	$ 11,543	$ 2,655,292	$ 29,143	$ 44,812	$ 4,147	$ 2,360,763	$ 28,618

Table of Contents

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

	At December 31, 2015				
(in thousands)	Unpaid principal balance	Recorded investment in impaired loans (1)	Recorded investment with a related allowance	Recorded investment with no related allowance	Related allowance
Commercial					
Manufacturing	$ 5,002	$ 4,795	$ 4,795	$ -	$ 476
Finance and insurance	36	36	36	-	36
Healthcare	125	125	125	-	9
Real estate services	7,638	7,638	7,638	-	559
Construction	1,906	1,874	1,874	-	309
Other	20,847	19,459	19,451	8	9,586
	35,554	33,927	33,919	8	10,975
Real estate - mortgage					
Residential & commercial owner-occupied	1,790	1,790	1,479	311	185
Residential & commercial investor	4,731	4,731	4,731	-	135
	6,521	6,521	6,210	311	320
Construction & land	2,643	2,610	2,583	27	192
Consumer	855	855	746	109	56
Total	$ 45,573	$ 43,913	$ 43,458	$ 455	$ 11,543

	At December 31, 2014				
(in thousands)	Unpaid principal balance	Recorded investment in impaired loans (1)	Recorded investment with a related allowance	Recorded investment with no related allowance	Related allowance
Commercial					
Manufacturing	$ 5,169	$ 4,887	$ 4,833	$ 54	$ 431
Finance and insurance	99	99	99	-	53
Healthcare	140	140	140	-	9
Real estate services	8,469	8,469	8,469	-	782
Construction	2,050	2,050	1,961	89	296
Other	5,702	4,770	4,411	359	1,870
	21,629	20,415	19,913	502	3,441

Real estate - mortgage					
Residential & commercial owner-occupied	3,063	3,050	1,183	1,867	117
Residential & commercial investor	6,210	6,210	4,885	1,325	164
	9,273	9,260	6,068	3,192	281
Construction & land	4,038	4,004	3,325	679	280
Consumer	2,506	2,506	494	2,012	139
Other	84	84	84	-	6
Total	$ 37,530	$ 36,269	$ 29,884	$ 6,385	$ 4,147

(1) Recorded investment in impaired loans in this table may 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.

Table of Contents

	For the year ended December 31,					
	2015		2014		2013	
(in thousands)	Average recorded investment in impaired loans	Interest income recognized	Average recorded investment in impaired loans	Interest income recognized	Average recorded investment in impaired loans	Interest income recognized
Commercial						
Manufacturing	$ 5,643	$ 306	$ 4,244	$ 299	$ 5,027	$ 331
Finance and insurance	164	24	307	13	671	30
Healthcare	33	11	205	13	263	14
Real estate services	8,006	283	6,416	281	8,256	326
Construction	1,666	106	1,604	158	2,625	251
Other	7,507	1,034	3,807	349	2,256	151
	23,019	1,764	16,583	1,113	19,098	1,103
Real estate - mortgage						
Residential & commercial owner-occupied	1,762	130	4,102	176	8,915	162
Residential & commercial investor	5,104	182	7,062	247	12,638	275
	6,866	312	11,164	423	21,553	437
Construction & land	2,935	104	5,957	166	9,042	499
Consumer	1,444	202	1,362	93	1,184	61
Other	26	11	51	1	-	-
Total	$ 34,290	$ 2,393	$ 35,117	$ 1,796	$ 50,877	$ 2,100

Interest income recognized on impaired loans noted in the table above, primarily represents interest earned on troubled debt restructurings that meet the definition of an impaired loan pursuant to ASC 310-10-35-16 and are subject to disclosure requirement under ASC 310-10-50-15. Interest income disclosed represents income recognized during the year ended December 31, 2015 on impaired loans, regardless of when the loans became impaired. Interest income recognized on impaired loans using the cash-basis method of accounting during the years ended December 31, 2015, 2014, and 2013 was immaterial.

Interest income that would have been recorded had nonaccrual loans performed in accordance with their original contract terms during 2015, 2014, and 2013 was $0.2 million, $0.3 million, and $0.6 million, respectively.

The table below summarizes transactions as it relates to troubled debt restructurings for the year ended December 31, 2015:

(in thousands)	Performing	Nonperforming	Total
Beginning balance at December 31, 2014	$ 27,275	$ 2,915	$ 30,190
New restructurings	9,376	11,637	21,013
Change in accrual status	(1,931)	1,931	-
Paydowns	(6,524)	(2,446)	(8,970)
Net charge-offs	-	(200)	(200)
Ending balance at December 31, 2015	$ 28,196	$ 13,837	$ 42,033

New restructurings in 2015 in the table above include one loan in the nonperforming category that totaled $11.2 million. This loan (which is also included in the "Other" category in the following table) represents 53.3% of the total restructurings in 2015. This loan is also a nonaccrual loan at the end of 2015. The Company has recorded a specific reserve on this loan of $7.2 million that was the primary driver of the provision for loan losses in the Commercial category during 2015.

The below table provides information regarding troubled debt restructurings that occurred during years ended December 31, 2015 and 2014, and 2013. Pre-modification outstanding recorded investment reflects the Company's recorded investment immediately before the modification. Post-modification outstanding recorded

Table of Contents

investment represents the Company's recorded investment at the end of the reporting period. The tables below do not include loans restructured and paid-off during the periods presented.

	For the year ended December 31, 2015					For the year ended December 31, 2014				
($ in thousands)	Number of contracts		Pre-modification outstanding recorded investment		Post-modification outstanding recorded investment	Number of contracts		Pre-modification outstanding recorded investment		Post-modification outstanding recorded investment
Commercial										
Manufacturing	2	$	491	$	437	3	$	1,611	$	1,318
Health care	1		200		125	-		-		-
Real estate services	-		-		-	4		1,171		1,024
Construction	3		1,738		1,029	5		2,784		1,478
Other	15		19,809		15,975	8		2,092		1,454
	21		22,238		17,566	20		7,658		5,274
Real estate - mortgage										
Residential & commercial owner-occupied	1		1,000		1,000	1		29		28
Construction & land	-		-		-	1		121		95
Consumer	1		148		130	1		93		89
Other	-		-		-	1		91		84
Total	23	$	23,386	$	18,696	24	$	7,992	$	5,570

	For the year ended December 31, 2013				
($ in thousands)	Number of contracts		Pre-modification outstanding recorded investment		Post-modification outstanding recorded investment
Commercial					
Manufacturing	4	$	791	$	723
Real estate services	1		30		55
Construction	4		198		153
Other	14		3,689		2,200
	23		4,708		3,131
Real estate - mortgage					

Residential & commercial owner-occupied	4		3,221		2,580
Construction & land	1		2,615		2,615
Other	2		87		84
Total	30	$	10,631	$	8,410

Troubled debt restructurings during the year ended December 31, 2015 and 2014 and 2013, resulted primarily from the extension of repayment terms and interest rate reductions. For the year ended December 31, 2015, the Company did not recognize any charge-offs in conjunction with current period troubled debt restructurings while for the years ended December 31, 2014 and 2013, the Company recognized $0.4 million in charge-offs.

Table of Contents

Loans modified as troubled debt restructurings within the previous twelve months having a payment default during the years ended December 31, 2015 and 2014, are included below.

Troubled debt restructurings that subsequently defaulted ($ in thousands)	At December 31, 2015 Number of contracts	Recorded investment	2014 Number of contracts	Recorded investment
Other	-	-	1	84
Total	-	-	1	84

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

The Company's recorded investment on nonaccrual loans by class at December 31, 2015 and 2014 is reported in the following table:

(in thousands)	At December 31, 2015	2014
Commercial		
Manufacturing	$ 1,045	$ 66
Finance and insurance	36	50
Real estate services	91	212
Construction	451	312
Other	13,486	2,677
Total commercial	15,109	3,317
Real estate - mortgage		
Residential & commercial owner-occupied	499	2,091
Residential & commercial investor	-	1,325
Total real estate - mortgage	499	3,416
Construction & land	27	135
Consumer	82	2,126
Total nonaccrual loans	$ 15,717	$ 8,994

Table of Contents

The following tables summarize the aging of the Company's loan portfolio at December 31, 2015 and 2014:

	At December 31, 2015						
(in thousands)	30 - 59 Days past due	60 - 89 Days past due	90+ Days past due	Total past due	Current	Total loans	Recorded investment in loans 90 days or more past due and accruing
Commercial							
Manufacturing	$ 24	$ -	$ -	$ 24	$ 135,026	$ 135,050	$ -
Finance and insurance	-	-	-	-	64,279	64,279	-
Health care	323	-	-	323	126,188	126,511	-
Real estate services	183	-	-	183	118,680	118,863	-
Construction	-	-	-	-	57,906	57,906	-
Public administration	-	-	-	-	221,112	221,112	-
Other	173	185	2,125	2,483	448,366	450,849	-
	703	185	2,125	3,013	1,171,557	1,174,570	-
Real estate - mortgage							
Residential & commercial owner-occupied	-	317	-	317	436,538	436,855	-
Residential & commercial investor	-	-	-	-	578,892	578,892	-
Other	-	-	-	-	1,325	1,325	-
	-	317	-	317	1,016,755	1,017,072	-
Construction & land	156	-	-	156	201,855	202,011	-
Consumer	-	89	505	594	252,646	253,240	505
Other	-	-	-	-	52,616	52,616	-
Total loans held for investment	$ 859	$ 591	$ 2,630	$ 4,080	$ 2,695,429	$ 2,699,509	$ 505
Unearned net loan fees						(304)	
Net loans held for investment						$ 2,699,205	

