COBIZ FINANCIAL INC
Form 10-Q
October 28, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

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

Commission File Number 001-15955

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

COLORADO	84-0826324
(State or other jurisdiction of	(I.R.S. Employer

incorporation or organization)	Identification No.)
821 17th Street Denver, CO	80202
(Address of principal executive offices)	(Zip Code)

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

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

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

Yes No

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

Yes No

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

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

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

Yes No

There were 41,492,652 shares of the registrant’s Common Stock, $0.01 par value per share, outstanding at October 24, 2016.

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Part I. Financial Information

Item 1. Condensed Consolidated Financial Statements (unaudited)

CoBiz Financial Inc. and Subsidiaries

Condensed Consolidated Balance Sheets (unaudited)

At September 30, 2016 and December 31, 2015

(in thousands, except share amounts)	September 30, 2016	December 31, 2015
Assets		
Cash and due from banks	$ 58,532	$ 48,665
Interest-bearing deposits and federal funds sold	27,616	18,647
Total cash and cash equivalents	86,148	67,312
Investment securities available for sale (cost of $136,402 and $150,905, respectively)	140,283	153,685
Investment securities held to maturity (fair value of $308,998 and $345,576, respectively)	307,639	346,666
Other investments	7,160	12,461
Total investments	455,082	512,812
Loans - net of allowance for loan losses of $33,529 and $40,686, respectively	2,793,576	2,658,519
Intangible assets - net of amortization of $6,954 and $6,504, respectively	1,476	1,926
Bank-owned life insurance	53,307	49,373
Premises and equipment - net of depreciation of $41,111 and $39,504, respectively	9,293	6,122
Accrued interest receivable	10,994	10,362
Deferred income taxes, net	19,088	22,221
Other real estate owned - net of valuation allowance of $8,666	5,079	5,079
Other	18,455	18,041
TOTAL ASSETS	$ 3,452,498	$ 3,351,767
Liabilities		
Deposits		
Noninterest-bearing demand	$ 1,226,546	$ 1,180,335
Interest-bearing demand	681,256	585,524
Money market	854,928	804,777
Savings	20,403	18,078
Certificates of deposits	154,060	152,998
Total deposits	2,937,193	2,741,712
Securities sold under agreements to repurchase	52,114	47,459

Other short-term borrowings	2,199	132,000
Accrued interest and other liabilities	33,899	25,863
Subordinated notes payable - net of unamortized discount and issuance costs of $910 and $969, respectively	59,090	59,031
Junior subordinated debentures	72,166	72,166
TOTAL LIABILITIES	3,156,661	3,078,231
Commitments and contingencies		
Shareholders' Equity		
Preferred stock, $.01 par value; 2,000,000 shares authorized; none issued and outstanding	-	-
Common stock, $.01 par value; 100,000,000 shares authorized; 41,465,452 and 41,122,119 issued and outstanding, respectively	410	406
Additional paid-in capital	196,263	192,768
Accumulated earnings	96,916	77,079
Accumulated other comprehensive income (AOCI), net of income tax of $1,379 and $2,013, respectively	2,248	3,283
TOTAL SHAREHOLDERS' EQUITY	295,837	273,536
TOTAL LIABILITIES AND EQUITY	$ 3,452,498	$ 3,351,767

See Notes to Condensed Consolidated Financial Statements

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CoBiz Financial Inc. and Subsidiaries

Condensed Consolidated Statements of Income (unaudited)

For the three and nine months ended September 30, 2016 and 2015

(in thousands, except per share amounts)	Three months ended September 30, 2016	2015	Nine months ended September 30, 2016	2015
INTEREST INCOME:				
Interest and fees on loans	$ 29,124	$ 26,758	$ 85,020	$ 79,959
Interest and dividends on investment securities:				
Taxable securities	2,844	3,046	8,870	9,422
Nontaxable securities	179	238	538	408
Dividends on securities	111	103	473	309
Interest on federal funds sold and other	50	32	102	87
Total interest income	32,308	30,177	95,003	90,185
INTEREST EXPENSE:				
Interest on deposits	996	916	2,840	2,722
Interest on short-term borrowings and securities sold under agreements to repurchase	60	46	470	135
Interest on subordinated debentures and notes payable	1,851	1,848	5,530	3,888
Total interest expense	2,907	2,810	8,840	6,745
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	29,401	27,367	86,163	83,440
Provision for loan losses	(1,168)	762	(2,450)	1,030
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	30,569	26,605	88,613	82,410
NONINTEREST INCOME:				
Service charges	1,553	1,490	4,508	4,438
Investment advisory income	1,416	1,478	4,296	4,444
Insurance income	3,120	3,023	9,282	9,110
Other income	3,197	1,433	6,700	4,690
Total noninterest income	9,286	7,424	24,786	22,682
NONINTEREST EXPENSE:				
Salaries and employee benefits	17,480	16,623	53,093	51,718
Occupancy expenses, premises and equipment	4,025	3,371	11,032	9,778
Amortization of intangibles	150	150	450	450
FDIC and other assessments	369	459	1,297	1,350
Other real estate owned and loan workout costs	120	105	432	248
Net gain on securities, other assets and other real estate owned	(98)	(59)	(88)	(123)
Other expense	3,997	4,089	11,927	11,039
Total noninterest expense	26,043	24,738	78,143	74,460
INCOME BEFORE INCOME TAXES	13,812	9,291	35,256	30,632

Provision for income taxes	3,543	2,337	9,090	8,892
NET INCOME FROM CONTINUING OPERATIONS	10,269	6,954	26,166	21,740
DISCONTINUED OPERATIONS:				
Loss from discontinued operations	-	-	-	(113)
Benefit for income taxes	-	-	-	(42)
Net loss from discontinued operations	-	-	-	(71)
NET INCOME	$ 10,269	$ 6,954	$ 26,166	$ 21,669
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$ 10,269	$ 6,921	$ 26,166	$ 21,349
EARNINGS PER COMMON SHARE:				
Basic	$ 0.25	$ 0.17	$ 0.63	$ 0.52
Diluted	$ 0.25	$ 0.17	$ 0.63	$ 0.52

See Notes to Condensed Consolidated Financial Statements

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CoBiz Financial Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (unaudited)

For the three and nine months ended September 30, 2016 and 2015

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	2016	2015	2016	2015
Net income	$ 10,269	$ 6,954	$ 26,166	$ 21,669
Other comprehensive income items:				
Available for sale securities:				
Net unrealized gain (loss)	695	(402)	1,196	686
Reclassification to operations	(98)	15	(95)	(83)
Net unrealized holding gains transferred to held to maturity	-	-	-	(8,821)
	597	(387)	1,101	(8,218)
Held to maturity securities:				
Net unrealized gain on securities transferred	-	-	-	8,821
Reclassification to operations	(459)	(616)	(1,385)	(1,413)
	(459)	(616)	(1,385)	7,408
Cash flow hedges:				
Net unrealized gain (loss)	507	(1,559)	(2,218)	(1,257)
Reclassification to operations	275	262	833	824
	782	(1,297)	(1,385)	(433)
Total other comprehensive income (loss) items	$ 920	$ (2,300)	$ (1,669)	$ (1,243)
Income tax provision:				
Available for sale securities:				
Net unrealized gain (loss)	$ 263	$ (152)	$ 454	$ 261
Reclassification to operations	(37)	4	(36)	(33)
Net unrealized holding gains transferred to held to maturity	-	-	-	(3,352)
	226	(148)	418	(3,124)
Held to maturity securities:				
Net unrealized gain on securities transferred	-	-	-	3,352
Reclassification to operations	(174)	(234)	(526)	(537)
	(174)	(234)	(526)	2,815
Cash flow hedges:				
Net unrealized gain (loss)	193	(592)	(843)	(478)
Reclassification to operations	105	99	317	313
	298	(493)	(526)	(165)
Total income tax provision (benefit)	$ 350	$ (875)	$ (634)	$ (474)
Other comprehensive income (loss), net of tax	570	(1,425)	(1,035)	(769)
Comprehensive income	$ 10,839	$ 5,529	$ 25,131	$ 20,900

See Notes to Condensed Consolidated Financial Statements

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CoBiz Financial Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows (unaudited)

For the nine months ended September 30, 2016 and 2015

	Nine months ended September 30,	
(in thousands)	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 26,166	$ 21,669
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	3,319	2,880
Provision for loan losses	(2,450)	1,030
Stock-based compensation	2,492	2,611
Deferred income taxes	3,599	1,018
Excess tax benefit from stock-based compensation	-	(610)
Bank-owned life insurance	(1,000)	(980)
Net gain on securities, other assets and other real estate owned	(88)	(123)
Other operating activities, net	122	(555)
Changes in operating assets and liabilities:		
Other assets	81	(1,549)
Other liabilities	2,872	(898)
Net cash provided by operating activities	35,113	24,493
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of other investments	(11,489)	(10,958)
Proceeds from other investments	17,487	12,407
Purchase of investment securities available for sale	(1,970)	(39,774)
Purchase of investment securities held to maturity	(12,651)	(74,813)
Maturity, call and principal payments on investment securities available for sale	16,251	36,918
Maturity, call and principal payment on investment securities held to maturity	48,253	44,831
Acquisition of client relationships	-	(75)
Purchase of bank-owned life insurance	(3,195)	-
Net proceeds from sale of loans, OREO and repossessed assets	60	2,073
Loan originations and repayments, net	(128,944)	(213,474)
Purchase of premises and equipment	(5,355)	(962)
Other investing activities, net	272	-
Net cash used in investing activities	(81,281)	(243,827)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand, money market and savings accounts	194,419	269,982
Net increase (decrease) in certificates of deposits	1,062	(54,860)
Net decrease in short-term borrowings	(129,801)	(2,469)

Net increase in securities sold under agreements to repurchase	4,655	12,206
Net proceeds from issuance of subordinated notes payable	-	58,992
Proceeds from issuance of common stock	1,342	1,233
Taxes paid in net settlement of restricted stock	(890)	(1,183)
Redemption of preferred stock	-	(57,366)
Dividends paid on common stock	(5,783)	(5,107)
Dividends paid on preferred stock	-	(320)
Excess tax benefit from stock-based compensation	-	610
Net cash provided by financing activities	65,004	221,718
NET INCREASE IN CASH AND CASH EQUIVALENTS	18,836	2,384
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	67,312	91,565
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 86,148	$ 93,949

See Notes to Condensed Consolidated Financial Statements

CoBiz Financial Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

1. Nature of Operations and Significant Accounting Policies

The accompanying unaudited Condensed Consolidated Financial Statements of CoBiz Financial Inc. (Parent or Holding Company), and its wholly-owned subsidiaries: CoBiz Bank (Bank); CoBiz Insurance, Inc.; and CoBiz IM, Inc. (CoBiz IM); all collectively referred to as the “Company”, “CoBiz”, “we”, “us”, or “our” conform to Generally Accepted Accounting Principles (GAAP) in the United States of America for interim financial information 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 four 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.

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.

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

Basis of Presentation —These Condensed Consolidated Financial Statements and notes thereto should be read in conjunction with, and are qualified in their entirety by, the Company’s Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the U.S. Securities and Exchange Commission (SEC).

The Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting only of normally recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2016, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2016.

The Condensed Consolidated Financial Statements include entities in which the Parent has a controlling financial interest. These entities include: the Bank; CoBiz Insurance, 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).

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The voting interest model is used when the equity investment is sufficient to absorb the expected losses and the equity investment has all of the characteristics of a controlling financial interest. Under the voting interest model, the party with the controlling voting interest consolidates the legal entity. The VIE model is used when any of the following conditions exist: the equity investment at risk is not sufficient to finance the entity's activities without additional subordinated financial support; the holders of the equity investment do not have a controlling voting interest; or the holders of the equity investment are not obligated to absorb the expected losses or residual returns of the legal entity. An enterprise is considered to have a controlling financial interest of a VIE if it has both the power to direct the activities that most significantly impact economic performance and the obligation to absorb losses, or receive benefits, that are significant to the VIE. An enterprise that has a controlling financial interest is considered the primary beneficiary and must consolidate the VIE. The Company was not the primary beneficiary of a VIE at September 30, 2016 or December 31, 2015.

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

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

	Nine months ended September 30,	
(in thousands)	2016	2015
Cash paid during the period for:		
Interest	$ 8,141	$ 5,609
Income taxes	5,538	6,953
Other noncash activities:		
Available for sale securities transferred to held to maturity	$ -	$ 288,598
Loans transferred to held for sale	60	1,628

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 September 30, 2016 and December 31, 2015, the Company had no trading securities.

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

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

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

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

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

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

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

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

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

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.

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

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

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

Derivative Instruments — Derivative financial instruments are accounted for at fair value. The Company utilizes interest rate swaps to hedge a portion of its exposure to interest rate changes. These instruments are accounted for as cash flow hedges, as defined by ASC Topic 815, Derivatives and Hedging (ASC 815). The 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 these hedges are classified in operating activities within the Condensed 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.

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

Loss From Discontinued Operations, Net of Income Taxes — During the first quarter of 2015, the Company ceased the operations of its investment banking subsidiary due to increasing regulatory compliance costs and to focus on activities that provide recurring revenue. Investment banking revenue was transactional and highly dependent on deal volume which could vary significantly from period to period.

2. Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standard Board (FASB) issued Accounting Standard Update (ASU) 2016-02, Leases (Topic 842) (ASU 2016-02). ASU 2016-02 is intended to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. For public business entities, this ASU is effective for annual periods and interim periods within those annual periods beginning after December 15, 2018. The Company is currently evaluating the effects of ASU 2016-02 on its financial statements and disclosures.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting (ASU 2016-09). ASU 2016-09 includes provisions intended to simplify various aspects related to accounting for and presentation of share-based payments in the financial statements. The areas for

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simplification include income tax consequences, forfeitures, classification of awards as either equity or liabilities and classification on the statement of cash flows. This ASU is effective for annual periods and interim periods within those annual periods beginning after December 15, 2016, and early adoption is permitted for financial statements that have not been previously issued. The Company early adopted the provisions of ASU 2016-09 during the quarter ended March 31, 2016. The cumulative effect adjustment from the modified retrospective transition of the income tax consequences, forfeitures and the classification of awards did not have a material effect on the Company's financial statements or disclosures. Changes to the statement of cash flows have been applied prospectively beginning in the first quarter of 2016. See Note 9 - Employee Benefit and Stock Compensation Plans.

In May 2014, the FASB issued ASU No. 2014-9 (ASU 2014-09), Revenue from Contracts with Customers. 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. The guidance also specifies the accounting for some costs to obtain or fulfill a contract with a customer, as well as enhanced disclosure requirements. In August 2015, the FASB issued ASU 2015-14 which deferred the effective date of ASU 2014-09 to fiscal years, and interim reporting periods within those fiscal years, beginning after December 15, 2017. In March 2016, the FASB issued ASU 2016-08 which clarified the revenue recognition implementation guidance on principal versus agent considerations and is effective during the same period as ASU 2014-09. In April 2016, the FASB issued ASU 2016-10 which clarified the revenue recognition guidance regarding the identification of performance obligations and the licensing implementation and is effective during the same period as ASU 2014-09. In May 2016, the FASB issued ASU 2016-12 which narrowly amended the revenue recognition guidance regarding collectability, noncash consideration, presentation of sales tax and transition. ASU 2016-12 is effective during the same period as ASU 2014-09. The Company is currently evaluating the effects of ASU 2014-09, ASU 2016-08, ASU 2016-10 and ASU 2016-12 on its financial statements and disclosures, if any. Preliminarily, the Company expects these ASUs to have more of an impact on the Fee-Based Lines segment than Commercial Banking segment, which generates the majority of the Company's revenue.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASU 2016-13). The objective of ASU 2016-13 is to provide financial statement users with decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit. ASU 2016-13 includes provisions that require financial assets measured at amortized cost (such as loans and held to maturity (HTM) debt securities) to be presented at the net amount expected to be collected. This will be accomplished through recognition of an estimate of all current expected credit losses. The estimate will include forecasted information for the timeframe that an entity is able to develop reasonable and supportable forecasts. This is a change from the current practice of recognizing incurred losses based on the probable initial recognition threshold under current GAAP. In addition, credit losses on available for sale (AFS) debt securities will be recorded through an allowance for credit losses rather than as a write-down. Under ASU 2016-13, an entity will be able to record reversals of credit losses in current period income when the estimate of credit losses declines, whereas current GAAP prohibits reflecting those improvements in current period earnings.

ASU 2016-13 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2019, and early adoption is permitted for fiscal years, including interim periods, beginning after December 15, 2018. ASU 2016-13 will be applied through a cumulative effect adjustment to retained earnings (modified-retrospective approach), except for debt securities for which an other-than-temporary impairment had been recognized before the effective date. A prospective transition approach is required for these debt securities. While the Company is currently evaluating the effects of ASU 2016-13 on its financial statements and disclosures, the Company does expect ASU 2016-13 to add complexity and costs to its current credit loss evaluation process.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15), regarding how certain cash receipts and cash payments are presented and classified in the statements of cash flows. ASU 2016-15 addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The amendments of ASU 2016-13 are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Amendments in this ASU should be applied using a

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retrospective transition method to each period presented. The Company is evaluating the effects ASU 2016-15 will have on its financial statements and disclosures and does not expect these effects to be material.

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

Earnings per common share is calculated based on the two-class method prescribed in ASC 260, Earnings per Share. The two-class method is an allocation of undistributed earnings to common stock and securities that participate in dividends with common stock. The Company's restricted stock awards are considered participating securities since the recipients receive non-forfeitable dividends on unvested awards. The impact of participating securities is included in basic earnings per common share for the three and nine months ended September 30, 2016 and 2015. Net loss per common share from discontinued operations was not material in the presented periods and has been excluded from the following table. Income allocated to common shares and weighted average shares outstanding used in the calculation of basic and diluted earnings per common share are as follows:

	Three months ended September 30,		Nine months ended September 30,	
(in thousands, except share and per share amounts)	2016	2015	2016	2015
Net income from continuing operations	$ 10,269	$ 6,954	$ 26,166	$ 21,740
Net loss from discontinued operations	-	-	-	(71)
Net income	10,269	6,954	26,166	21,669
Preferred stock dividends	-	(33)	-	(320)
Net income available to common shareholders	10,269	6,921	26,166	21,349
Dividends and undistributed earnings allocated to participating securities	(116)	(84)	(300)	(279)
Earnings allocated to common shares (1)	$ 10,153	$ 6,837	$ 25,866	$ 21,070
Weighted average common shares - issued	41,434,195	41,041,238	41,334,632	40,958,467
Average unvested restricted share awards	(462,927)	(498,049)	(472,885)	(530,220)
Weighted average common shares outstanding - basic	40,971,268	40,543,189	40,861,747	40,428,247
Effect of dilutive stock options and awards outstanding	220,779	280,984	180,676	246,649
Weighted average common shares outstanding - diluted	41,192,047	40,824,173	41,042,423	40,674,896
Weighted average antidilutive securities outstanding (2)	118,596	92,859	158,154	182,627
Basic earnings per common share	$ 0.25	$ 0.17	$ 0.63	$ 0.52
Diluted earnings per common share	$ 0.25	$ 0.17	$ 0.63	$ 0.52
Dividends declared per share	$ 0.050	$ 0.045	$ 0.140	$ 0.125

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

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4. Investments

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

	At September 30, 2016				At December 31, 2015			
(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):								
Trust preferred securities	$ 36,398	$ 1,666	$ 535	$ 37,529	$ 44,845	$ 1,684	$ 446	$ 46,083
Corporate debt securities	96,735	2,645	2	99,378	102,273	1,632	169	103,736
Municipal securities	3,269	107	-	3,376	3,787	99	20	3,866
Total AFS	$ 136,402	$ 4,418	$ 537	$ 140,283	$ 150,905	$ 3,415	$ 635	$ 153,685
Held to maturity securities (HTM):								
Mortgage-backed securities	$ 273,430	$ 1,281	$ 646	$ 274,065	$ 312,658	$ 99	$ 2,059	$ 310,698
Trust preferred securities	10,596	500	198	10,898	10,524	816	85	11,255
Municipal securities	23,613	425	3	24,035	23,484	151	12	23,623
Total HTM	$ 307,639	$ 2,206	$ 847	$ 308,998	$ 346,666	$ 1,066	$ 2,156	$ 345,576

The amortized cost and estimated fair value of investments in debt securities at September 30, 2016, 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	$ 40,981	$ 41,232	$ -	$ -
Due after one year through five years	40,248	41,471	19,970	20,323
Due after five years through ten years	18,774	20,051	3,086	3,152
Due after ten years	36,399	37,529	11,153	11,458

Mortgage-backed securities	-	-	273,430	274,065
	$ 136,402	$ 140,283	$ 307,639	$ 308,998

The Company uses investment securities to collateralize public deposits. Investment securities with an approximate fair value of $145.0 million and $157.3 million were pledged to secure public deposits of $116.2 million and $113.6 million at September 30, 2016 and December 31, 2015, 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. The Company did not have any credit impaired securities at September 30, 2016 and December 31, 2015.

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There were 115 and 168 securities in the tables below at September 30, 2016 and December 31, 2015, respectively, in an unrealized loss position.

	September 30, 2016					
	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	$ 11,896	$ 218	$ 8,250	$ 317	$ 20,146	$ 535
Corporate debt securities	4,997	2	-	-	4,997	2
Total AFS	$ 16,893	$ 220	$ 8,250	$ 317	$ 25,143	$ 537
HTM						
Mortgage-backed securities	$ 40,295	$ 161	$ 51,206	$ 485	$ 91,501	$ 646
Trust preferred securities	4,175	87	760	111	4,935	198
Municipal securities	1,078	3	-	-	1,078	3
Total HTM	$ 45,548	$ 251	$ 51,966	$ 596	$ 97,514	$ 847

	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

Other investments at September 30, 2016 and December 31, 2015, consisted of the following:

(in thousands)	September 30, 2016	December 31, 2015
Bank stocks — at cost	$ 4,988	$ 10,289
Investment in statutory trusts — equity method	2,172	2,172
Total	$ 7,160	$ 12,461

Bank stocks consist primarily of stock in the FHLB, which is part of the Federal Home Loan Bank System (FHLB System). The purpose of the FHLB investment relates to maintenance of a borrowing base with the FHLB. FHLB stock holdings are largely dependent upon the Company's liquidity position. To the extent the need for wholesale funding increases or decreases, the Company may purchase additional or sell excess FHLB stock, respectively. The Company evaluates impairment in this investment based on the ultimate recoverability of the par value. At September 30, 2016, the Company did not consider the investment to be other-than-temporarily impaired.

5. Loans

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

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

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companies. Commercial loans are generally collateralized by inventory, accounts receivable, equipment, real estate and other commercial assets, and may be supported by other credit enhancements such as personal guarantees. Risk arises primarily due to a difference between expected and actual cash flows of the borrowers. However, the recoverability of the Company's investment in these loans is also dependent on other factors primarily dictated by the type of collateral securing these loans. The fair value of the collateral securing these loans may fluctuate as market conditions change. In the case of loans secured by accounts receivable, the recovery of the Company's investment is dependent upon the borrowers' ability to collect amounts due from its customers.

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

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

· Consumer loans – The Company provides a broad range of consumer loans to customers, including personal lines of credit, home equity loans, 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 September 30, 2016 and December 31, 2015 were as follows:

(in thousands)	At September 30, 2016	At December 31, 2015
Commercial	$ 1,195,177	$ 1,174,570

Real estate - mortgage		1,099,470		1,017,072
Construction & land		171,686		202,011
Consumer		263,813		253,240
Other		97,365		52,616
Loans held for investment		2,827,511		2,699,509
Allowance for loan losses		(33,529)		(40,686)
Unearned net loan fees		(406)		(304)
Total net loans	$	2,793,576	$	2,658,519

The Company uses qualifying loans as collateral for advances and a line of credit from the FHLB. The FHLB line of credit did not have an outstanding balance at September 30, 2016. The Company pledged loans of $838.0 million with a lending value of $581.8 million as collateral for the FHLB line of credit.