Table of Contents

	At December 31, 2014						
(in thousands)	30 - 59 Days past due	60 - 89 Days past due	90+ Days past due	Total past due	Current	Total loans	Recorded investment in loans 90 days or more past due and accruing
Commercial							
Manufacturing	$ 45	$ 9	$ -	$ 54	$ 126,064	$ 126,118	$ -
Finance and insurance	-	-	-	-	81,047	81,047	-
Health care	193	-	-	193	91,618	91,811	-
Real estate services	-	-	-	-	112,388	112,388	-
Construction	-	-	122	122	56,373	56,495	-
Public administration	-	-	-	-	178,653	178,653	-
Other	247	-	2,104	2,351	328,765	331,116	161
	485	9	2,226	2,720	974,908	977,628	161
Real estate - mortgage							
Residential & commercial owner-occupied	-	-	473	473	421,935	422,408	-
Residential & commercial investor	235	-	-	235	567,771	568,006	-
Other	-	-	-	-	180	180	-
	235	-	473	708	989,886	990,594	-
Construction & land	-	-	104	104	182,765	182,869	-
Consumer	176	253	1,954	2,383	205,538	207,921	-
Other	-	-	-	-	47,904	47,904	-
Total loans held for investment	$ 896	$ 262	$ 4,757	$ 5,915	$ 2,401,001	$ 2,406,916	$ 161
Unearned net loan fees						(1,341)	
Net loans held for investment						$ 2,405,575	

In the ordinary course of business, the Company makes various direct and indirect loans to officers and directors of the Company. Activity with respect to officer and director loans is as follows for the years ended December 31, 2015 and 2014

(in thousands)	2015	2014

Balance - beginning of year	$ 25,522	$ 29,766
New loan and advances	35,916	19,390
Principal paydowns and payoffs	(27,137)	(23,634)
Balance - end of year	$ 34,301	$ 25,522

5. Premises and Equipment

The major classes of premises and equipment at December 31, 2015 and 2014, are summarized as follows:

(in thousands)	2015	2014
Land	$ 230	$ 230
Buildings	230	230
Leasehold improvements	10,422	10,931
Furniture, fixtures, and equipment	34,744	33,812
Premises and equipment, gross	45,626	45,203
Accumulated depreciation	(39,504)	(37,953)
Premises and equipment, net	$ 6,122	$ 7,250

The Company recorded depreciation expense related to premises and equipment of $2.7 million, during the years ended December 31, 2015 and 2014, and $3.0 million during the year ended December 31, 2013.

Table of Contents

6. Intangible Assets

At December 31, 2015 and 2014, the Company's intangible assets and related accumulated amortization consisted of the following:

(in thousands)	Customer contracts, lists and relationships
At December 31, 2013	$ 2,798
Acquired relationships	325
Amortization	(597)
At December 31, 2014	2,526
Amortization	(600)
At December 31, 2015	$ 1,926

During the year ended December 31, 2014, the Company acquired an insurance book of business for a total of $0.2 million initial cash consideration that has an estimated useful life of 10 years. Pursuant to the requirements of ASC Topic 805 Business Combinations, the Company recorded an additional $0.1 million in 2014 related to the acquisition in recognition of the fair value of contingent consideration, which was paid under an earnout arrangement in 2015.

The Company recorded amortization expense of $0.6 million for the years ended December 31, 2015 and 2014, and $0.7 million for the year ended December 31, 2013. Amortization expense on intangible assets for each of the five succeeding years is in the following table.

(in thousands)	
2016	$ 600
2017	600
2018	206
2019	201
2020	136
Total	$ 1,743

7. Deposits

In the ordinary course of business, the Company takes various deposits from employees, officers, and directors of the Company. Related party deposits totaled $95.4 million and $99.5 million at December 31, 2015 and 2014, respectively.

The composition of the certificates of deposit portfolio at December 31, 2015 and 2014, is as follows:

	At December 31,	
(in thousands)	2015	2014
Less than $100	$ 22,476	$ 27,202
$100 and more	130,522	183,805
	$ 152,998	$ 211,007

Related interest expense for the years ended December 31, 2015, 2014, and 2013, is as follows:

	For the year ended December 31,		
(in thousands)	2015	2014	2013
Less than $100	$ 92	$ 125	$ 158
$100 and more	647	892	1,154
	$ 739	$ 1,017	$ 1,312

Table of Contents

Maturities of certificates of deposit of $100,000 and more at December 31, 2015, are as follows:

(in thousands)	Amount
Remaining maturity:	
Three months or less	$ 58,030
Over three months through six months	27,556
Over six months through 12 months	31,835
Over 12 months	13,101
Total	$ 130,522

The aggregate amount of certificates of deposit in denominations that meet or exceed the $250,000 FDIC insurance limit was $57.1 million and $70.8 million at December 31, 2015 and 2014, respectively.

The Company participates in the Certificate of Deposit Account Registry Service (CDARS) and Insured Cash Sweep (ICS) programs provided through a third party. These programs are designed to provide full FDIC insurance on accounts placed through a reciprocal exchange with other banks participating in the programs. The Company had $37.2 million and $64.6 million of reciprocal time deposits through the CDARS program outstanding at the end of 2015 and 2014, respectively. The Company had $199.5 million and $120.9 million of reciprocal demand deposits through the ICS program outstanding at the end of 2015 and 2014, respectively.

8. Borrowed Funds

Securities sold under agreements to repurchase at December 31, 2015 and 2014 are summarized as follows:

	At December 31,	
(in thousands)	2015	2014
Securities sold under agreements to repurchase (principally mortgage-backed securities with an estimated fair value of $49,882 and $54,652 in 2015 and 2014, respectively	$ 47,459	$ 49,976

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

Securities sold under agreements to repurchase averaged $57.3 million and $83.5 million during 2015 and 2014, respectively. The maximum amounts outstanding at any month-end during 2015 and 2014 were $68.6 million and $115.3 million, respectively. At December 31, 2015 and 2014, the weighted average interest rate was 0.06% and 0.08%, respectively. All securities sold under agreements to repurchase had a maturity date of less than three months.

The Company has 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 0.35% per annum on the unused portion of the LOC. The line matures May 2016 at which time any outstanding amounts are due and payable. The line is 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 December 31, 2015 and 2014, there was no amount outstanding on the revolving line.

The Company has a line of credit with the FHLB with a rolling one year term that matures every July with automatic renewals unless canceled. There was $132.0 million and $112.5 million outstanding on the FHLB line of credit at December 31, 2015 and 2014. The average FHLB line of credit balance was $61.1 million and $104.2 million during 2015 and 2014, respectively. The line of credit is collateralized by either qualifying

Table of Contents

loans or investment securities not otherwise pledged as collateral. At December 31, 2015, the FHLB line of credit was collateralized by loans of $867.4 million with a lending value of $591.2 million. At December 31, 2014, the FHLB line of credit was collateralized by loans of $804.7 million with a lending value of $521.4 million. The variable-rate on the line of credit was 0.48% and 0.25% at December 31, 2015 and 2014, respectively.

The Company has approved federal fund purchase lines with seven banks with an aggregate credit line of $155.0 million. No amounts were outstanding on the federal funds purchase lines at the end of either 2015 or 2014. The average balance of federal funds purchased was $1.3 million and $9.3 million during 2015 and 2014, respectively.

9. Long-Term Debt

Outstanding subordinated debentures and notes payable at December 31, 2015 and 2014, are summarized as follows:

	At December 31,				
(in thousands)	2015	2014	Interest rate	Maturity date	Earliest call date
Junior subordinated debentures:					
CoBiz Statutory Trust I	$ 20,619	$ 20,619	3-month LIBOR + 2.95%	September 17, 2033	March 17, 2016
CoBiz Capital Trust II	30,928	30,928	3-month LIBOR + 2.60%	July 23, 2034	January 23, 2016
CoBiz Capital Trust III	20,619	20,619	3-month LIBOR + 1.45%	September 30, 2035	March 30, 2016
Total junior subordinated debentures	$ 72,166	$ 72,166			
Other long-term debt:					
Subordinated notes payable ($60,000 face amount)	$ 59,031	$ -	Fixed 5.625%	June 25, 2030	June 25, 2025

Effective for interest payments beginning in February 2010, the Company fixed the interest rate on its junior subordinated debentures through a series of interest rate swaps. For further discussion of the interest rate swaps and the corresponding terms, see Note 10 - Derivatives.