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

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The loan portfolio showing total non-classified and classified balances by loan class at September 30, 2016 and December 31, 2015 is summarized below:

	At September 30, 2016		
(in thousands)	Non-classified	Classified	Total
Commercial			
Manufacturing	$ 113,909	$ 2,826	$ 116,735
Finance and insurance	59,608	483	60,091
Healthcare	135,227	388	135,615
Real estate services	123,206	947	124,153
Construction	64,268	4,643	68,911
Public administration	245,922	1,193	247,115
Other	407,215	35,342	442,557
	1,149,355	45,822	1,195,177
Real estate - mortgage			
Residential & commercial owner-occupied	466,452	7,254	473,706
Residential & commercial investor	623,974	1,790	625,764
	1,090,426	9,044	1,099,470
Construction & land	171,686	-	171,686
Consumer	262,123	1,690	263,813
Other	95,545	1,820	97,365
Total loans held for investment	$ 2,769,135	$ 58,376	$ 2,827,511
Unearned net loan fees			(406)
Net loans held for investment			$ 2,827,105

	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
Healthcare	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

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Transactions in the allowance for loan losses by segment for the three and nine months ended September 30, 2016 and 2015 are summarized below:

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	2016	2015	2016	2015
Allowance for loan losses, beginning of period				
Commercial	$ 17,349	$ 17,568	$ 24,215	$ 14,614
Real estate - mortgage	10,281	10,879	10,372	12,463
Construction & land	2,335	2,206	2,111	2,316
Consumer	2,660	2,201	2,592	2,329
Other	786	609	643	488
Unallocated	933	369	753	555
Total	34,344	33,832	40,686	32,765
Provision				
Commercial	$ (1,247)	$ 944	$ (2,306)	$ 4,242
Real estate - mortgage	247	(1,104)	138	(3,641)
Construction & land	(250)	(19)	(765)	(360)
Consumer	109	396	187	299
Other	119	81	262	212
Unallocated	(146)	464	34	278
Total	(1,168)	762	(2,450)	1,030
Charge-offs				
Commercial	$ (227)	$ (32)	$ (6,630)	$ (501)
Real estate - mortgage	-	(38)	-	(186)
Construction & land	-	-	-	(104)
Consumer	-	(14)	(20)	(45)
Other	(4)	(3)	(4)	(285)
Total	(231)	(87)	(6,654)	(1,121)
Recoveries				
Commercial	$ 460	$ 54	$ 1,056	$ 179
Real estate - mortgage	9	5	27	1,106
Construction & land	101	323	840	658
Consumer	14	10	24	10
Other	-	-	-	272
Total	584	392	1,947	2,225
Allowance for loan losses, end of period				
Commercial	$ 16,335	$ 18,534	$ 16,335	$ 18,534
Real estate - mortgage	10,537	9,742	10,537	9,742
Construction & land	2,186	2,510	2,186	2,510
Consumer	2,783	2,593	2,783	2,593
Other	901	687	901	687

Unallocated	787	833	787	833
Total	$ 33,529	$ 34,899	$ 33,529	$ 34,899

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

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

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

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

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

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

Troubled debt restructurings have a direct impact on the ALL 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 captures probable incurred losses within the portfolio.

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

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

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

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

	At September 30, 2016				At December 31, 2015			
	Individually evaluated for impairment		Collectively evaluated for impairment		Individually evaluated for impairment		Collectively evaluated for impairment	
(in thousands)	Loans held for investment	Allowance for loan losses	Loans held for investment	Allowance for loan losses	Loans held for investment	Allowance for loan losses	Loans held for investment	Allowance for loan losses
Commercial	$ 24,105	$ 3,598	$ 1,171,983	$ 12,737	$ 33,927	$ 10,975	$ 1,141,452	$ 13,240
Real estate - mortgage	4,034	156	1,094,949	10,381	6,521	320	1,009,747	10,052
Construction & land	1,960	112	168,634	2,074	2,610	192	198,671	1,919
Consumer	238	110	263,633	2,673	855	56	252,462	2,536
Other	-	-	97,569	901	-	-	52,960	643
Unallocated	-	-	-	787	-	-	-	753
Total	$ 30,337	$ 3,976	$ 2,796,768	$ 29,553	$ 43,913	$ 11,543	$ 2,655,292	$ 29,143

Information on impaired loans at September 30, 2016 and December 31, 2015 is reported in the following tables:

	At September 30, 2016				
(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	$ 3,118	$ 3,095	$ 3,092	$ 3	$ 247
Finance and insurance	27	27	27	-	27
Healthcare	201	201	201	-	11

Real estate services	7,012	7,012	7,012	-	399
Construction	2,792	2,755	2,473	282	182
Other	11,450	11,015	10,988	27	2,732
	24,600	24,105	23,793	312	3,598
Real estate - mortgage					
Residential & commercial owner-occupied	1,646	1,646	1,205	441	69
Residential & commercial investor	2,388	2,388	2,388	-	87
	4,034	4,034	3,593	441	156
Construction & land	1,960	1,960	1,960	-	112
Consumer	238	238	214	24	110
Total	$ 30,832	$ 30,337	$ 29,560	$ 777	$ 3,976

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	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

(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.

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

	Impaired loans							
	Three months ended September 30,				Nine months ended September 30,			
	2016		2015		2016		2015	
(in thousands)	Average recorded	Interest income	Average recorded	Interest income	Average recorded	Interest income	Average recorded	Interest income
Commercial								
Manufacturing	$ 3,100	$ 31	$ 5,967	$ 72	$ 3,815	$ 122	$ 5,915	$ 252
Finance and insurance	28	-	108	13	31	-	196	21
Healthcare	205	3	-	-	194	9	-	-
Real estate services	7,046	78	7,894	70	7,240	206	8,117	215

Construction	1,998	59	1,791	37	1,694	98	1,604	84
Other	11,598	150	8,219	143	12,861	407	6,153	367
	23,975	321	23,979	335	25,835	842	21,985	939
Real estate - mortgage								
Residential & commercial owner-occupied	1,680	18	1,555	-	1,877	43	1,431	103
Residential & commercial investor	3,141	30	4,784	35	4,171	107	5,224	138
	4,821	48	6,339	35	6,048	150	6,655	241
Construction & land	2,309	34	2,677	23	2,470	76	3,036	83
Consumer	243	4	1,298	60	504	18	1,948	212
Other	-	-	-	-	-	-	35	11
Total	$ 31,348	$ 407	$ 34,293	$ 453	$ 34,857	$ 1,086	$ 33,659	$ 1,486

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The table below summarizes transactions related to troubled debt restructurings during the nine months ended September 30, 2016.

(in thousands)	Performing	Nonperforming	Total
Beginning balance at December 31, 2015	$ 28,196	$ 13,837	$ 42,033
New restructurings	7,521	2,795	10,316
Change in accrual status	(912)	912	-
Net paydowns	(9,514)	(6,077)	(15,591)
Charge-offs	-	(6,454)	(6,454)
Ending balance at September 30, 2016	$ 25,291	$ 5,013	$ 30,304

At September 30, 2016 and December 31, 2015, there were $1.5 million and $1.7 million in outstanding commitments on restructured loans, respectively.

The below table provides information regarding troubled debt restructurings that occurred during the three and nine months ended September 30, 2016 and 2015. Pre-modification outstanding recorded investment reflects the Company's recorded investment immediately before the modification. Post-modification outstanding recorded investment represents the Company's recorded investment at the end of the reporting period. The table below does not include loans restructured and paid-off during the periods presented.

	Three months ended September 30, 2016			Three months ended September 30, 2015		
($ in thousands)	Number of contracts	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Number of contracts	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment
Commercial						
Manufacturing	-	$ -	$ -	1	$ 191	$ 191
Construction	2	1,500	1,444	1	813	773
Other	4	3,122	2,757	3	2,320	1,230
Total	6	$ 4,622	$ 4,201	5	$ 3,324	$ 2,194

Nine months ended September 30, 2016			Nine months ended September 30, 2015		
Number of	Pre-modification outstanding recorded	Post-modification outstanding recorded	Number of	Pre-modification outstanding recorded	Post-modification outstanding recorded

($ in thousands)	contracts	investment	investment	contracts	investment	investment
Commercial						
Manufacturing	1	$ 50	$ 23	4	$ 2,117	$ 1,512
Finance and insurance	-	-	-	1	75	48
Healthcare	1	100	100	-	-	-
Construction	3	1,825	1,769	2	1,638	973
Other	8	6,640	5,726	12	6,674	4,184
	13	8,615	7,618	19	10,504	6,717
Real estate - mortgage						
Residential and commercial owner-occupied	-	-	-	1	1,000	1,000
Consumer	1	77	73	1	148	136
Total	14	$ 8,692	$ 7,691	21	$ 11,652	$ 7,853

Troubled debt restructurings during the three and nine months ended September 30, 2016 and 2015 resulted primarily from the extension of repayment terms and interest rate concessions. The Company had no charge-offs in conjunction with loans restructured during the three and nine months ended September 30, 2016 and 2015.

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The following table presents troubled loans restructured within the past 12 months that had a payment default during the nine months ended September 30, 2016 and 2015.

	Nine months ended September 30,			
	2016		2015	
Troubled debt restructurings that subsequently defaulted ($ in thousands)	Number of contracts	Recorded investment	Number of contracts	Recorded investment
Commercial				
Other	3	$ 1,586	-	$ -
Total	3	$ 1,586	-	$ -

The allowance for loan losses on troubled debt restructurings included in the table above was $1.1 million at September 30, 2016.

The Company's nonaccrual loans by class at September 30, 2016 and December 31, 2015 are reported in the following table:

(in thousands)	At September 30, 2016	At December 31, 2015
Commercial		
Manufacturing	$ 1,000	$ 1,045
Finance and insurance	27	36
Real estate services	-	91
Construction	282	451
Other	3,193	13,486
Total commercial	4,502	15,109
Residential & commercial owner-occupied	441	499
Construction & land	-	27
Consumer	103	82
Total nonaccrual loans	$ 5,046	$ 15,717

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The tables below summarize the aging of the Company's loan portfolio at September 30, 2016 and December 31, 2015. The Company did not have any loans 90 days or more past due and accruing at September 30, 2016.

	At September 30, 2016					
(in thousands)	30 - 59 Days past due	60 - 89 Days past due	90+ Days past due	Total past due	Current	Total loans
Commercial						
Manufacturing	$ -	$ -	$ 997	$ 997	$ 115,738	$ 116,735
Finance and insurance	655	26	-	681	59,410	60,091
Healthcare	-	17	-	17	135,598	135,615
Real estate services	3,664	-	-	3,664	120,489	124,153
Construction	-	-	-	-	68,911	68,911
Public administration	-	-	-	-	247,115	247,115
Other	3,197	2,317	-	5,514	437,043	442,557
	7,516	2,360	997	10,873	1,184,304	1,195,177
Real estate - mortgage						
Residential & commercial owner-occupied	-	123	-	123	473,583	473,706
Residential & commercial investor	1,016	-	-	1,016	624,748	625,764
	1,016	123	-	1,139	1,098,331	1,099,470
Construction & land	-	-	-	-	171,686	171,686
Consumer	141	-	-	141	263,672	263,813
Other	-	-	-	-	97,365	97,365
Total loans held for investment	$ 8,673	$ 2,483	$ 997	$ 12,153	$ 2,815,358	$ 2,827,511
Unearned net loan fees						(406)
Net loans held for investment						$ 2,827,105

	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	-
Healthcare	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	

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6. Accumulated Other Comprehensive Income

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

	Three months ended September 30,		Nine months ended September 30,		
AOCI component (in thousands)	2016	2015	2016	2015	Line item in Condensed Consolidated Statements of Income
Available for sale securities:					
Realized gain (loss)	$ 98	$ (15)	$ 95	$ 83	Net gain on securities, other assets and OREO
Taxes	(37)	4	(36)	(33)	Provision for income taxes
Subtotal	61	(11)	59	50	
Held to maturity securities:					
Amortization of net unrealized gain on HTM securities	459	616	1,385	1,413	Interest on taxable / nontaxable securities
Taxes	(174)	(234)	(526)	(537)	Provision for income taxes
Subtotal	285	382	859	876	
Cash flow hedges:					
Loans	151	233	463	698	Interest and fees on loans
Debt	(426)	(495)	(1,296)	(1,522)	Interest on subordinated debentures and notes payable
Realized loss	(275)	(262)	(833)	(824)	
Taxes	105	99	317	313	Provision for income taxes
Subtotal	(170)	(163)	(516)	(511)	
Total reclassifications out of AOCI	$ 176	$ 208	$ 402	$ 415	

The following table provides the beginning and ending balances of AOCI and changes during the nine months ended September 30, 2016.

Accumulated other comprehensive income (in thousands)	Available for sale securities	Held to maturity securities	Cash flow hedges	Total
Balance at December 31, 2015	$ 1,724	$ 4,289	$ (2,730)	$ 3,283
Other comprehensive income (loss) items	742	-	(1,375)	(633)

Reclassifications	(59)	(859)	516	(402)
Other comprehensive loss, net of tax	683	(859)	(859)	(1,035)
Balance at September 30, 2016	$ 2,407	$ 3,430	$ (3,589)	$ 2,248

7. Derivatives

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

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

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

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

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

At September 30, 2016, 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 $16.9 million. The Company has minimum collateral posting thresholds with certain of its derivative counterparties and has posted collateral of $15.7 million against its obligations under these agreements. At September 30, 2016, the Company was not in default under any of its debt or capitalization covenants.