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

In May 2004, the Company created a wholly owned trust, CoBiz Capital Trust II, formed under the laws of the State of Delaware (the Capital Trust II). The Capital Trust II issued $30.0 million of trust preferred securities bearing an interest rate based on a spread above three-month LIBOR. Simultaneously with the issuance, the Company purchased a minority interest in the Capital Trust II for $0.9 million. The Capital Trust II invested the proceeds thereof in $30.9 million of junior subordinated debentures of CoBiz that also bear an interest rate based on a spread above three-month LIBOR. The securities and junior subordinated debentures provide cumulative distributions at a floating rate that is reset each quarter on January 23, April 23, July 23 and October 23. The junior subordinated debentures will mature and the capital securities must be redeemed no

later than July 23, 2034, if certain conditions are met (including the Company having received prior approval from the Federal Reserve and any other required regulatory approvals).

In August 2005, the Company created a wholly owned trust, CoBiz Capital Trust III, formed under the laws of the State of Delaware (the Capital Trust III). The Capital Trust III issued $20.0 million of trust preferred securities bearing an interest rate based on a spread above three-month LIBOR. Simultaneously with the issuance, the Company purchased a minority interest in the Capital Trust III for $0.6 million. The Capital Trust III invested the proceeds thereof in $20.6 million of junior subordinated debentures of CoBiz that also bear an interest rate based on a spread above three month LIBOR. The securities and junior subordinated debentures provide cumulative distributions at a floating rate that is reset each quarter on March 30, June 30, September 30 and December 30. The junior subordinated debentures will mature and the capital securities must be redeemed no later than September 30, 2035, if certain conditions are met (including the Company having received prior approval from the Federal Reserve and any other required regulatory approvals).

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

Basel III contains a provision that preserves the current capital treatment of trust preferred securities issued by bank holding companies with less than $15 billion in total assets. In 2015, the Company implemented the Basel III capital rules that reformed the regulatory capital framework for banking institutions. Although the accounts of the Statutory Trust, Capital Trust II and Capital Trust III are not included in the Company's consolidated financial statements, $70.0 million in trust preferred securities issued by the trusts are included in Common equity tier 1 capital for regulatory purposes as grandfathered under Basel III.

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

The Company has adopted ASU 2015-03, Interest – Imputation of Interest (Subtopic 835-30), that requires debt issuance costs to be reported as a direct deduction from the face of the note and not as a deferred charge. The discount and related debt issuance costs will be amortized into interest expense using the interest method over a 10-year term to the first call date. Concurrently with the issuance of the Notes, the Company announced its plans to redeem 57,366 shares of the outstanding Senior Non-Cumulative perpetual preferred stock, series C, issued through the Small

Business Lending Fund (SBLF). The shares were redeemed at their liquidation value of $1,000 per share plus accrued dividends (aggregate payment of $57.4 million) on July 22, 2015.

10. 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

Table of Contents

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

The Company has also expanded its product offering by adding international banking products, which 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 December 31, 2015, the fair value of derivatives in a net liability position, including accrued interest but excluding any adjustment for nonperformance risk, related to these agreements was $10.2 million. The Company has minimum collateral posting thresholds with certain of its derivative counterparties and has posted collateral of $9.2 million against its obligations under these agreements. At December 31, 2015, the Company was not in default with any of its debt or capitalization covenants.

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

	Asset derivatives			Liability derivatives		
		Fair value at December 31,			Fair value at December 31,	
(in thousands)	Balance sheet classification	2015	2014	Balance sheet classification	2015	2014
Derivatives designated as hedging instruments under ASC 815:						
Cash flow hedge interest rate swap	Other assets	$ 578	$ 437	Accrued interest and other liabilities	$ 4,981	$ 5,017
Fair value hedge interest rate swap	Other assets	117	297	Accrued interest and other liabilities	1,574	988
Derivatives not designated as hedging instruments under ASC 815:						
Interest rate swap	Other assets	$ 3,092	$ 4,103	Accrued interest and other liabilities	$ 3,275	$ 4,284
Foreign exchange forward contracts	Other assets	109	54	Accrued interest and other liabilities	59	17

Table of Contents

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

	At December 31, 2015					
	Gross amounts of recognized	Gross amounts	Net	Gross amounts not offset Financial		Net
(in thousands)	assets	offset	amounts	Instruments	Collateral	Amount
Derivatives designated as hedges(1)	$ 695	$ -	$ 695	$ (316)	$ -	$ 379
Derivatives not designated as hedges(1)	3,201	-	3,201	(88)	-	3,113
Total	$ 3,896	$ -	$ 3,896	$ (404)	$ -	$ 3,492

	At December 31, 2015					
	Gross amounts of recognized	Gross amounts	Net	Gross amounts not offset Financial		Net
(in thousands)	liabilities	offset	amounts	Instruments	Collateral	Amount
Derivatives designated as hedges(2)	$ (6,555)	$ -	$ (6,555)	$ 316	$ 6,239	$ -
Derivatives not designated as hedges(2)	(3,334)	-	(3,334)	88	2,935	(311)
Securities sold under agreements to repurchase(3)	(47,459)	-	(47,459)	-	47,459	-
Total	$ (57,348)	$ -	$ (57,348)	$ 404	$ 56,633	$ (311)

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

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

(1) Included in other assets
(2) Included in accrued interest and other liabilities
(3) Separately stated in consolidated balance sheets

Table of Contents

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 December 31, 2015, the Company had five interest rate swaps with a notional value of $75.0 million that effectively fixed the interest rate on a portion of its 1-Month LIBOR loan portfolio. The weighted average fixed-rate under these swaps was 1.41%. At December 31, 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 under these swaps was 1.41%. The swaps have remaining maturities ranging from two to three 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. Select critical terms of the cash flow hedges are as follows:

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

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 Statement 133 Implementation Issue No. G7, Cash Flow Hedges: Measuring the Ineffectiveness for a Cash Flow Hedge under Paragraph 30(b) When the Shortcut Method Is Not Applied, for both prospective and retrospective assessments of hedge effectiveness on a quarterly basis. The Company also uses this methodology to measure hedge ineffectiveness each 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 years ended December 31, 2015 and 2014.

Amounts reported in AOCI related to derivatives will be reclassified to interest income as interest payments are received/paid on the Company's variable-rate assets. Payments received/paid on variable-rate liabilities will be reclassified to interest expense. During the next 12 months, the Company estimates that $0.5 million and $1.6 million will be reclassified as an increase to interest income and interest expense, respectively.

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 December 31, 2015, the Company had interest rate swaps with a notional amount of $55.1 million used to hedge the change in the fair value of nine commercial loans. At December 31, 2014, the Company had interest rate swaps with a notional amount of $31.6 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 that are not accounted for under the shortcut method, the gain or loss on the derivative as well as the

Table of Contents

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 years ended December 31, 2015, 2014, and 2013 representing hedge ineffectiveness was immaterial.

Non-designated Hedges — Derivatives not designated as hedges are not speculative and primarily result from a service the Company provides to its customers. The Company executes interest-rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest-rate swaps are simultaneously hedged by offsetting interest-rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. As the interest-rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings. At December 31, 2015, the Company had 90 interest-rate swaps with an aggregate notional amount of $194.8 million related to this program. Gains and losses arising from changes in the fair value of these swaps are included in “Other income.” During the years ending December 31, 2015 and 2014, the Company recorded immaterial gains and losses.

The Company’s product offerings also include international banking products that create foreign currency exchange-rate risk exposure. At December 31, 2015, the Company’s foreign currency holdings included British pounds, Euros, Japanese Yen, Mexican Pesos, Swiss Franc, and Australian, Canadian and New Zealand dollars. In order to economically reduce the risk associated with the fluctuation of foreign exchange rates, the Company utilizes short-term foreign exchange forward contracts to lock in exchange rates so the gain or loss on the forward contracts approximately offsets the transaction gain or loss. These contracts are not designated as hedging instruments. Ineffectiveness in the economic hedging relationship may occur as the foreign currency holdings are revalued based upon changes in the currency’s spot rate, while the forward contracts are revalued using the currency’s forward rates. Forward contracts in gain positions are recorded at fair value in ‘other’ assets, while contracts in loss positions are recorded in ‘other’ liabilities in the consolidated balance sheets. Net changes in the fair value of the forward contracts are recognized through earnings, disclosed as ‘other’ noninterest income in the consolidated statement of operations. At December 31, 2015, the Company had entered into forward contracts with a notional amount of $8.3 million that mature in the first half of 2016. Net gains recognized during the year ended December 31, 2015 and 2014 on foreign exchange forward contracts were immaterial.

11. Income Taxes

The components of consolidated income tax expense (benefit) for the years ended December 31, 2015, 2014, and 2013 are as follows:

For the year ended December 31,

(in thousands)	2015	2014	2013
Current tax provision:			
Federal tax	$ 11,346	$ 9,590	$ 8,818
State tax	668	(109)	1,072
Total current tax provision	12,014	9,481	9,890
Deferred tax provision (benefit):			
Federal tax	(2,793)	3,375	3,211
State tax	(248)	513	654
Net operating loss carryforward	633	1,649	154
Total deferred tax provision (benefit)	(2,408)	5,537	4,019
Provision for income taxes	$ 9,606	$ 15,018	$ 13,909
Provision (benefit) related to discontinued operations	$ (42)	$ 129	$ (472)

The primary component of deferred tax benefit during 2015 was attributable to timing differences in the allowance for loan and credit losses. At December 31, 2015, the Company did not have any net operating loss carryforwards from any tax jurisdiction. The deferred tax provision (benefit) relating to discontinued operations includes deferred tax expense of $0.8 million, $0.0 million and $0.8 million for the years ended December 31, 2015, 2014, and 2013, respectively.

Table of Contents

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

The Company conducted an analysis to assess the need of a valuation allowance at December 31, 2015, 2014, and 2013. As part of this assessment, all available evidence, including both positive and negative, was considered to determine whether based on the weight of such evidence, a valuation allowance for deferred tax assets was needed. In accordance with ASC Topic 740-10, Income Taxes (ASC 740), a valuation allowance is deemed to be needed when, based on the weight of the available evidence, it is more likely than not (a likelihood of more than 50%) that some portion or all of a deferred tax asset will not be realized. The future realization of the tax benefit depends on the existence of sufficient taxable income within the carryback and carryforward periods.

At December 31, 2015 and 2014, the Company was in a positive three-year cumulative income position, had availability in its carryback years to absorb potential deferred income tax asset reversals and had financial forecasts of pre-tax income that were sufficient to absorb the deferred income tax assets. Accordingly, the Company determined that a valuation allowance was not warranted at December 31, 2015 and 2014.

The net change in deferred taxes related to investment securities available for sale and cash flow hedges is included in other comprehensive income. The temporary differences, tax effected, which give rise to the Company’s net deferred tax assets at December 31, 2015 and 2014 are as follows:

	At December 31,	
(in thousands)	2015	2014
Deferred tax assets:		
Allowance for loan and credit losses	$ 15,460	$ 12,451
Intangible assets	1,490	1,872
Other real estate owned	3,293	3,329
Deferred loan fees	295	472
Other accrued liabilities	1,268	1,325
Stock-based compensation	1,186	1,428
Interest on nonaccrual loans	436	577
Employee bonus	2,083	2,472
State operating loss carryforward	-	633
Other	1,147	136
Total deferred tax assets	$ 26,658	$ 24,695

Deferred tax liabilities:		
Deferred initial direct loan costs	$ (1,923)	$ (1,538)
Prepaid assets	(391)	(431)
FHLB stock dividends	(110)	(63)
Investment securities and derivatives	(2,013)	(2,655)
Total deferred tax liabilities	$ (4,437)	$ (4,687)
Net deferred tax assets	$ 22,221	$ 20,008

Table of Contents

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense for the years ended December 31, 2015, 2014, and 2013 is shown below:

	For the year ended December 31,		
(in thousands)	2015	2014	2013
Computed at the statutory rate (35%)	$ 12,511	$ 15,325	$ 14,834
Increase (decrease) resulting from:			
State income taxes - net of federal income tax effect	919	1,336	1,373
Tax exempt income	(3,979)	(2,838)	(1,976)
Nondeductible compensation	88	496	182
Meals and entertainment	227	233	188
Other - net	(160)	466	(692)
Actual tax provision	$ 9,606	$ 15,018	$ 13,909

ASC 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. At December 31, 2015 and 2014, the Company did not have any unrecognized benefits.

Penalties and interest are classified as income tax expense when incurred. Interest and penalties accrued during the year ended December 31, 2015 and 2014 were immaterial.

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

The following are the major tax jurisdictions in which the Company and its affiliates operate and the earliest tax year subject to examination:

Jurisdiction	Tax year
United States	2012
Colorado	2011
Arizona	2011

12. Shareholders’ Equity

Common Stock – At December 31, 2015 and 2014, the Company has reserved the following shares of its authorized but unissued common stock for possible future issuance in connection with the following:

	At December 31,	
	2015	2014
Exercise of outstanding stock options	461,050	819,755
Exercise of outstanding stock warrants	895,968	895,968
Future granting of option and stock awards	2,642,346	2,508,115
Future stock purchases through ESPP	233,879	273,188
	4,233,243	4,497,026

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

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

Table of Contents

On July 22, 2015, all Series C Preferred Stock was redeemed at the liquidation value of $1,000 per share plus accrued dividends with an aggregate payment of $57.4 million.

Warrant — The Company issued a warrant on December 19, 2008 as part of the Company's participation in the TARP Capital Purchase program. The warrant has a 10-year term and allows for the purchase of 895,968 shares of the Company's common stock at an exercise price of $10.79 per share.

Dividends — The Company's ability to pay dividends to its shareholders is generally dependent upon the payment of dividends by the Bank to the Parent. The Bank cannot pay dividends to the extent it would be deemed undercapitalized by the FDIC after making such dividend. At December 31, 2015, the Bank was not otherwise restricted in its ability to pay a dividend to the Parent as its earnings in the current and prior two years, net of dividends paid during those years, was positive.

Dividends on the Company's capital stock (common and preferred stock, if any) are prohibited under the terms of the junior subordinated debenture agreements (see Note 9 – Long-term debt) if the Company is in continuous default on its payment obligations to the capital trusts, has elected to defer interest payments on the debentures or extends the interest payment period. At December 31, 2015, the Company was not in default on any of the junior subordinated debt issuances.

Dividends declared per common share for the years ended December 31, 2015, 2014, and 2013 were $0.17, $0.15 and $0.12, respectively. Dividends on the Series C Preferred Stock for the years ended December 31, 2015, 2014, and 2013 were $0.3 million, $0.6 million, and $0.9 million, respectively.

13. Accumulated Other Comprehensive Income (Loss) Reclassifications

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

Year ended December 31,

AOCI component (in thousands)	2015	2014	2013	Affected line item in the consolidated statements of income
Available for sale securities:				
Realized gain	$ 318	$ 1,154	$ 439	Net (gain) loss on securities, other assets and OREO
Tax provision	(121)	(439)	(167)	Provision for income taxes
Subtotal	197	715	272	
Held to maturity securities:				
Amortization of net unrealized gain on HTM securities	1,904	-	-	Interest on taxable / nontaxable securities
Tax provision	(724)	-	-	Provision for income taxes
Subtotal	1,180	-	-	
Cash flow hedges:				
Loans	927	905	90	Interest and fees on loans
Debt	(2,009)	(2,215)	(2,185)	Interest expense on subordinated debentures
Realized loss	(1,082)	(1,310)	(2,095)	
Tax benefit	411	498	796	Provision for income taxes
Subtotal	(671)	(812)	(1,299)	
Total reclassifications for the period	$ 706	$ (97)	$ (1,027)	

Table of Contents

Accumulated other comprehensive income (in thousands)	Available for sale securities	Held to maturity securities	Cash flow hedges	Total
Balance at December 31, 2012	$ 10,445	$ -	$ (5,607)	$ 4,838
Other comprehensive income items	(5,073)	-	1,938	(3,135)
Reclassifications	(272)	-	1,299	1,027
Other comprehensive income (loss), net of tax	(5,345)	-	3,237	(2,108)
Balance at December 31, 2013	5,100	-	(2,370)	2,730
Other comprehensive income items	2,783	-	(1,282)	1,501
Reclassifications	(715)	-	812	97
Other comprehensive income (loss), net of tax	2,068	-	(470)	1,598
Balance at December 31, 2014	7,168	-	(2,840)	4,328
Other comprehensive income items	222	-	(561)	(339)
Reclassifications	(197)	(1,180)	671	(706)
Transfers	(5,469)	5,469	-	-
Other comprehensive income (loss), net of tax	(5,444)	4,289	110	(1,045)
Balance at December 31, 2015	$ 1,724	$ 4,289	$ (2,730)	$ 3,283

14. Earnings 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 as the unvested awards have non-forfeitable rights to dividends, paid or unpaid, on unvested awards. The impact of participating securities is included in the common shareholder basic earnings per share for all periods presented as the Company had positive earnings in those periods.

Income available to common shareholders together with weighted average shares outstanding used in the calculation of basic and diluted earnings per common share are as follows:

(in thousands, except share amounts)	Year ended December 31, 2015	2014	2013
Net income from continuing operations	$ 26,140	$ 28,798	$ 28,290
Net income (loss) from discontinued operations	(71)	209	(679)
Net income	26,069	29,007	27,611
Preferred stock dividends	(320)	(574)	(944)
Net income available to common shareholders	25,749	28,433	26,667
Dividends and undistributed earnings allocated to participating securities	(331)	(434)	(457)
Earnings allocated to common shares (1)	$ 25,418	$ 27,999	$ 26,210
Weighted average common shares - issued	40,991,762	40,616,022	40,193,315
Average unvested restricted share awards	(522,238)	(609,276)	(724,821)
Weighted average common shares outstanding - basic	40,469,524	40,006,746	39,468,494
Effect of dilutive stock options, awards and warrants outstanding	255,524	205,847	160,862
Weighted average common shares outstanding - diluted	40,725,048	40,212,593	39,629,356
Weighted average antidilutive securities outstanding (2)	154,714	676,248	1,530,263
Earnings per common share:			
Basic - continuing	$ 0.63	$ 0.69	$ 0.68
Diluted - continuing	$ 0.62	$ 0.69	$ 0.68
Basic - discontinued	$ -	$ 0.01	$ (0.02)
Diluted - discontinued	$ -	$ 0.01	$ (0.02)
Basic	$ 0.63	$ 0.70	$ 0.66
Diluted	$ 0.62	$ 0.70	$ 0.66

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

Table of Contents

15. Employee Benefit and Stock Compensation Plans

Stock Options and Awards — The Company has adopted an equity plan to reward and provide long-term incentives for directors and key employees of the Company. The term of all options issued may not exceed 10 years. The Company issues options and awards with a service vesting requirement, which is typically a three-year period. The Company issues new shares upon exercise of a stock option award.