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

	Asset derivatives			Liability derivatives		
		Fair value at			Fair value at	
(in thousands)	Balance sheet classification	September 30, 2016	December 31, 2015	Balance sheet classification	September 30, 2016	December 31, 2015
Derivatives designated as hedging instruments under ASC 815:						

Cash flow hedge - interest rate swap	Other assets	$ -	$ 578	Accrued interest and other liabilities	$ 6,728	$ 4,981
Fair value hedge - interest rate swap	Other assets	$ -	$ 117	Accrued interest and other liabilities	$ 4,707	$ 1,574
Derivatives not designated as hedging instruments under ASC 815:						
Interest rate swap	Other assets	$ 4,490	$ 3,092	Accrued interest and other liabilities	$ 4,828	$ 3,275
Foreign exchange forward contracts	Other assets	$ 8	$ 109	Accrued interest and other liabilities	$ 45	$ 59

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

	At September 30, 2016					
	Assets			Gross amounts not offset		
(in thousands)	Gross amounts	Gross amounts offset	Net amounts	Financial Instruments	Collateral	Net Amount
Derivatives not designated as hedges(1)	$ 4,498	$ -	$ 4,498	$ (8)	$ -	$ 4,490
Total	$ 4,498	$ -	$ 4,498	$ (8)	$ -	$ 4,490

	At September 30, 2016					
	Liabilities			Gross amounts not offset		
(in thousands)	Gross amounts	Gross amounts offset	Net amounts	Financial Instruments	Collateral	Net Amount
Derivatives designated as hedges(2)	$ (11,435)	$ -	$ (11,435)	$ -	$ 11,435	$ -
Derivatives not designated as hedges(2)	(4,873)	-	(4,873)	8	4,300	(565)
Securities sold under agreements to repurchase(3)	(52,114)	-	(52,114)	-	52,114	-
Total	$ (68,422)	$ -	$ (68,422)	$ 8	$ 67,849	$ (565)

	At December 31, 2015					
	Assets			Gross amounts not offset		
(in thousands)	Gross amounts	Gross amounts offset	Net amounts	Financial Instruments	Collateral	Net 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				
	Liabilities		Gross amounts not offset		
(in thousands)	Gross amounts	Gross	Financial Instruments	Collateral	Net Amount

		amounts offset	Net amounts			
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)

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

Cash Flow Hedges of Interest Rate Risk — For hedges of the Company's variable-rate loan assets, interest rate swaps designated as cash flow hedges involve the receipt of fixed-rate amounts from a counterparty in exchange for the Company making variable-rate payments over the life of the agreements without exchange of the underlying notional amount.

During the first quarter of 2016, the Company terminated five interest rate swaps with a notional value of $75.0 million that had fixed the interest rate on a portion of its 1-Month LIBOR loan portfolio. Upon termination, the Company had an unrealized gain of $1.3 million in AOCI. The unrealized gain will continue to be reported in AOCI, and will be reclassified to interest income over a period of three years. In October 2016, the Company entered into two interest rate swaps to hedge the risk of changes in cash flow on its LIBOR-based loan portfolio. The interest rate swaps have a weighted average term of six years and have a combined notional value of $100.0 million. The Company will pay a variable rate based on 1-month LIBOR and receive a weighted average fixed-rate of 1.23%.

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

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

Based on the Company's ongoing assessments (including at inception of the hedging relationship), it is probable that there will be sufficient variable interest payments through the maturity date of the swaps. The Company also monitors the risk of counterparty default on an ongoing basis. The Company uses the "Hypothetical Derivative" method described in ASC 815, for both prospective and retrospective assessments of hedge effectiveness on a quarterly basis. The Company also uses this methodology to measure hedge ineffectiveness each period. The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in AOCI and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. The Company's derivatives did not have any hedge ineffectiveness recognized in earnings during the three and nine months ended September 30, 2016 and 2015.

Amounts reported in AOCI related to derivatives will be reclassified to interest income/expense as interest payments are received/paid on the Company's variable-rate assets/liabilities. During the next 12 months, the Company estimates that $1.5 million will be reclassified as an increase to interest expense and $0.6 million will be reclassified as an increase to interest income.

Fair Value Hedges of Fixed-Rate Assets – The Company is exposed to changes in the fair value of certain of its fixed-rate assets due to changes in benchmark interest rates based on LIBOR. The Company uses interest rate swaps to manage its exposure to changes in fair value on certain fixed-rate loans. Interest rate swaps designated as fair value hedges involve the receipt of variable-rate payments from a counterparty in exchange for the Company's fixed-rate payments over the life of the agreements without the exchange of the underlying notional amount. Certain interest rate swaps met the criteria to qualify for the shortcut method of accounting. Under the shortcut method of accounting, no ineffectiveness is assumed. For interest rate swaps not accounted for under the shortcut method, the Company performs ongoing retrospective and prospective effectiveness assessments (including at inception) using a regression analysis to compare periodic changes in fair value of the swaps to periodic changes in fair value of the fixed-rate loans attributable to changes in the benchmark interest rate. At September 30, 2016, the Company had interest rate swaps with a notional amount of $63.4 million used to hedge the change in the fair value of 11 commercial loans. For derivatives that are designated and qualify as fair value hedges that are not accounted for under the shortcut method, the gain or loss on the derivative as well as the gain or loss on the hedged item attributable to the hedged risk are recognized in earnings. The net amount recognized in “Other income” in the Condensed Consolidated Statements of Income during the three and nine months ended September 30, 2016 representing hedge ineffectiveness was not material and $0.3 million, respectively. During the three and nine months ended September 30, 2015, hedge ineffectiveness was immaterial.

Non-designated Hedges — Derivatives not designated as hedges are not speculative and primarily result from a service the Company provides to its customers. The Company executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by offsetting interest rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. As the interest rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings.   At September 30, 2016, the Company had 90 interest rate swaps with an aggregate notional amount of $210.6 million related to this program. During the three and nine months ended September 30, 2016 and 2015, gains and losses arising from changes in the fair value of these swaps, which are included in "Other income," in the Condensed Consolidated Statements of Income, were immaterial.

The Company's product offerings also include international banking products that create foreign currency exchange-rate risk exposure. At September 30, 2016, the Company's foreign currency holdings included British pounds, Euro, Swiss Franc, Japanese Yen, Mexican Pesos, and New Zealand, Australian and Canadian dollars. In order to economically reduce the risk associated with the fluctuation of foreign exchange rates, the Company utilizes short-term foreign exchange forward contracts to lock in exchange rates so the gain or loss on the forward contracts approximately offsets the transaction gain or loss. These contracts are not designated as hedging instruments. Ineffectiveness in the economic hedging relationship may occur as the foreign currency holdings are revalued based upon changes in the currency's spot rate, while the forward contracts are revalued using the currency's forward rates. Forward contracts in gain positions are recorded at fair value in 'Other assets" and, forward contracts in loss positions are recorded in "Accrued interest and other liabilities" in the Condensed Consolidated Balance Sheets. Net changes in the fair value of the forward contracts are recognized through earnings, disclosed as 'other' noninterest income in the Condensed Consolidated Statements of Income. At September 30, 2016, the Company had forward contracts with a notional amount of $5.5 million that mature in less than one year. Net gains recognized and included in "Other income" in the Condensed Consolidated Statements of Income during the three and nine months ended September 30, 2016 and 2015 on foreign exchange forward contracts was $0.1 million and $0.3 million, respectively.

8. Borrowed Funds

Securities sold under agreements to repurchase at September 30, 2016 and December 31, 2015 are summarized below.

(in thousands)	September 30, 2016	December 31, 2015
Securities sold under agreements to repurchase (secured by pledge of principally mortgage-backed securities with an estimated fair value of $53,156 and $49,882, respectively)	$ 52,114	$ 47,459

The Company enters into sales of securities under agreements to repurchase. The amounts received under these agreements represent short-term borrowings and are reflected as a liability in the Condensed Consolidated Balance Sheets. The securities underlying these agreements are included in investment securities in the Condensed Consolidated Balance Sheets. At September 30, 2016, all securities sold under agreements to repurchase had a maturity date of less than three months. The Company has no control over the market value of the securities, which fluctuates due to market conditions. However, the Company is obligated to promptly transfer additional securities if the market value of the securities falls below the repurchase agreement price. The Company manages this risk by maintaining an unpledged securities portfolio that it believes is sufficient to cover a decline in the market value of the securities sold under agreements to repurchase.

During the second quarter of 2016, the Company renewed a revolving Line of Credit (LOC) agreement with an aggregate principal sum of up to $20.0 million bearing interest at 1-month LIBOR plus 225 basis points. The Company pays a quarterly commitment fee of 0.35% per annum on the unused portion of the LOC. The LOC matures May 2017, at which time any outstanding amounts are due and payable. Proceeds from the LOC will be used for general corporate purposes and backup liquidity. Although the LOC is unsecured, the Company has agreed not to sell, pledge or transfer any part of its right, title or interest in the Bank. At September 30, 2016 and December 31, 2015, there was no amount outstanding on the LOC.

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9. Employee Benefit and Stock Compensation Plans

Stock Options and Awards

During the three and nine months ended September 30, 2016, the Company recognized stock-based compensation expense of $0.7 million and $2.5 million, respectively. As discussed in Note 2 – Recent Accounting Pronouncements, the Company adopted the amendments to share-based compensation accounting in ASU 2016-09 in the first quarter of 2016. In accordance with ASU 2016-09, beginning in 2016 the Company elected a policy to account for forfeitures as they occur.

The following table summarizes changes in option awards during the nine months ended September 30, 2016:

	Shares	Weighted average exercise price
Outstanding at December 31, 2015	461,050	$ 8.87
Granted	41,403	11.53
Exercised	(133,317)	7.66
Forfeited	(10,016)	7.11
Outstanding at September 30, 2016	359,120	$ 9.68
Exercisable at September 30, 2016	253,139	$ 8.84

The weighted average grant date fair value of options granted during the nine months ended September 30, 2016 was $2.29.

The following table summarizes changes in stock awards during the nine months ended September 30, 2016.

	Shares	Weighted average grant date fair value
Unvested at December 31, 2015	500,034	$ 10.85
Granted	282,383	11.53
Vested	(289,861)	10.44

Forfeited	(23,626)		11.45
Unvested at September 30, 2016	468,930	$	11.49

At September 30, 2016, there was $4.1 million of total unrecognized compensation expenses related to unvested share-based compensation arrangements granted under the plans. The expense is expected to be recognized over a weighted-average period of 1.9 years.

10. Leases

The Company has various operating lease agreements for office space. In January 2016, the Company entered into a new lease for facilities located at 1401 Lawrence Street, Denver, Colorado. The leased space will become the new headquarters for the Company and includes 44,010 square feet of office space and 4,000 square feet of ground level retail space for a banking facility. The Company took possession of the space in June 2016 and expects to relocate and commence operations from that location in December 2016. The lease term is for 12 years with rents escalating 2% annually. Scheduled rents for the new headquarters lease are included in the five year lease obligations table below. In addition to the new headquarters lease, the Company extended the lease for its current headquarters to retain the space through December 2016. Rents under the extension are included in the table below.

(in thousands)		At September 30, 2016
2016 (remainder)	$	1,152
2017		4,837
2018		4,625
2019		4,318
2020		3,231
Thereafter		16,172
Total	$	34,335

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11. Segments

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

The financial information for the Commercial Banking and Fee-Based Lines segments reflect activities which are specifically identifiable or which are allocated based on an internal allocation method. The Corporate Support and Other segment includes activities that are not directly attributable to the other reportable segments including centralized bank operations and the activities of the Parent. The following tables report the results of operations for the three and nine months ended September 30, 2016 and 2015 by segment.

	Three months ended September 30, 2016			
Income Statement (in thousands)	Commercial Banking	Fee-Based Lines	Corporate Support and Other	Consolidated
Total interest income	$ 32,216	$ -	$ 92	$ 32,308
Total interest expense	1,078	11	1,818	2,907
Provision for loan losses	(1,158)	-	(10)	(1,168)
Noninterest income	3,622	4,536	1,128	9,286
Noninterest expense	9,731	4,055	12,257	26,043
Management fees and allocations, net of tax	7,757	464	(8,221)	-
Provision (benefit) for income taxes	7,535	165	(4,157)	3,543
Net income (loss)	$ 10,895	$ (159)	$ (467)	$ 10,269

	Nine months ended September 30, 2016			
Income Statement (in thousands)	Commercial Banking	Fee-Based Lines	Corporate Support and Other	Consolidated
Total interest income	$ 94,727	$ 1	$ 275	$ 95,003
Total interest expense	3,369	25	5,446	8,840
Provision for loan losses	(2,300)	-	(150)	(2,450)
Noninterest income	9,318	13,578	1,890	24,786
Noninterest expense	27,715	12,807	37,621	78,143
Management fees and allocations, net of tax	23,831	1,255	(25,086)	-
Provision (benefit) for income taxes	21,888	277	(13,075)	9,090
Net income (loss)	$ 29,542	$ (785)	$ (2,591)	$ 26,166

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

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

12. Fair Value Measurements

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

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

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

Assets and liabilities measured on a recurring basis

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

Available for sale securities – At September 30, 2016, the Company held, as part of its investment portfolio, available for sale securities reported at fair value consisting of municipal securities, corporate debt securities, and TPS. The fair value of the majority of municipal securities is determined using widely accepted valuation techniques including matrix pricing and broker-quote based applications. Inputs include benchmark yields, reported trades, issuer spreads, and other relevant items. As a result, the Company has determined that these valuations fall within Level 2 of the fair value hierarchy. The Company also holds TPS that are recorded at fair value based on unadjusted quoted market prices for identical securities in an active market. The majority of the TPS are actively traded in the market and as a result, the Company has determined that the valuation of these securities falls within Level 1 of the fair value hierarchy. The Company also holds certain TPS and corporate debt securities for which unadjusted market prices are not available or the markets are not active and are therefore classified as Level 2 or Level 3. In the second quarter of 2016, the Company transferred a TPS from Level 2 to Level 3 due to the lack of recent market activity. The Company uses broker-dealer quotes, valuations based on similar but not identical securities, or the most recent market trade (which may not be current) to price these securities. Total net unrealized gain recognized in AOCI at September 30, 2016 on TPS Level 3 securities was immaterial.