The 2005 Equity Incentive Plan (the 2005 Plan) originally authorized the issuance 1,250,000 shares of common stock. The 2005 Plan was amended at the May 15, 2008 Annual Shareholders Meeting to increase the authorized shares available under the plan to 2,750,000 shares of common stock and shares available for restricted stock awards was increased by 250,000 shares to 500,000 shares. The 2005 Plan was further amended at the May 20, 2010 Annual Shareholders Meeting to increase the authorized shares available under the plan to 3,750,000 shares of common stock and shares available for restricted stock awards was increased by 1,500,000 shares to 2,000,000 shares. The 2005 Plan was most recently amended at the May 15, 2014 Annual Shareholders Meeting to increase the authorized shares available to 5,250,000 and remove the restriction on the number of restricted stock awards. Under the 2005 Plan, the Compensation Committee of the Company has the authority to determine the identity of the key employees, consultants and directors who shall be granted options; the option price, which shall not be less than 85% of the fair market value of the common stock on the date of grant; and the manner and times at which the options shall be exercisable. Shares available for grant under the 2005 Plan at December 31, 2015, totaled 2,642,346.

During 2015, 2014 and 2013, the Company recognized compensation expense from continuing operations, net of estimated forfeitures, of $3.3 million, $3.1 million and $2.7 million, respectively, for stock-based compensation awards for which the requisite service was rendered during the year. The Company recognized an income tax benefit of $1.2 million, $1.2 million and $1.0 million on the compensation expense for 2015, 2014 and 2013, respectively.

ASC 718 requires the Company to select a valuation technique that meets the measurement criteria set forth in the standard. Valuation techniques that meet the criteria for estimating the fair values of employee stock options include a lattice model and a closed-form model (for example, the Black-Scholes formula). The Company uses the Black-Scholes option pricing model (Black-Scholes) to estimate the fair value of stock options. Restricted stock award fair values are based on the closing price of the Company stock on the award date.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield in effect at the time of grant. The

expected term of options granted is based on the options' vesting schedule and the Company's historical exercise patterns for different employee groups and represents the period of time that options granted are expected to be outstanding. Expected volatilities are based on the historical volatility of the Company's stock and vesting period of the option to be issued. The dividend yield is determined by annualizing the dividend rate as a percentage of the Company's stock price. The following weighted-average assumptions were used for grants issued during the years ended December 31, 2015, 2014, and 2013:

	2015			2014			2013		
		Range			Range			Range	
	Weighted average	Low	High	Weighted average	Low	High	Weighted average	Low	High
Risk-free interest rate	1.38 %	0.99 %	1.84 %	1.38 %	0.79 %	1.82 %	0.96 %	0.41 %	1.80 %
Expected dividend yield	1.36 %	1.25 %	1.41 %	1.27 %	1.05 %	1.49 %	1.42 %	1.23 %	1.67 %
Expected volatility	33.15 %	25.90 %	37.65 %	40.34 %	29.38 %	52.50 %	49.80 %	39.49 %	65.77 %
Expected life (years)	4.0			3.9			4.1		

Table of Contents

The following table summarizes changes in stock option arrangements for the year ended December 31, 2015:

	2015	
Stock Option Awards	Shares	Weighted average exercise price
Outstanding - beginning of year	819,755	$ 9.66
Granted	76,363	12.49
Exercised	(166,589)	7.66
Forfeited	(268,479)	13.06
Outstanding - end of year	461,050	$ 8.87
Exercisable - end of year	349,224	$ 8.10

There were 455,207 options vested or expected to vest with a weighted average price of $8.84 at December 31, 2015. The weighted-average remaining terms for options outstanding, vested or expected to vest and options exercisable at the end of the period were 3.2, 3.1 and 2.3 years, respectively. The aggregate intrinsic value for options outstanding, vested or expected to vest and options exercisable at December 31, 2015 was $2.1 million, $2.1 million and $1.9 million, respectively. The weighted average grant date fair value of options granted during the years ended December 31, 2015, 2014, and 2013 was $2.57, $3.06 and $3.10, respectively. The total intrinsic value of options exercised during the years ended

December 31, 2015, 2014, and 2013 was $0.8 million, $0.7 million and $0.7 million, respectively.

The following table summarizes the Company's outstanding stock options:

	Options outstanding			Options exercisable	
Range of exercise price	Number outstanding	Weighted average exercise price	Weighted average remaining life (years)	Number exercisable	Weighted average exercise price
$4.53 - $6.62	110,917	$ 6.18	1.1	110,917	$ 6.18
$6.74 - $7.22	25,550	7.06	2.3	25,550	7.06
$7.54 - $7.54	93,668	7.54	1.4	93,668	7.54
$7.57 - $10.64	92,249	9.19	3.6	62,420	9.11
$10.91 - $14.59	138,666	12.04	5.9	56,669	12.16
	461,050	$ 8.87	3.2	349,224	$ 8.10

The following table summarizes changes in restricted stock award arrangements for the year ended December 31, 2015:

	2015	
Restricted Stock Awards	Shares	Weighted average grant date fair value
Unvested - beginning of year	635,598	$ 9.05
Granted	262,925	11.52
Vested	(385,158)	8.33
Forfeited	(13,331)	10.77
Unvested - end of year	500,034	$ 10.85
Fair value of vested shares (in thousands)		$ 4,480

The weighted average grant date fair value of restricted stock awards granted during the years ended December 31, 2015, 2014, and 2013, was $11.52, $11.33 and $8.44, respectively. The fair value of restricted stock amounts vested during the years ended December 31, 2015, 2014 and 2013 was $4.5 million, $3.9 million and $2.7 million, respectively.

Table of Contents

At December 31, 2015, there was $3.6 million of total unrecognized compensation cost related to unvested share-based compensation arrangements granted under the Plans. The cost is expected to be recognized over a weighted-average period of 1.7 years.

Employee Stock Purchase Plan (ESPP) — The ESPP was established in January 2000 and is administered by the Compensation Committee of the Company. At the 2014 Annual Shareholders Meeting, shareholders of the Company approved an amendment to the ESPP, increasing the number of shares of common stock available for awards under the plan by 200,000. Employees may elect to have a percentage of their payroll deducted and applied to the purchase of Common Stock at a discount. In addition, the Company may make a matching contribution up to 50% of an employee's deduction toward the purchase of additional Common Stock. No matching contribution was made for the years presented in the table below.

	For the year ended December 31,		
	2015	2014	2013
Available ESPP shares - beginning of year	273,188	116,637	163,933
Plan amendment increasing available shares	-	200,000	-
Purchases	(39,309)	(43,449)	(47,296)
Available ESPP shares - end of year	233,879	273,188	116,637

Employee 401(k) Plan — The Company has a defined contribution plan covering substantially all its employees. Employees may contribute up to the maximum allowed by the Internal Revenue Service. The Company may also make discretionary contributions within the limits of the 401(k) Plan and Internal Revenue Service limitations. The Company matched 3.0% of eligible compensation in 2015 and 2014 and 2013. Employer contributions charged to expense for the years ended December 31, 2015, 2014, and 2013 were $1.3 million, $1.5 million and $1.6 million, respectively, and are included in the consolidated statements of income under the caption "Salaries and employee benefits."

16. Commitments and Contingencies

Lease Commitments — The Company has various operating lease agreements for office space. Generally, leases are subject to rent escalation provisions in subsequent years and have renewal options at the end of the initial lease terms. Leasehold improvements are amortized over the useful life of the improvements or the lease term if shorter. Rent expense (excluding ancillary charges for common area expense, maintenance, etc.) for the years ended December 31, 2015, 2014, and 2013, was $4.9 million, $5.1 million and $5.0 million, respectively. The Company entered into a sublease agreement in 2014 for one leased location and at December 31, 2015, the future minimum sublease payments to be received is $1.1 million.

In 1998, certain officers and directors acquired the building in which the corporate office is located and certain banking operations are performed. At December 31, 2015, one director of the Company has a remaining interest in the building. One other bank location is leased from an entity controlled by the same director. Rent payments under the related party leases were $2.1 million for the years ended December 31, 2015 and 2014, and $2.2 million for the year ended December 31, 2013, and the Company was current on these lease obligations at all times. Future contractual obligations of $1.0 million will be paid to entities controlled by the director and are included in the below schedule of future minimum lease payments under all non-cancelable operating leases.

Year ending December 31, (in thousands)	Amount
2016	$ 4,557
2017	3,483
2018	3,006
2019	2,507
2020	1,387
Thereafter	692
Total	$ 15,632

Table of Contents

In January 2016, the Company entered into a new lease for facilities at 1401 Lawrence Street, Denver, CO, 80202. The leased space will become the new headquarters for the Company and includes approximately 44,000 square feet space of office space and 4,000 square feet of ground level retail space. The Company expects to take possession of the space on or about June 1, 2016 and will relocate and commence operations from that location in November 2016. The lease term is for 12 years with first year base rents of $1.5 million escalating 2% annually. The lease is cancelable after nine years subject to a termination fee of up to $1.6 million. Amounts due under the new lease are not included in the above lease payment obligations table. The lease of the Company's current headquarters at 821 17th Street, Denver, CO 80202 which expires in May 2016 is expected to be extended for up to seven months to facilitate an orderly relocation in the second half of 2016.

Financial Instruments With Off-Balance Sheet Risk — In the normal course of business the Company has entered into financial instruments which are not reflected in the accompanying consolidated financial statements:

	At December 31,	
(in thousands)	2015	2014
Commitments to originate commercial or real estate construction loans and unused lines of credit granted to customers	$ 855,484	$ 793,208
Commitments to originate consumer loans — personal lines of credit and equity lines	$ 35,446	$ 32,072
Overdraft protection plans	$ 17,127	$ 15,322
Letters of credit	$ 30,313	$ 37,851
Unfunded commitments for unconsolidated investments	$ 6,351	$ 7,356
Company guarantees	$ 2,950	$ 2,160

Commitments to Originate — The Company makes contractual commitments to extend credit and provide standby letters of credit which are binding agreements to lend money to its customers at predetermined interest rates for a specific period of time. These commitments are not held for sale. The credit risk involved in issuing these financial instruments is essentially the same as that involved in granting on-balance sheet financial instruments. As such, the Company's exposure to credit loss in the event of nonperformance by the counterparty to the financial instrument is represented by the contractual amounts of those instruments. However, the Company applies the same credit policies, standards, and ongoing reassessments in making commitments and conditional obligations as it does for loans. In addition, the amount and type of collateral obtained, if deemed necessary upon extension of a loan commitment or standby letter of credit, is essentially the same as the collateral requirements provided for loans. Additional risk associated with providing these commitments arises when they are drawn upon, such as the demands on liquidity the Company would experience if a significant portion were drawn down at the same time. However, this is considered unlikely, as many commitments expire without being drawn upon and therefore do not necessarily represent future cash requirements.

Overdraft Protection Plans — The Company provides personal credit lines on customer accounts to advance funds to cover overdrafts.

Letters of Credit — The Company provides standby and commercial letters of credit during the normal course of business. Standby letters of credit guarantee performance of a customer to a third party while commercial letters of credit guarantee payments on behalf of our customers.

Unfunded Commitments for Unconsolidated Investments — The Company has committed to purchase up to $11.5 million in limited partnership interests of four entities, of which $6.4 million is unfunded at December 31, 2015. Certain shareholders and directors also have interests in some of these entities.

Table of Contents

Company Guarantees — The Company guarantees, to the issuing merchant banks, the credit card debt transactions for certain customers. The Company also provides guarantees to the FHLB for certain forgivable loans used to support affordable housing in our market areas.

Federal Reserve Bank Stock — The fair value of the Federal Reserve Bank stock approximates its carrying value, which is based on the redemption provisions of the Federal Reserve Bank. At December 31, 2015, the Company held 80,366 shares of Federal Reserve Bank stock with a fair value of $4.0 million (subscription value of $50). This investment represents 50% of the par value due to the Federal Reserve Bank to become a member bank and the stock cannot be sold, traded, or pledged as collateral for loans. Although the probability is remote, the remaining 50% or $4.0 million due to the Federal Reserve Bank may be callable at their discretion.

Employment Contracts — Certain officers of the Company have entered into employment agreements providing for salaries and fringe benefits. In addition, severance is provided in the event of termination for other than cause, and under certain changes in control, a payment is required.

Indemnification Agreements — The Company is subject to certain indemnification obligations in conjunction with agreements signed with officers and directors of the Company. The Indemnification Agreements require the Company to indemnify against judgments, fines, penalties and amounts paid in settlements incurred in connection with civil or criminal action or proceedings, as it relates to their services to the Company. To the extent the Company maintains an insurance policy or policies providing directors' and officers' liability insurance, the Indemnitee will be covered to the maximum extent of the coverage available for any director or officer of the Company. However, certain indemnification payments may not be covered under the Company's directors' and officers' insurance coverage. The rights of the Indemnitee under the Indemnification Agreement are in addition to any rights the Indemnitee may have under the Company's articles of incorporation or bylaws. While the likelihood is remote, performance under these indemnifications could materially affect net income in a particular quarter or annual period.

Other Matters — The Company is involved in various lawsuits which have arisen in the normal course of business. It is management's opinion, based upon advice of legal counsel, that the ultimate outcome of these lawsuits will not have a material impact upon the financial condition, cash flow or results of operations of the Company.

17. Regulatory Matters

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can trigger certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the Company's financial condition and results of operations. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures

of the Company and the Bank’s assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company and the Bank’s capital amounts and classification are also subject to qualitative judgments by the regulators regarding components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of regulatory capital (as defined in the regulations) to risk-weighted assets and of regulatory capital to average assets. At December 31, 2015 and 2014, management believes the Company and Bank meet all capital adequacy requirements to which they are subject.

In January 2015, the Company implemented the Basel III capital rules adopted by the federal banking agencies in 2014. Basel III imposed higher minimum capital requirements, created a new Common Equity Tier 1 capital requirement and changed the risk-weighting guidelines for various assets types.

Table of Contents

At December 31, 2015, the most recent notification from the Federal Reserve categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized the Bank must maintain minimum total risk-based, Common Equity Tier 1 risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events that management believes have changed the Bank's categories.

The following tables present amounts at December 31, 2015 under the Basel III guidelines.

At December 31, 2015 (in thousands)	Company	Bank
Common shareholders' equity	$ 273,536	$ 347,076
Regulatory adjustments and deductions:		
Disallowed intangible assets	(770)	-
Unrealized net gain on AFS securities	(1,724)	(1,724)
Unrealized net gain on HTM securities	(4,289)	(4,289)
Unrealized gain (loss) on cash flow hedges	2,730	(358)
Tier 1 deductions applied to CET1	-	(11,598)
Common equity tier 1 capital (CET1)	269,483	329,107
Subordinated debentures	63,920	-
Tier 1 capital deductions	(13,803)	-
Tier 1 capital	319,600	329,107
Allowance for loan losses	38,398	37,925
Subordinated debentures	6,080	-
Subordinated notes payable	59,031	-
Tier 2 capital deductions	(4,027)	(3,384)
Total risk-based regulatory capital	$ 419,082	$ 363,648

At December 31, 2015	Company				Bank			
	Risk-based			Leverage	Risk-based			Leverage
(in thousands)	Common Tier 1	Tier 1	Total capital	Tier 1	Common Tier 1	Tier 1	Total capital	Tier 1
Regulatory capital	$ 269,483	$ 319,600	$ 419,082	$ 319,600	$ 329,107	$ 329,107	$ 363,648	$ 329,107
Well-capitalized requirement	198,363	244,139	305,173	163,662	196,077	241,326	301,657	162,310
Regulatory capital - excess	$ 71,120	$ 75,461	$ 113,909	$ 155,938	$ 133,030	$ 87,781	$ 61,991	$ 166,797
Capital ratios	8.8 %	10.5 %	13.7 %	9.8 %	10.9 %	10.9 %	12.1 %	10.1 %

Minimum capital requirement	4.5	%	6.0	%	8.0	%	4.0	%	4.5	%	6.0	%	8.0	%	4.0	%
Well-capitalized requirement (1)	6.5	%	8.0	%	10.0	%	5.0	%	6.5	%	8.0	%	10.0	%	5.0	%

The following tables present amounts at December 31, 2014 under the regulatory capital guidelines in place prior to the implementation of Basel III.

At December 31, 2014		
(in thousands)	Company	Bank
Shareholders' equity	$ 308,769	$ 323,266
Disallowed intangible assets	(2,526)	-
Unrealized gain on AFS securities	(7,168)	(7,168)
Unrealized loss on cash flow hedges	2,840	(230)
Subordinated debentures	70,000	-
Other deductions	(8)	-
Tier 1 regulatory capital	$ 371,907	$ 315,868
Allowance for loan losses	$ 32,250	$ 31,878
Total risk-based regulatory capital	$ 404,157	$ 347,746

Table of Contents

At December 31, 2014	Company Risk-based		Leverage	Bank Risk-based		Leverage
(in thousands)	Tier 1	Total capital	Tier 1	Tier 1	Total capital	Tier 1
Regulatory capital	$ 371,907	$ 404,157	$ 371,907	$ 315,868	$ 347,746	$ 315,868
Well-capitalized requirement	154,767	257,946	149,380	152,987	254,978	147,834
Regulatory capital - excess	$ 217,140	$ 146,211	$ 222,527	$ 162,881	$ 92,768	$ 168,034
Capital ratios	14.4 %	15.7 %	12.4 %	12.4 %	13.6 %	10.7 %
Minimum capital requirement	4.0 %	8.0 %	4.0 %	4.0 %	8.0 %	4.0 %
Well-capitalized requirement(1)	6.0 %	10.0 %	5.0 %	6.0 %	10.0 %	5.0 %

(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.