Derivative financial instruments – The Company uses interest rate swaps as part of its cash flow strategy to manage its interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques as discussed further below. The fair values of interest rate swaps are determined using

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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 uses Level 2 and Level 3 inputs to determine the valuation of its derivatives portfolio. The valuation of derivative instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs (Level 2 inputs), including interest rate curves and implied volatilities. The estimates of fair value are made using a standardized methodology that nets the discounted expected future cash receipts and cash payments (based on observable market inputs). Level 3 inputs include the credit valuation adjustments which use estimates of current credit spreads to evaluate the likelihood of default by the Company and its counterparties. At September 30, 2016 and December 31, 2015, 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.

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The following tables present the Company's assets and liabilities measured at fair value on a recurring basis at September 30, 2016 and December 31, 2015, aggregated by the level in the fair value hierarchy within which those measurements fall.

		Fair value measurements using:		
		Quoted prices in active markets for identical assets	Significant other observable inputs	Significant other observable inputs
(in thousands)	Balance at September 30, 2016	(Level 1)	(Level 2)	(Level 3)
Assets				
Available for sale securities:				
Trust preferred securities	$ 37,529	$ 4,326	$ 23,928	$ 9,275
Corporate debt securities	99,378	-	99,378	-
Municipal securities	3,376	-	3,376	-
Total available for sale securities	$ 140,283	$ 4,326	$ 126,682	$ 9,275
Derivatives:				
Fair value hedges	$ -	$ -	$ -	$ -
Non-designated hedges	4,490	-	4,490	-
Foreign exchange forward contracts	8	-	8	-
Total derivative assets	$ 4,498	$ -	$ 4,498	$ -
Liabilities				
Derivatives:				
Cash flow hedges	$ 6,728	$ -	$ 6,728	$ -
Fair value hedges	4,707	-	4,707	-
Non-designated hedges	4,828	-	4,828	-
Foreign exchange forward contracts	45	-	45	-
Total derivative liabilities	$ 16,308	$ -	$ 16,308	$ -

		Fair value measurements using:		
		Quoted prices in active markets for identical assets	Significant other observable inputs	Significant other observable inputs
(in thousands)	Balance at December 31, 2015	(Level 1)	(Level 2)	(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 hedges	$ 578	$ -	$ 578	$ -
Fair value hedges	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 hedges	$ 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	$ -

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

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	2016	2015	2016	2015
Beginning balance	$ 8,955	$ 5,867	$ 5,810	$ 6,754
Transfers	-	-	3,276	-
Net accretion	29	15	60	54
Sales / calls / maturities	-	-	-	(995)
Unrealized gain included in comprehensive income	291	124	129	193
Ending balance	$ 9,275	$ 6,006	$ 9,275	$ 6,006

Assets and liabilities measured on a nonrecurring basis

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

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

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. Therefore, the inputs used to determine the fair value of OREO fall within Level 3. The Company may include within OREO other repossessed assets received as partial satisfaction of a loan. Other repossessed assets are not material and do not typically have readily determinable market values and are considered Level 3 inputs.

The following table presents the Company's assets measured at fair value on a nonrecurring basis at the dates specified in the following table, aggregated by the level in the fair value hierarchy within which those measurements fall.

		Fair value measurements using:		
(in thousands)	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other observable inputs (Level 3)
At September 30, 2016				
Impaired loans	$ 2,536	$ -	$ -	$ 2,536
OREO	$ 5,351	$ -	$ -	$ 5,351
At December 31, 2015				
Impaired loans	$ 6,296	$ -	$ -	$ 6,296
OREO	$ 5,351	$ -	$ -	$ 5,351

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Gains and losses, which include the provision for losses on impaired loans, recorded in relation to assets and liabilities measured on a nonrecurring basis are presented below:

	Gain for the three months ended September 30,		Gain for the nine months ended September 30,	
(in thousands)	2016	2015	2016	2015
Impaired loans	$ 975	$ 62	$ 3,149	$ 1,036
OREO	$ -	$ 78	$ -	$ 45

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

(in thousands)	At September 30, 2016	At December 31, 2015
OREO recorded at fair value	$ 5,351	$ 5,351
Estimated selling costs	(272)	(272)
OREO	$ 5,079	$ 5,079

Below is a summary of OREO transactions for the nine months ended September 30, 2016:

(in thousands)	OREO
Beginning OREO balance	$ 5,079
OREO sales	-
Valuation adjustments	-
Ending OREO balance	$ 5,079

The following tables provide information describing the valuation processes used to determine recurring and nonrecurring fair value measurements categorized within Level 3 of the fair value hierarchy at September 30, 2016 and December 31, 2015.

Category	At September 30, 2016 Fair Value (in thousands)	Valuation Technique	Unobservable Input	Weighted Average		Range
Trust preferred securities	$ 9,275	Market approach	Discount to carrying value using broker quotes or observable prices on similar securities	14	%	1% to 20%
Impaired loans:						
Commercial	$ 1,323	Sales comparison (1)	Management discount for asset type	33	%	0% - 76%
Commercial	748	Sales comparison (2)	Sales comparison adjustments	(38)	%	NA
Real estate - mortgage	441	Sales comparison (2)	Sales comparison adjustments	16	%	9% - 18%
Consumer	24	Sales comparison (2)	Sales comparison adjustments	10	%	NA
Total impaired loans	$ 2,536					
OREO:						
Commercial	$ 190	Property appraisals (2)	Management discount for property type and recent market volatility	0	%	NA
Construction & land	5,161	Property appraisals (2)	Management discount for property type and recent market volatility	17	%	NA
Total OREO	$ 5,351					

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Category	At December 31, 2015 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% to 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)% to 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					

(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. For sales comparisons, positive adjustments disclosed in these tables represent increases and negative adjustments represent decreases in fair value.

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The following table includes the estimated fair value of the Company's financial instruments. The methodologies for estimating the fair value of financial assets and financial liabilities measured at fair value on a recurring and nonrecurring basis are discussed above. The methodologies for estimating the fair value for other financial assets and financial liabilities are discussed below. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data in order to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts at September 30, 2016 and December 31, 2015.

	September 30, 2016		December 31, 2015	
(in thousands)	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Financial assets:				
Cash and cash equivalents	$ 86,148	$ 86,148	$ 67,312	$ 67,312
Investment securities available for sale	140,283	140,283	153,685	153,685
Investment securities held to maturity	307,639	308,998	346,666	345,576
Other investments	7,160	7,160	12,461	12,461
Loans — net	2,793,576	2,786,164	2,658,519	2,647,448
Accrued interest receivable	10,994	10,994	10,362	10,362
Derivatives	4,498	4,498	3,896	3,896
Financial liabilities:				
Deposits	$ 2,937,193	$ 2,936,561	$ 2,741,712	$ 2,741,366
Securities sold under agreements to repurchase	52,114	50,452	47,459	45,474
Other short-term borrowings	2,199	2,199	132,000	132,000
Accrued interest payable	1,834	1,834	1,134	1,134
Subordinated notes payable	59,090	62,113	59,031	59,080
Junior subordinated debentures	72,166	72,166	72,166	72,166
Derivatives	16,308	16,308	9,889	9,889

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

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

Other investments — Included in this category are the Company's investments in other equity method investments. Due to restrictions on transferability, it is not practical to estimate fair value on the Bank stocks which are excluded from the table above. 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 disclosed in the table above, which is not the exit price, is classified as Level 3 within the fair value hierarchy.

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

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

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

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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 September 30, 2016 and December 31, 2015. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

13. Regulatory Matters

Beginning in 2016, a Capital Conservation Buffer (CCB) requirement became effective for banking organizations. The CCB is designed to establish a capital range above minimum requirements to insulate banks from periods of stress and impose constraints on dividends, share repurchases and discretionary bonus payments when capital levels fall below prescribed levels. The minimum CCB in 2016 is 0.625% and increases 0.625% annually through 2019 to 2.5%. The following table presents the regulatory capital ratios of the Bank and Holding Company, including regulatory thresholds, at September 30, 2016.

At September 30, 2016		Capitalized Ratio	
			Minimum
Bank	Company		ratio

(in thousands)	Ratios	Ratios	Well(1)	plus fully phased-in CCB
Common equity tier 1 capital	11.9 %	9.7 %	6.5 %	7.0 %
Tier 1 capital	11.9 %	11.5 %	8.0 %	8.5 %
Total capital	12.9 %	14.5 %	10.0%	10.5 %
Tier 1 leverage	10.4 %	10.1 %	5.0 %	4.0 %

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

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14. Supplemental Financial Data

Other noninterest income and other noninterest expense as shown in the Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2016 and 2015 are detailed in the following tables.

Other noninterest income	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	2016	2015	2016	2015
Loan fees	$ 795	$ 466	$ 1,737	$ 1,179
Other customer service fees	694	709	2,023	1,838
Bank-owned life insurance	345	349	1,000	980
Equity method investments	1,348	70	2,262	859
Interest rate swaps	-	(156)	(456)	(179)
Other	15	(5)	134	13
Total	$ 3,197	$ 1,433	$ 6,700	$ 4,690

Other noninterest expense	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	2016	2015	2016	2015
Marketing and business development	$ 559	$ 646	$ 2,104	$ 2,114
Service contracts	1,331	1,342	3,855	3,349
Professional fees	824	770	2,135	1,906
Office supplies and delivery	336	428	972	1,069
Other	947	903	2,861	2,601
Total	$ 3,997	$ 4,089	$ 11,927	$ 11,039

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

This discussion should be read in conjunction with our Condensed Consolidated Financial Statements and notes thereto included in this Form 10-Q. Certain terms used in this discussion are defined in the notes to those financial statements. For a description of our accounting policies, see Note 1 of the Notes to Consolidated Financial Statements included in our Form 10-K for the year ended December 31, 2015. For a discussion of the segments included in our principal activities, see Note 11 of the Notes to the Condensed Consolidated Financial Statements on this Form 10-Q.

Executive Summary

CoBiz Financial Inc. is a $3.5 billion financial holding company offering a broad array of financial service products to its target market of professionals, small and medium-sized businesses, and high-net-worth individuals primarily in Arizona and Colorado. 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 business lines and banking service fees, offset by noninterest expense. As the majority of our assets are interest-earning and our liabilities are interest-bearing, changes in interest rates impact our net interest margin, the largest component of our operating revenue (defined as net interest income plus noninterest income). We manage our interest-earning assets and interest-bearing liabilities to reduce the impact of interest rate changes on our operating results. We also have focused on reducing our dependency on the net interest margin by increasing our noninterest income.

Industry Overview

At its September 2016 meeting, the Federal Open Market Committee (FOMC) kept the target range for the federal funds rate at 25-50 basis points. The FOMC noted that the case for an increase in the federal funds rate had strengthened, but decided to wait for further progress before raising the rate. The FOMC will continue to monitor progress towards the objectives of maximum employment and 2% inflation. The stance of monetary policy remains accommodative and the FOMC expects that economic conditions will evolve in a

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manner that will warrant only gradual increases in the federal funds rate and that the federal funds rate will likely remain below levels expected to prevail in the longer run for some time.

The national unemployment rate was 5.0% at September 2016 and December 2015. As of August 2016, Colorado's unemployment rate was estimated to be 3.8%, compared to 3.5% at the end of 2015. Arizona's unemployment rate was estimated to be 5.4% in August 2016, compared to 5.9% at the end of 2015.

In the second quarter of 2016, FDIC insured commercial banks and savings institutions reported net operating revenue that was 3.3% higher than the second quarter of 2015. The increase in net operating revenue was due to loan growth that increased net interest income. For the twelve months ended June 30, 2016, total loans and leases increased 6.7%. The provision for loan losses increased 44.2% compared to a year-ago, partly due to rising levels of troubled loans to commercial and industrial borrowers, particularly in the energy sector.