18. 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 December 31, 2015, the Company holds, as part of its investment portfolio, available for sale securities reported at fair value consisting of municipal securities, corporate debt securities, and TPS. The fair value of the majority of municipal securities 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

Table of Contents

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 holds certain TPS and corporate debt securities for which unadjusted market prices are not available or the market is not active and are therefore classified as Level 2 or 3. For these securities, broker-dealer quotes, valuations based on similar but not identical securities or the most recent market trade (which may not be current), are used. The Company has also classified three TPS as Level 3 due to their illiquid nature and lack of trading activity. In 2014, a single-issuer TPS of $0.7 million was transferred from Level 2 to Level 3 due to a lack of trading activity. Unrealized gains on TPS Level 3 transfers and total net unrealized gains recognized in AOCI at December 31, 2015 and 2014 were immaterial.

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

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

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

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

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

Table of Contents

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

(in thousands)	Balance at December 31, 2015	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:				
Trust preferred securities	$ 46,083	$ 13,090	$ 27,183	$ 5,810
Corporate debt securities	103,736	-	103,736	-
Municipal securities	3,866	-	3,866	-
Total available for sale securities	$ 153,685	$ 13,090	$ 134,785	$ 5,810
Derivatives:				
Cash flow hedge	$ 578	$ -	$ 578	$ -
Fair value hedge	117	-	117	-
Non-designated hedges	3,092	-	3,092	-
Foreign exchange forward contracts	109	-	109	-
Total derivative assets	$ 3,896	$ -	$ 3,896	$ -
Liabilities				
Derivatives:				
Cash flow hedge	$ 4,981	$ -	$ 4,981	$ -
Fair value hedge	1,574	-	1,574	-
Non-designated hedges	3,275	-	3,275	-
Foreign exchange forward contracts	59	-	59	-
Total derivative liabilities	$ 9,889	$ -	$ 9,889	$ -

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

Corporate debt securities	101,210	-	101,210	-
Municipal securities	15,446	-	15,446	-
Total available for sale securities	$ 459,815	$ 21,737	$ 431,324	$ 6,754
Derivatives:				
Cash flow hedge	$ 437	$ -	$ 437	$ -
Fair value hedge	297	-	297	-
Non-designated hedges	4,103	-	4,103	-
Foreign exchange forward contracts	54	-	54	-
Total derivative assets	$ 4,891	$ -	$ 4,891	$ -
Liabilities				
Derivatives:				
Cash flow hedge	$ 5,017	$ -	$ 5,017	$ -
Fair value hedge	988	-	988	-
Non-designated hedges	4,284	-	4,284	-
Foreign exchange forward contracts	17	-	17	-
Total derivative liabilities	$ 10,306	$ -	$ 10,306	$ -

Table of Contents

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

	For the year ended December 31,	
(in thousands)	2015	2014
Beginning balance	$ 6,754	$ 6,036
Transfers and purchases	-	706
Net accretion	60	58
Sales	(985)	-
Unrealized loss included in comprehensive income	(19)	(46)
Ending balance	$ 5,810	$ 6,754

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

		Fair value measurements using:		
(in thousands)	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Impaired loans, net of specific reserve:				
At December 31, 2015	$ 6,296	$ -	$ -	$ 6,296
At December 31, 2014	$ 15,734	$ -	$ -	$ 15,734

During the years ended December 31, 2015 and 2014, the Company recorded $6.0 million and $0.4 million in provision for loan losses for impaired loans, respectively. Net recoveries of $1.5 million and net charge-offs of $0.1 million were recorded on impaired loans for the years ended December 31, 2015 and 2014, respectively.

Fair value is also used on a nonrecurring basis for nonfinancial assets and nonfinancial liabilities such as foreclosed assets, other real estate owned, intangible assets 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. 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 December 31, 2015 and 2014, aggregated by the level in the fair value hierarchy within which those measurements fall.

		Fair value measurements using:			
(in thousands)	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Year to date gain
OREO:					
At December 31, 2015	$ 5,351	$ -	$ -	$ 5,351	$ 69
At December 31, 2014	$ 6,132	$ -	$ -	$ 6,132	$ 1,459

Table of Contents

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

	At December 31,	
(in thousands)	2015	2014
OREO recorded at fair value	$ 5,351	$ 6,132
Estimated selling costs	(272)	(313)
OREO	$ 5,079	$ 5,819

Valuation adjustments on OREO and additional gains or losses at the time OREO is sold are recognized in current earnings under the caption "Net (gain) loss on securities, other assets and other real estate owned." Below is a summary of OREO transactions for the years ended December 31, 2015 and 2014

(in thousands)	2015	2014
Beginning OREO balance	$ 5,819	$ 5,097
Additions	-	4,992
Sales	(809)	(5,305)
Net gain on sale and valuation adjustments	69	1,035
Ending OREO balance	$ 5,079	$ 5,819

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.

	At December 31, 2015				
Category	Fair Value (in thousands)	Valuation Technique	Unobservable Input	Weighted Average	Range
Trust preferred securities	$ 5,810	Market approach	Discount to carrying value using broker quotes or observable prices on similar securities	15%	1% to 18%

Impaired loans:						
Commercial	$ 5,006	Sales comparison	(1)	Management discount for asset type	47%	0% - 81%
Commercial	667	Sales comparison	(2)	Sales comparison adjustments	(32)%	NA
Real estate - mortgage	487	Sales comparison	(2)	Sales comparison adjustments	12%	(15)% to 17%
Construction & land	27	Sales comparison	(2)	Sales comparison adjustments	(24)%	NA
Consumer	109	Sales comparison	(2)	Sales comparison adjustments	11%	(2)% - 14%
Total impaired loans	$ 6,296					
OREO:						
Commercial	$ 190	Property appraisals	(2)	Management discount for property type and recent market volatility	0%	0%
Construction & land	5,161	Property appraisals	(2)	Management discount for property type and recent market volatility	17%	NA
Total OREO	$ 5,351					

Table of Contents

At December 31, 2014

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

(1) Discount represents management's discounts applied to market valuation of various business asset types including accounts receivable and other commercial assets.

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

F-53

Table of Contents

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

	December 31, 2015		December 31, 2014	
(in thousands)	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Financial assets:				
Cash and cash equivalents	$ 67,312	$ 67,312	$ 91,565	$ 91,565
Investment securities available for sale	153,685	153,685	459,815	459,815
Investment securities held to maturity	346,666	345,576	13,329	13,616
Other investments	12,461	12,461	11,477	11,477
Loans — net	2,658,519	2,647,448	2,372,810	2,371,756
Accrued interest receivable	10,362	10,362	9,617	9,617
Derivatives	3,896	3,896	4,891	4,891
Financial liabilities:				
Deposits	$ 2,741,712	$ 2,741,366	$ 2,492,291	$ 2,492,340
Securities sold under agreements to repurchase	47,459	45,474	49,976	49,991
Short-term borrowings	132,000	132,000	112,469	112,469
Accrued interest payable	1,134	1,134	813	813
Subordinated notes payable	59,031	59,080	-	-
Junior subordinated debentures	72,166	72,166	72,166	72,166
Derivatives	9,889	9,889	10,306	10,306

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

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

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

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

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

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

Table of Contents

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

Securities Sold Under Agreements to Repurchase — Estimated fair value is based on discounting cash flows and is classified as Level 2.

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

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

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

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

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

19. Segments

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

The Commercial Banking segment consists of the operations of CoBiz Bank, a full-service business banking institution. Services provided include commercial, real estate, and private banking as well as treasury management, interest-rate hedging, and depository products.

The Fee-Based Lines segment consists of businesses offering products and services that are financial in nature and for which revenues are based on a percentage of an underlying basis such as managed assets or paid premiums. Activities in this segment include investment advisory through CoBiz Wealth and insurance brokerage through CoBiz Insurance, Inc. CoBiz Wealth provides investment management advisory services to affluent individuals, families and businesses. CoBiz Insurance, Inc. offers property and casualty (P&C) and employee benefit group insurance (EB) broker agency to small- to mid-sized employers, commercial enterprises and individual lines to their owners.

As discussed in Note 2, the Company ceased the operations of GMB in the first quarter of 2015. The results of GMB's operations are reported within the Fee-Based Lines segment as discontinued operations for all periods presented.

The Corporate Support and Other segment consist of activities that are not directly attributable to the other reportable segments and include centralized bank operations and the activities of the Parent.

Table of Contents

The financial information for each business segment reflects that information which is specifically identifiable or which is allocated based on an internal allocation method. Results of operations and selected financial information by operating segment are as follows:

	For the year ended December 31, 2015			
(in thousands)	Commercial Banking	Fee-Based Lines	Corporate Support and Other	Consolidated
Income Statement				
Total interest income	$ 119,896	$ 2	$ 1,368	$ 121,266
Total interest expense	3,947	44	5,599	9,590
Provision for loan losses	6,837	-	(417)	6,420
Noninterest income	11,427	17,879	1,361	30,667
Noninterest expense	37,849	16,331	45,997	100,177
Management fees and allocations	25,225	1,334	(26,559)	-
Provision (benefit) for income taxes	27,679	643	(18,716)	9,606
Net income (loss) from continuing operations	29,786	(471)	(3,175)	26,140
Loss from discontinued operations, net of tax	-	(71)	-	(71)
Net income (loss)	$ 29,786	$ (542)	$ (3,175)	$ 26,069
Depreciation and amortization	2,430	792	33	3,255
Identifiable assets at December 31, 2015	$ 3,317,977	$ 10,554	$ 23,236	$ 3,351,767

	For the year ended December 31, 2014			
(in thousands)	Commercial Banking	Fee-Based Lines	Corporate Support and Other	Consolidated
Income Statement				
Total interest income	$ 113,888	$ 6	$ 423	$ 114,317
Total interest expense	4,394	41	3,994	8,429
Provision for loan losses	(3,346)	-	(809)	(4,155)
Noninterest income	9,940	16,886	1,083	27,909
Noninterest expense	35,602	15,140	43,394	94,136
Management fees and allocations	23,988	1,115	(25,103)	-
Provision (benefit) for income taxes	30,926	690	(16,598)	15,018
Net income (loss) from continuing operations	32,264	(94)	(3,372)	28,798
Income from discontinued operations, net of tax	-	209	-	209
Net income (loss)	$ 32,264	$ 115	$ (3,372)	$ 29,007

Depreciation and amortization	2,316	949	21	3,286
Identifiable assets at December 31, 2014	$ 3,025,107	$ 14,979	$ 22,080	$ 3,062,166

Table of Contents

	For the year ended December 31, 2013			
(in thousands)	Commercial Banking	Fee-Based Lines	Corporate Support and Other	Consolidated
Income Statement				
Total interest income	$ 105,719	$ 11	$ 397	$ 106,127
Total interest expense	5,195	61	5,170	10,426
Provision for loan losses	(7,330)	-	(1,474)	(8,804)
Noninterest income	11,907	16,272	427	28,606
Noninterest expense	35,265	14,508	41,139	90,912
Management fees and allocations	22,313	959	(23,272)	-
Provision (benefit) for income taxes	30,049	769	(16,909)	13,909
Net income (loss) from continuing operations	32,134	(14)	(3,830)	28,290
Loss from discontinued operations, net of tax	-	(679)	-	(679)
Net income (loss)	$ 32,134	$ (693)	$ (3,830)	$ 27,611
Depreciation and amortization	2,564	1,074	32	3,670
Identifiable assets at December 31, 2013	$ 2,764,609	$ 15,403	$ 20,679	$ 2,800,691

20. Condensed Financial Statements of Parent Company

Condensed financial statements pertaining only to CoBiz Financial Inc. are presented below. Investments in subsidiaries are stated using the equity method of accounting.

Condensed Balance Sheets	At December 31,	
(in thousands)	2015	2014
Assets:		
Cash on deposit at subsidiary bank	$ 20,105	$ 24,495
Investment in bank subsidiary	347,076	323,266
Investment in non-bank subsidiaries	26,500	29,878
Accounts receivable from bank subsidiary	7,048	498

Accounts receivable from non-bank subsidiaries	534	1,218
Other	14,248	17,291
Total assets	$ 415,511	$ 396,646
Liabilities and shareholders' equity:		
Liabilities:		
Accounts payable to bank subsidiary	$ 4,931	$ 6,718
Accounts payable to non-bank subsidiaries	3,857	7,337
Subordinated notes payable	59,031	-
Junior subordinated debentures	72,166	72,166
Other liabilities	1,990	1,656
Total liabilities	141,975	87,877
Shareholders' equity	273,536	308,769
Total liabilities and shareholders' equity	$ 415,511	$ 396,646

Table of Contents

Condensed Statements of Income	For the years ended December 31,		
(in thousands)	2015	2014	2013
Income:			
Management fees	$ 3,872	$ 4,397	$ 4,457
Dividends from bank subsidiary	8,221	8,116	8,000
Dividends from non-bank subsidiaries	2,962	1,898	6,123
Interest income	195	181	243
Other income	1,380	1,102	445
Total income	16,630	15,694	19,268
Expense:			
Salaries and employee benefits	4,518	4,408	4,255
Interest expense	5,737	4,122	5,360
Other expense	2,614	2,203	2,441
Total expense	12,869	10,733	12,056
Income before income taxes	3,761	4,961	7,212
Benefit for income taxes	(2,751)	(1,402)	(2,748)
Net income before equity in undistributed earnings of subsidiaries	6,512	6,363	9,960
Equity in undistributed earnings of subsidiaries	19,557	22,644	17,651
Net income	$ 26,069	$ 29,007	$ 27,611

Condensed Statements of Cash Flows	For the years ended December 31,		
(in thousands)	2015	2014	2013
Cash flows from operating activities:			
Net income	$ 26,069	$ 29,007	$ 27,611
Equity in undistributed earnings of subsidiaries	(19,557)	(22,644)	(17,651)
Stock-based compensation	620	584	487
Change in other assets and liabilities	(7,480)	2,205	8,195
Net cash provided by (used in) operating activities	(348)	9,152	18,642
Cash flows from investing activities:			
Net advances (to) from subsidiaries	1,095	(3,372)	(878)
Other	(27)	(31)	(18)
Net cash provided by (used in) investing activities	1,068	(3,403)	(896)
Cash flows from financing activities:			
Proceeds from issuance of common stock, net	1,733	1,570	1,960
Taxes paid in net settlement of restricted stock	(1,207)	(1,045)	(297)
Redemption of subordinated notes payable	-	-	(20,984)
Proceeds from issuance of notes payable	59,250	-	-
Redemption of preferred stock	(57,366)	-	-

Dividends paid on common stock	(6,953)	(6,076)	(4,820)
Dividends paid on preferred stock	(463)	(574)	(1,465)
Other	(104)	129	5
Net cash used in financing activities	(5,110)	(5,996)	(25,601)
Net decrease in cash and cash equivalents	(4,390)	(247)	(7,855)
Cash and cash equivalents - beginning of year	24,495	24,742	32,597
Cash and cash equivalents - end of year	$ 20,105	$ 24,495	$ 24,742

Table of Contents

21. Supplemental Financial Data

Other income and Other expense as shown in the consolidated statements of income is detailed in the following schedules to the extent the components exceed one percent of the aggregate of total interest income and other income.

Other noninterest income	Year ended December 31,		
(in thousands)	2015	2014	2013
Loan Fees	$ 1,763	$ 1,645	$ 3,151
Other customer service fees	2,497	2,170	1,620
Bank-owned life insurance earnings	1,334	1,594	1,295
Equity method investments	1,312	(56)	897
Other income	20	72	52
Total	$ 6,926	$ 5,425	$ 7,015

Other noninterest expense	Year ended December 31,		
(in thousands)	2015	2014	2013
Marketing and business development	$ 2,799	$ 2,945	$ 2,536
Service contracts	4,545	3,880	3,414
Professional fees	2,818	2,316	2,309
Office supplies and delivery	1,461	1,540	1,522
Charitable donations	803	714	993
Other expense	2,714	2,830	1,804
Total	$ 15,140	$ 14,225	$ 12,578

22. Selected Quarterly Financial Data (Unaudited)

The table below sets forth unaudited financial information for each quarter of the last two years. Certain reclassifications have been made to prior period amounts to conform to current year presentation. See Note 2 – Discontinued Operations for additional information. Earnings per common share as noted below have not been

separated between continuing and discontinued operations, as disclosed in Note 14 – Earnings per Common Share.

	2015				2014			
(in thousands)	Q4(1)	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Interest income	$ 31,081	$ 30,177	$ 30,044	$ 29,964	$ 29,611	$ 29,205	$ 28,510	$ 26,991
Interest expense	2,845	2,810	1,972	1,963	2,043	2,143	2,157	2,086
Net interest income	28,236	27,367	28,072	28,001	27,568	27,062	26,353	24,905
Income before income taxes	5,114	9,291	10,596	10,745	11,036	11,572	12,330	8,878
Net income from continuing operations	4,400	6,954	7,383	7,403	7,287	7,533	8,150	5,828
Income (loss) from discontinued operations, net of tax	-	-	-	(71)	(305)	358	467	(311)
Net income	4,400	6,954	7,383	7,332	6,982	7,891	8,617	5,517
Basic earnings per share(2)	$ 0.11	$ 0.17	$ 0.17	$ 0.18	$ 0.17	$ 0.19	$ 0.21	$ 0.13
Diluted earnings per share(2)	$ 0.11	$ 0.17	$ 0.17	$ 0.18	$ 0.17	$ 0.19	$ 0.21	$ 0.13

(1) Net income for the fourth quarter of 2015 includes the impact of a $5.4 million provision for loan loss. See Note 4 – Loans for additional information.
(2) Due to rounding, the sum of the quarterly earnings per share amounts may not equal earnings per share for the year as disclosed elsewhere in this report.