Financial and Operational Highlights

Noted below are some of the Company's significant financial performance measures and operational results:

INCOME STATEMENT	Three months ended September 30,						Nine months ended September 30,					
(in thousands, except per share amounts)	2016			2015			2016			2015		
Net interest income before provision	$	29,401		$	27,367		$	86,163		$	83,440	
Provision for loan losses		(1,168)			762			(2,450)			1,030	
Noninterest income		9,286			7,424			24,786			22,682	
Noninterest expense		26,043			24,738			78,143			74,460	
Net income available to common shareholders		10,269			6,921			26,166			21,349	
Diluted earnings per common share	$	0.25		$	0.17		$	0.63		$	0.52	
Net interest margin		3.74	%		3.72	%		3.73	%		3.91	%
Return on average assets		1.18	%		0.87	%		1.03	%		0.93	%
Return on average shareholders' equity		14.04	%		9.76	%		12.36	%		9.50	%

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Net interest income for the three and nine months ended September 30, 2016 increased $2.0 million and $2.7 million over the prior year periods. The increase was due to growth in the loan portfolio, offset by a decline in loan yields. For the nine months ended September 30, 2016, net interest income was impacted by additional interest expense from $60.0 million in subordinated notes issued in June 2015 (Notes). While the net interest margin was relatively stable for the three months ended September 30, 2016, the net interest margin for the nine months ended September 30, 2016 declined from the same period in 2015. The decline in loan yields and higher interest expense on the Notes were the primary causes of the decline in the net interest margin in 2016.

- Provision for loan losses for the three and nine months ended September 30, 2016 was negative $1.2 million and $2.5 million, respectively, as a result of releases from the allowance for loan losses. The negative provision was primarily due to the improvement in credit quality of the loan portfolio.

- Net income available to common shareholders for the three and nine months ended September 30, 2016 of $10.3 million and $26.2 million increased $3.3 million and $4.8 million, respectively, over the prior year periods.

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BALANCE SHEET AND CREDIT QUALITY (in thousands)	At September 30, 2016	At December 31, 2015
Total assets	$ 3,452,498	$ 3,351,767
Total investments	455,082	512,812
Total loans	2,827,105	2,699,205
Total deposits	2,937,193	2,741,712
Total shareholders' equity	295,837	273,536
Allowance for loan losses	$ 33,529	$ 40,686
Nonperforming assets	10,125	21,301
Allowance for loan and credit losses to total loans	1.19 %	1.51 %
Nonperforming assets to total assets	0.29 %	0.64 %

- The loan portfolio at September 30, 2016 increased $127.9 million, or 4.7%, over the balance at December 31, 2015.

- The allowance for loan and credit losses was 1.19% of total loans at September 30, 2016 and 1.51% at December 31, 2015. In the first nine months of 2016, the Company had net charge-offs of $4.7 million in the allowance for loan and credit losses, primarily due to a $5.1 million net charge-off on a single Commercial and Industrial (C&I) credit, reserved for during the fourth quarter of 2015.

- Total deposits at September 30, 2016 increased $195.5 million, or 7.1%, over the balance at December 31, 2015.

- The Company’s total risk-based capital ratio was 14.5% at September 30, 2016.

- In January 2016, the Company entered into a lease agreement for the Company’s new headquarters facility. The lease is for 48,010 square feet of total space. The Company took possession of the new facilities in June 2016 and expects to relocate its headquarters in December 2016.

- The Company closed two bank locations in the Arizona market in 2016, reducing the total number of locations in Arizona from six to four. The closures were part of the Company’s ongoing evaluation of its operations. The Company remains committed to growing its presence in the Arizona market while efficiently managing the Company’s cost structure, including its occupancy costs.

Critical Accounting Policies

The Company’s discussion and analysis of its financial condition and results of operations are based upon the Company’s Condensed Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions to Form 10-Q. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. In making those critical accounting estimates, we are required to make assumptions about matters that may be highly uncertain at the time of the estimate. Different estimates we could reasonably have used, or changes in the assumptions that could occur, could have a material effect on our financial condition or results of operations. A description of our critical accounting policies is provided in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of our Annual Report on Form 10-K for the year ended December 31, 2015.

Financial Condition

Total assets at September 30, 2016 were $3.45 billion, increasing $100.7 million or 3.0% from $3.35 billion at December 31, 2015. Assets consist primarily of net loans and investment securities, accounting for 94% of total assets. Total liabilities at September 30, 2016 were $3.16 billion, compared to $3.08 billion at December 31, 2015. Liabilities consist primarily of deposits and borrowings, which total 99% of total liabilities. Shareholders' equity at September 30, 2016 was $295.8 million, an increase of $22.3 million or 8.2% from $273.5 million at December 31, 2015. The following paragraphs discuss changes in the relative mix of certain assets and liability classes and reasons for such changes.

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Investments. The Company manages its investment portfolio to provide interest income and to meet the collateral requirements for public deposits, customer repurchases and wholesale borrowings. Investments accounted for 13.2% of total assets at September 30, 2016 and 15.3% at December 31, 2015.

The investment portfolio is primarily comprised of MBS explicitly (GNMA) and implicitly (FNMA and FHLMC) backed by the U.S. Government. The portfolio does not include any securities exposed to sub-prime mortgage loans. The investment portfolio also includes single-issuer TPS and corporate debt securities. The corporate debt securities portfolio primarily consists of senior and subordinated debentures issued by the financial services industry. None of the issuing institutions are in default, nor have interest payments on the TPS been deferred.

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

The net unrealized gain on AFS was $3.9 million at September 30, 2016 compared to $2.8 million at December 31, 2015. The Company did not recognize any OTTI in earnings during the three and nine months ended September 30, 2016.

INVESTMENTS (AFS and HTM) (in thousands)	At September 30, 2016 Amortized Cost	Fair Value	% of portfolio	Net Unrealized gain	% of unrealized gain
Mortgage-backed securities	$ 273,430	$ 274,065	61.0 %	$ 635	12.1 %
Trust preferred securities	46,994	48,427	10.8 %	1,433	27.3 %
Corporate debt securities	96,735	99,378	22.1 %	2,643	50.4 %
Municipal securities	26,882	27,411	6.1 %	529	10.1 %
Total	$ 444,041	$ 449,281	100.0 %	$ 5,240	100.0 %

Loans. Gross loans increased $127.9 million to $2.83 billion at September 30, 2016, from $2.70 billion at December 31, 2015. In the nine months ended September 30, 2016, the Company extended $845.9 million in new credit relationships and advances on existing lines. Partially offsetting credit extensions were paydowns and maturities of $711.3 million and gross charge-offs of $6.7 million.

LOANS (in thousands)	At September 30, 2016 Amount	% of portfolio		At December 31, 2015 Amount	% of portfolio		At September 30, 2015 Amount	% of portfolio	
Commercial	$ 1,196,088	42.8	%	$ 1,175,379	44.2	%	$ 1,173,950	45.4	%
Owner-occupied real estate	473,809	17.0	%	436,643	16.4	%	443,907	17.1	%
Investor real estate	625,174	22.4	%	579,625	21.8	%	474,284	18.3	%
Construction & land	170,594	6.1	%	201,281	7.6	%	229,284	8.9	%
Consumer	263,871	9.4	%	253,317	9.5	%	244,994	9.5	%
Other	97,569	3.5	%	52,960	2.0	%	54,634	2.1	%
Total loans	2,827,105	101.2	%	2,699,205	101.5	%	2,621,053	101.3	%
Allowance for loan losses	(33,529)	(1.2)	%	(40,686)	(1.5)	%	(34,899)	(1.3)	%
Total net loans	$ 2,793,576	100.0	%	$ 2,658,519	100.0	%	$ 2,586,154	100.0	%

Geographically, Colorado loans totaled $1.87 billion, an increase of $23.3 million from December 31, 2015. Arizona loans totaled $958.5 million, an increase of $104.6 million from December 31, 2015.

The allowance for loan losses decreased $7.2 million during the nine months ended September 30, 2016 due to net charge-offs of $4.7 million and a negative provision for loan losses of $2.5 million. See the Provision and Allowance for Loan and Credit Losses section below and Note 5 for additional discussion.

Deferred Income Taxes. Net deferred income tax assets decreased $3.1 million to $19.1 million at September 30, 2016, from $22.2 million at December 31, 2015. The decrease was primarily related to the tax effect of annual bonus payments made in 2016 and the decrease in the allowance for loan losses.

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Other Assets. Other assets increased $0.4 million to $18.4 million at September 30, 2016, from $18.0 million at December 31, 2015. The increase was primarily due to a $0.6 million increase in the fair value of derivatives related to customer accommodation interest rate swaps.

Deposits. Total deposits increased $195.5 million to $2.94 billion at September 30, 2016 from $2.74 billion at December 31, 2015. Noninterest-bearing deposits at September 30, 2016 comprised 41.8% of total deposits.

The Company views its reciprocal Certificate of Deposit Account Registry Service ® (CDARS) accounts and Insured Cash Sweep (ICS) accounts as customer-related deposits. The CDARS and ICS programs are provided through a third party and are designed to provide full FDIC insurance on deposit amounts by exchanging or reciprocating larger depository relationships with other member banks. Depositor funds are broken into smaller amounts and placed with other banks that are members of the network. Each member bank issues deposit amounts at a level that the entire deposit is eligible for FDIC insurance. CDARS and ICS are technically brokered deposits; however, the Company considers the reciprocal deposits placed through these programs as core funding due to the customer relationship that generated the transaction and does not report the balances as brokered sources in its internal or external financial reports. The Company had balances of $296.4 million and $236.7 million in CDARS and ICS accounts at September 30, 2016 and December 31, 2015, respectively.

DEPOSITS AND CUSTOMER REPURCHASE AGREEMENTS	At September 30, 2016			At December 31, 2015			At September 30, 2015		
(in thousands)	Amount	% of portfolio		Amount	% of portfolio		Amount	% of portfolio	
Money market	$ 854,928	28.6	%	$ 804,777	28.9	%	$ 832,131	30.0	%
Interest-bearing demand	681,256	22.8	%	585,524	21.0	%	572,848	20.7	%
Savings	20,403	0.7	%	18,078	0.6	%	18,540	0.7	%
Certificates of deposits under $100	20,151	0.7	%	21,515	0.8	%	22,220	0.8	%
Certificates of deposits $100 and over	87,593	2.9	%	94,260	3.4	%	100,958	3.7	%
Reciprocal CDARS	46,316	1.5	%	37,223	1.3	%	32,969	1.2	%
Total interest-bearing deposits	1,710,647	57.2	%	1,561,377	56.0	%	1,579,666	57.1	%
Noninterest-bearing demand deposits	1,226,546	41.1	%	1,180,335	42.3	%	1,127,747	40.7	%
Total deposits	2,937,193	98.3	%	2,741,712	98.3	%	2,707,413	97.8	%
Customer repurchase agreements	52,114	1.7	%	47,459	1.7	%	62,182	2.2	%
Total deposits and customer repurchase agreements	$ 2,989,307	100.0	%	$ 2,789,171	100.0	%	$ 2,769,595	100.0	%

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

to enhance our customers' interest-earning ability. The Company does not consider Customer Repos to be a wholesale funding source, but rather an additional treasury management service provided to a limited number of customers. Our Customer Repos are based on an overnight investment sweep that can fluctuate based on our customers' operating account balances. The Company has limited the use of Customer Repos and is not marketing the product to new customers. While the number of customers utilizing Customer Repos is not expected to grow, the balance will vary from period-to-period based on the operations of the underlying customers.

Other Short-Term Borrowings. Other short-term borrowings consist of federal funds purchased, overnight borrowings from the FHLB and advances on a line of credit maintained at the Parent. Short-term borrowings are used as part of our liquidity management strategy and fluctuate based on the Company's cash position. The Company's wholesale funding needs are largely dependent on core deposit levels which can be volatile in uncertain economic conditions and sensitive to competitive pricing. At September 30, 2016, the Company had $2.2 million in short-term borrowings outstanding, compared to $132.0 million at December 31, 2015. Growth in the deposit portfolio in 2016 exceeded growth in the loan portfolio, allowing the Company to reduce its short-term borrowings. If the Company is unable to retain deposits or maintain deposit balances at a level sufficient to fund asset growth, the composition of interest-bearing liabilities may shift toward additional wholesale funds or other borrowings, which historically bear a higher interest cost than core deposits.

Accrued Interest and Other Liabilities. Accrued interest and other liabilities increased $8.0 million to $33.9 million at September 30, 2016 from $25.9 million at December 31, 2015. The increase is primarily due to a $6.4 million increase in derivative liabilities and a $0.8 million increase in the interest accrued on the Notes

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issued in June 2015. The values of derivative liabilities fluctuate based on projected future interest rates and vary from period-to-period, particularly on contracts with longer-term maturities.

Results of Operations

Overview

The following table presents the Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2016 and 2015, followed by a discussion of the major components of our income, expense and performance.

INCOME STATEMENT	Three months ended September 30,		2016 vs 2015 Increase (decrease)		Nine months ended September 30,		2016 vs 2015 Increase (decrease)	
(in thousands)	2016	2015	Amount	%	2016	2015	Amount	%
Interest income	$ 32,308	$ 30,177	$ 2,131	7.1 %	$ 95,003	$ 90,185	$ 4,818	5.3 %
Interest expense	2,907	2,810	97	3.5 %	8,840	6,745	2,095	31.1 %
NET INTEREST INCOME BEFORE PROVISION	29,401	27,367	2,034	7.4 %	86,163	83,440	2,723	3.3 %
Provision for loan losses	(1,168)	762	(1,930)	(253.3) %	(2,450)	1,030	(3,480)	(337.9) %
NET INTEREST INCOME AFTER PROVISION	30,569	26,605	3,964	14.9 %	88,613	82,410	6,203	7.5 %
Noninterest income	9,286	7,424	1,862	25.1 %	24,786	22,682	2,104	9.3 %
Noninterest expense	26,043	24,738	1,305	5.3 %	78,143	74,460	3,683	4.9 %
INCOME BEFORE INCOME TAXES	13,812	9,291	4,521	48.7 %	35,256	30,632	4,624	15.1 %
Provision for income taxes	3,543	2,337	1,206	51.6 %	9,090	8,892	198	2.2 %
NET INCOME FROM	10,269	6,954	3,315	47.7 %	26,166	21,740	4,426	20.4 %

CONTINUING OPERATIONS										
Net loss from discontinued operations	-	-	-	-	%	-	(71)	71	100.0	%
NET INCOME	$ 10,269	$ 6,954	$ 3,315	47.7	%	$ 26,166	$ 21,669	$ 4,497	20.8	%

Annualized return on assets for the three and nine months ended September 30, 2016 and 2015 was 1.18% and 1.03%, respectively, compared to 0.87% and 0.93% in the prior year periods. The improvement in the return on assets for the third quarter of 2016 over the same period in 2015 was primarily due to an increase in operating revenue of $3.9 million and a $1.9 million decrease in the provision for loan losses, partially offset by a $1.3 million increase in noninterest expense. Noninterest income as a percentage of taxable equivalent operating revenue(1) was 22.91% and 21.30% for the three and nine months ended September 30, 2016, compared to 20.43% and 20.59% in the prior year periods, respectively. The Company's efficiency ratio – taxable equivalent(1) was 64.50% and 67.22% for the three and nine months ended September 30, 2016, compared to 68.25% and 67.70% in the prior year periods, respectively.

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(1) Taxable equivalent operating revenue is a non-GAAP financial measure, and the efficiency ratio-taxable equivalent is computed using non-GAAP financial measures. Taxable equivalent operating revenue is comprised of tax equivalent net interest income and noninterest income. To calculate tax equivalent net interest income, the interest earned on tax exempt loans and investment securities has been adjusted to reflect the amount that would have been earned had these investments been subject to normal income taxation. The efficiency ratio equals noninterest expense adjusted to exclude gains and losses on OREO, other assets and investments, divided by the sum of tax equivalent net interest income. The following table includes non-GAAP financial measures used in the computation of the efficiency ratio and the ratio of noninterest income to taxable equivalent operating revenue and provides reconciliations of non-GAAP financial measures.

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		Three months ended September 30,		Nine months ended September 30,	
	(in thousands)	2016	2015	2016	2015
	Noninterest expense - GAAP	$ 26,043	$ 24,738	$ 78,143	$ 74,460
	Adjusted for:				
	Net gain (loss) on securities, other assets and OREO	98	59	88	123
A	Adjusted noninterest expense - non-GAAP	$ 26,141	$ 24,797	$ 78,231	$ 74,583
	Net interest income - GAAP	$ 29,401	$ 27,367	$ 86,163	$ 83,440
B	Noninterest income - GAAP	9,286	7,424	24,786	22,682
	Operating revenue	38,687	34,791	110,949	106,122
	Taxable equivalent adjustment	1,843	1,542	5,434	4,049
C	Operating revenue - taxable equivalent - non-GAAP	$ 40,530	$ 36,333	$ 116,383	$ 110,171
A / C	Efficiency ratio - taxable equivalent - non-GAAP	64.50 %	68.25 %	67.22 %	67.70 %
B / C	Noninterest income as a percentage of taxable equivalent operating revenue - non-GAAP	22.91 %	20.43 %	21.30 %	20.59 %

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

As the majority of our assets are interest-earning and our liabilities are interest-bearing, changes in interest rates may impact our net interest margin. The FOMC uses the federal funds rate, which is the interest rate used by banks to lend to each other, to influence interest rates and the national economy. Changes in the fed funds rate have a direct correlation to changes in the prime rate, the underlying index for most of the variable-rate loans issued by the Company. The FOMC has held the target federal funds rate at a range of 25-50 basis points since December 2015.

The following table sets forth the average amounts outstanding for each category of interest-earning assets and interest-bearing liabilities, the interest earned or paid on such amounts on a taxable equivalent basis, and the average rate earned or paid for the three and nine months ended September 30, 2016 and 2015.

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.	Three months ended September 30, 2016			2015		
(in thousands)	Average balance	Interest earned or paid	Average yield or cost(3)	Average balance	Interest earned or paid	Average yield or cost(3)
Assets						
Federal funds sold and other	$ 37,496	$ 50	0.52 %	$ 27,217	$ 17	0.24 %
Investment securities (1)	462,766	3,224	2.79 %	513,469	3,540	2.76 %
Loans (1)(2)	2,822,334	30,877	4.28 %	2,539,774	28,162	4.34 %
Total interest-earning assets	$ 3,322,596	$ 34,151	4.03 %	$ 3,080,460	$ 31,719	4.04 %
Noninterest-earning assets	134,378			100,637		
Total assets	$ 3,456,974			$ 3,181,097		
Liabilities and Shareholders' Equity						
Deposits						
Money market	$ 862,607	$ 600	0.28 %	$ 798,098	$ 546	0.27 %
Interest-bearing demand	606,481	241	0.16 %	575,977	193	0.13 %
Savings	19,621	2	0.04 %	19,047	3	0.06 %
Certificates of deposit						
Reciprocal	48,257	24	0.20 %	37,333	19	0.20 %
Under $100	20,559	19	0.37 %	22,401	22	0.39 %
$100 and over	86,621	110	0.51 %	103,636	133	0.51 %
Total interest-bearing deposits	$ 1,644,146	$ 996	0.24 %	$ 1,556,492	$ 916	0.23 %
Other borrowings						
Securities sold under agreements to repurchase	57,400	9	0.06 %	60,687	9	0.06 %
Other short-term borrowings	37,084	51	0.54 %	56,347	37	0.26 %
Long-term debt	131,245	1,851	5.52 %	131,167	1,848	5.51 %
Total interest-bearing liabilities	$ 1,869,875	$ 2,907	0.61 %	$ 1,804,693	$ 2,810	0.61 %
Noninterest-bearing demand accounts	1,265,161			1,075,395		
Total deposits and interest-bearing liabilities	3,135,036			2,880,088		
Other noninterest-bearing liabilities	30,965			18,323		
Total liabilities	3,166,001			2,898,411		
Total equity	290,973			282,686		
Total liabilities and equity	$ 3,456,974			$ 3,181,097		
Net interest income - taxable equivalent		$ 31,244			$ 28,909	
Net interest spread			3.42 %			3.43 %
Net interest margin			3.74 %			3.72 %
Ratio of average interest-earning assets to average interest-bearing liabilities	177.69 %			170.69 %		

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(in thousands)	Nine months ended September 30, 2016 Average balance	Interest earned or paid	Average yield or cost(3)	2015 Average balance	Interest earned or paid	Average yield or cost(3)
Assets						
Federal funds sold and other	$ 26,325	$ 102	0.51 %	$ 25,524	$ 44	0.23 %
Investment securities (1)	485,872	10,178	2.79 %	494,697	10,417	2.81 %
Loans (1)(2)	2,767,404	90,157	4.28 %	2,472,634	83,773	4.47 %
Total interest-earning assets	$ 3,279,601	$ 100,437	4.03 %	$ 2,992,855	$ 94,234	4.16 %
Noninterest-earning assets	121,610			106,265		
Total assets	$ 3,401,211			$ 3,099,120		
Liabilities and Shareholders' Equity						
Deposits						
Money market	$ 837,884	$ 1,710	0.27 %	$ 740,002	$ 1,549	0.28 %
Interest-bearing demand	582,282	663	0.15 %	586,461	587	0.13 %
Savings	18,517	7	0.05 %	17,768	7	0.05 %
Certificates of deposit						
Reciprocal	43,423	60	0.18 %	48,689	84	0.23 %
Under $100	20,919	59	0.38 %	23,044	69	0.40 %
$100 and over	90,533	341	0.50 %	110,927	426	0.51 %
Total interest-bearing deposits	$ 1,593,558	$ 2,840	0.24 %	$ 1,526,891	$ 2,722	0.24 %
Other borrowings						
Securities sold under agreements to repurchase	46,297	21	0.06 %	59,029	28	0.06 %
Other short-term borrowings	110,411	449	0.53 %	54,766	107	0.26 %
Long-term debt	131,226	5,530	5.54 %	93,346	3,888	5.49 %
Total interest-bearing liabilities	$ 1,881,492	$ 8,840	0.62 %	$ 1,734,032	$ 6,745	0.52 %
Noninterest-bearing demand accounts	1,213,248			1,045,603		
Total deposits and interest-bearing liabilities	3,094,740			2,779,635		
Other noninterest-bearing liabilities	23,624			14,559		
Total liabilities	3,118,364			2,794,194		
Total equity	282,847			304,926		
Total liabilities and equity	$ 3,401,211			$ 3,099,120		
Net interest income - taxable equivalent		$ 91,597			$ 87,489	
Net interest spread			3.41 %			3.64 %
Net interest margin			3.73 %			3.91 %
Ratio of average interest-earning assets to average interest-bearing liabilities	174.31 %			172.60 %		

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

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

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

Net interest income on a taxable equivalent basis for the three and nine months ended September 30, 2016 grew 8.1% and 4.7%, respectively, over the prior year periods as a result of higher loan volume. Average interest-earning assets for the three and nine months ended September 30, 2016 increased $242.1 million to $3.32 billion and $286.7 million to $3.28 billion compared to the year-earlier averages.

Including noninterest-bearing deposits, the Company's overall deposit interest cost was 14 basis points (0.14%) for the three and nine months ended September 30, 2016 and 2015. The average rate on total interest-bearing liabilities for the three and nine months ended September 30, 2016 increased 10 basis points (0.10%) compared to the prior year period, primarily due to the Notes issued in June 2015, and to a lesser degree an increase in the federal funds rate.

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The following table presents noninterest income for the three and nine months ended September 30, 2016 and 2015.

NONINTEREST INCOME	Three months ended September 30,		2016 vs 2015 Increase (decrease)		Nine months ended September 30,		2016 vs 2015 Increase (decrease)	
(in thousands)	2016	2015	Amount	%	2016	2015	Amount	%
Service charges	$ 1,553	$ 1,490	$ 63	4.2 %	$ 4,508	$ 4,438	$ 70	1.6 %
Investment advisory income	1,416	1,478	(62)	(4.2) %	4,296	4,444	(148)	(3.3) %
Insurance income	3,120	3,023	97	3.2 %	9,282	9,110	172	1.9 %
Other income	3,197	1,433	1,764	123.1 %	6,700	4,690	2,010	42.9 %
Total noninterest income	$ 9,286	$ 7,424	$ 1,862	25.1 %	$ 24,786	$ 22,682	$ 2,104	9.3 %

Service Charges. Service charges primarily consist of fees earned from treasury management services. Customers are given the option to pay for these services in cash or by offsetting the fees for these services against an earnings credit that is given for maintaining noninterest-bearing deposits. Service charges are influenced by the earnings credit, transaction volumes and the balance of deposits serviced by treasury management.

Investment Advisory Income. Investment advisory income remained stable during the three and nine months ended September 30, 2016 over the prior year periods. Fees earned are generally based on a percentage of assets under management (AUM) and market valuations have a direct impact on AUM. AUM totaled $838.3 million at September 30, 2016 compared to $845.7 million at September 30, 2015.

Insurance Income. Insurance income is derived from two main areas: benefits consulting and P&C. Revenue from benefits consulting and P&C are recurring revenue sources as policies and contracts generally renew or rewrite on an annual or more frequent basis. Insurance income remained stable during the three and nine months ended September 30, 2016 compared to the prior year periods.

Other Income. Other income is comprised of increases in the cash surrender value of bank-owned life insurance, loan fees, earnings on equity method investments, merchant charges, bankcard fees, wire transfer fees, foreign exchange fees and safe deposit income. The $1.8 million and $2.0 million increases during the three and nine months ended September 30, 2016, respectively, were primarily due to higher income on equity method investments.

The following table presents noninterest expense for the three and nine months ended September 30, 2016 and 2015.

NONINTEREST EXPENSE (in thousands)	Three months ended September 30, 2016	2015	2016 vs 2015 Increase (decrease) Amount	%	Nine months ended September 30, 2016	2015	2016 vs 2015 Increase (decrease) Amount	%
Salaries and employee benefits	$ 17,480	$ 16,623	$ 857	5.2 %	$ 53,093	$ 51,718	$ 1,375	2.7 %
Occupancy expenses, premises and equipment	4,025	3,371	654	19.4 %	11,032	9,778	1,254	12.8 %
Amortization of intangibles	150	150	-	- %	450	450	-	- %
FDIC and other assessments	369	459	(90)	(19.6)%	1,297	1,350	(53)	(3.9)%
Other real estate owned and loan workout costs	120	105	15	14.3 %	432	248	184	74.2 %
Net gain on securities, other assets and OREO	(98)	(59)	(39)	(66.1)%	(88)	(123)	35	28.5 %
Other expense	3,997	4,089	(92)	(2.2) %	11,927	11,039	888	8.0 %
Total noninterest expense	$ 26,043	$ 24,738	$ 1,305	5.3 %	$ 78,143	$ 74,460	$ 3,683	4.9 %

Salaries and Employee Benefits. Salaries and employee benefits increased $0.9 million or 5.2% and $1.4 million or 2.7% for the three and nine months ended September 30, 2016 over the prior year periods. Contributing to the increase were higher claims on the Company’s partially self-insured medical plan as well as annual cost of living and merit increases effective in the second quarter of 2016. In addition, a projected increase in the Company’s retirement contribution plan, which is based on return on average assets, was incurred in 2016 but not the prior year periods. The Company had 527 full-time equivalent employees at September 30, 2016, down from 530 at September 30, 2015.

Occupancy Costs. Occupancy costs consist primarily of rent, depreciation, utilities, property taxes and insurance. Occupancy costs increased for the three and nine months ended September 30, 2016, compared to the prior year periods, primarily due to the lease for the Company's new headquarters location.

FDIC and Other Assessments. FDIC and other assessments consist of premiums paid by the Company that are required for all FDIC-insured institutions and Colorado chartered banks. FDIC and other assessments for the three and nine months ended September 30, 2016 have remained stable compared to the corresponding prior year periods. The assessments are determined using a rate (based on statutory and risk classification factors) applied to average net assets of the Company. In the third quarter of 2016, the FDIC announced changes to its deposit insurance assessments that will reduce assessment rates and revise the pricing method for smaller banks, such as the Company.

OREO and Loan Workout Costs. Carrying costs and workout expenses of nonperforming loans and OREO are related to the level of nonperforming assets. While costs may fluctuate from period to period due to specific circumstances, the Company has seen a general decline in these costs over the last few years.

Other Noninterest Expenses. Other operating expenses consist primarily of business development expenses (meals, entertainment and travel), charitable donations, and professional services (auditing, legal, courier and service contracts). Other operating expenses were stable for the three months ended September 30, 2016 compared to the prior year period and increased by $0.9 million for the nine months ended September 30, 2016 over the prior year period primarily as a result of higher professional services, appraisal costs and sales and use taxes.

Provision for Income Taxes. The effective income tax rate for the three and nine months ended September 30, 2016 was 26% compared to 25% and 29%, in the respective prior year periods. The decrease in the effective tax rate in 2016 compared to 2015 is due to growth in the Company's tax exempt loan and investment portfolios. Income from tax exempt loans, investments and BOLI are the primary activities impacting the effective tax rate. The early adoption of ASU 2016-09 reduced the effective tax rate approximately 1% in 2016.

Provision and Allowance for Loan and Credit Losses

The following table presents the provision for loan and credit losses for the three and nine months ended September 30, 2016 and 2015:

(in thousands)	Three months ended September 30, 2016	2015	Increase (decrease)	Nine months ended September 30, 2016	2015	Increase (decrease)
Provision for loan losses	$ (1,168)	$ 762	$ (1,930)	$ (2,450)	$ 1,030	$ (3,480)

The Company recorded a $1.2 million and $2.5 million negative provision for loan losses for the three and nine months ended September 30, 2016, respectively. The negative provision was primarily due to improvement in credit quality of the loan portfolio. Nonperforming assets were $10.1 million at September 30, 2016, a decrease of $11.2 million from the end of 2015. The decrease was primarily due to the resolution of an $11.2 million C&I credit, previously disclosed as impaired and on nonaccrual in the fourth quarter of 2015. At the end of 2015, the Company had assigned a specific reserve to this credit of $7.2 million. Resolution of this credit in 2016 included payments of $5.9 million, a net charge-off of $5.1 million and the release of a $1.6 million specific reserve recorded in the fourth quarter of 2015.

All loans are continually monitored to identify potential problems with repayment and collateral deficiency. Classified loans increased to $58.4 million at September 30, 2016 from $51.1 million at December 31, 2015 and $41.2 million at September 30, 2015. The increase in classified loans during 2016 was primarily the result of credit downgrades in the commercial ($4.1 million) and real estate – mortgage ($2.9 million) categories. At September 30, 2016 and December 31, 2015, the allowance for loan and credit losses was 1.19% and 1.51% of total loans, respectively. At September 30, 2015, the allowance for loan and

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credit losses to total loans was 1.33%. The ratio of allowance for loan and credit losses to nonperforming loans was 664.47% at September 30, 2016, 250.81% at December 31, 2015 and 715.00% at September 30, 2015. Though management believes the current allowance provides adequate coverage of probable incurred losses in the loan portfolio as whole, negative economic trends could adversely affect future earnings and asset quality.

The allowance for loan losses represents management's recognition of the risks of extending credit and its evaluation of the quality of the loan portfolio. The allowance is maintained to provide for probable losses related to specifically identified loans and for losses inherent in the loan portfolio that have been incurred as of the balance sheet date. The allowance is based on various factors affecting the loan portfolio, including a review of problem loans, business conditions, historical loss experience, evaluation of the quality of the underlying collateral, and holding and disposal costs. The allowance is increased by additional charges to operating income and reduced by loans charged off, net of recoveries. The Company had net charge-offs of $4.7 million during the nine months ended September 30, 2016, compared to a net recovery of $1.1 million in the first nine months of 2015. Activity in the allowance for loan and credit losses for the current and relevant prior year periods is summarized below:

(in thousands)	Nine months ended September 30, 2016	Year ended December 31, 2015	Nine months ended September 30, 2015
Allowance for loan losses at beginning of period	$ 40,686	$ 32,765	$ 32,765
Charge-offs:			
Commercial	(6,630)	(588)	(501)
Real estate - mortgage	-	(186)	(186)
Construction & land	-	(107)	(104)
Consumer	(20)	(130)	(45)
Other	(4)	(285)	(285)
Total charge-offs	(6,654)	(1,296)	(1,121)
Recoveries:			
Commercial	1,056	239	179
Real estate - mortgage	27	1,112	1,106
Construction & land	840	1,155	658
Consumer	24	19	10
Other	-	272	272
Total recoveries	1,947	2,797	2,225
Net recoveries (charge-offs)	(4,707)	1,501	1,104
Provision for loan losses charged to operations	(2,450)	6,420	1,030
Allowance for loan losses at end of period	$ 33,529	$ 40,686	$ 34,899
Ratio of net (recoveries) charge-offs to average loans	0.17 %	(0.06) %	(0.04) %

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Nonperforming Assets

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

(in thousands)	At September 30, 2016		At December 31, 2015		At September 30, 2015	
Nonperforming loans:						
Loans 90 days or more past due and still accruing interest	$ -		$ 505		$ -	
Nonaccrual loans:						
Commercial	4,502		15,109		4,193	
Real estate - mortgage	441		499		518	
Construction & land	-		27		28	
Consumer & other	103		82		142	
Total nonaccrual loans	5,046		15,717		4,881	
Total nonperforming loans	5,046		16,222		4,881	
OREO and repossessed assets	5,079		5,079		5,481	
Total nonperforming assets	$ 10,125		$ 21,301		$ 10,362	
Performing renegotiated loans	$ 25,291		$ 28,196		$ 29,567	
Classified loans	$ 58,376		$ 51,078		$ 41,190	
Allowance for loan losses	$ 33,529		$ 40,686		$ 34,899	
Allowance for credit losses	-		-		-	
Allowance for loan and credit losses	$ 33,529		$ 40,686		$ 34,899	
Nonperforming assets to total assets	0.29	%	0.64	%	0.31	%
Nonperforming loans to total loans	0.18	%	0.60	%	0.19	%
Nonperforming loans and OREO to total loans and OREO	0.36	%	0.79	%	0.39	%
Allowance for loan and credit losses to total loans	1.19	%	1.51	%	1.33	%
Allowance for loan and credit losses to nonperforming loans	664.47	%	250.81	%	715.00	%

Nonperforming assets decreased $11.2 million or 52.5% at September 30, 2016, from December 31, 2015 and decreased $0.2 million or 2.3% from September 30, 2015. The decline in nonperforming assets during the nine months ended September 30, 2016 was due to the resolution of the C&I loan discussed above. Approximately 90.0% or $9.1 million of nonperforming assets at September 30, 2016 were concentrated in Colorado, while the remaining 10.0% or $1.0 million were in Arizona. Nonperforming loans represented 49.8% of total nonperforming assets with the remaining 50.2% comprised of OREO.

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Segment Results

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

Certain financial metrics and discussion of results for each segment for the three and nine months ended September 30, 2016 and 2015 are presented below.

Commercial Banking Income Statement (in thousands)	Three months ended September 30, 2016	Three months ended September 30, 2015	2016 vs 2015 Increase (decrease) Amount	2016 vs 2015 Increase (decrease) %	Nine months ended September 30, 2016	Nine months ended September 30, 2015	2016 vs 2015 Increase (decrease) Amount	2016 vs 2015 Increase (decrease) %
Net interest income	$ 31,138	$ 29,098	$ 2,040	7.0 %	$ 91,358	$ 85,983	$ 5,375	6.3 %
Provision for loan losses	(1,158)	774	(1,932)	(249.6) %	(2,300)	1,160	(3,460)	(298.3) %
Noninterest income	3,622	2,765	857	31.0 %	9,318	8,208	1,110	13.5 %
Noninterest expense	9,731	8,445	1,286	15.2 %	27,715	26,988	727	2.7 %
Provision for income taxes	7,535	7,451	84	1.1 %	21,888	22,366	(478)	(2.1) %
Net income before management fees and overhead allocations	18,652	15,193	3,459	22.8 %	53,373	43,677	9,696	22.2 %
Management fees and overhead allocations, net of tax	7,757	6,627	1,130	17.1 %	23,831	19,429	4,402	22.7 %
Net income	$ 10,895	$ 8,566	$ 2,329	27.2 %	$ 29,542	$ 24,248	$ 5,294	21.8 %

Net income for the Commercial Banking segment increased $2.3 million and $5.3 million during the three and nine months ended September 30, 2016, respectively, compared to the prior year periods. Net income grew on higher loan volume that increased net interest income and a negative provision for loan losses in 2016, compared to the same periods in 2015. Net income for Commercial Banking has also benefited from a decline in the tax rate due to an increase in tax exempt income. Offsetting these amounts was an increase in management fees and allocations.

For both the three and nine months ended September 30, 2016, management fees and overhead allocations have increased over the prior year periods. Overhead allocations consist of costs incurred by non-production support functions that centrally support all areas of the Company. In the second quarter of 2016, certain administrative costs were identified as central support costs that had been reported as non-interest expense in the Commercial Banking segment. These costs are now being reported in Corporate Support and Other and are reallocated to the Commercial Banking segment on the management fees and overhead allocations line item.

Fee-Based Lines Income Statement (in thousands)	Three months ended September 30, 2016	2015	2016 vs 2015 Increase (decrease) Amount	%		Nine months ended September 30, 2016	2015	2016 vs 2015 Increase (decrease) Amount	%	
Net interest income	$ (11)	$ (11)	$ -	-	%	$ (24)	$ (31)	$ 7	22.6	%
Noninterest income	4,536	4,501	35	0.8	%	13,578	13,554	24	0.2	%
Noninterest expense	4,055	4,080	(25)	(0.6)	%	12,807	11,994	813	6.8	%
Provision for income taxes	165	109	56	51.4	%	277	565	(288)	(51.0)	%
Net income before management fees and overhead allocations	305	301	4	1.3	%	470	964	(494)	(51.2)	%
Net loss from discontinued operations	-	-	-	-	%	-	(71)	71	100.0	%
Management fees and overhead allocations, net of tax	464	280	184	65.7	%	1,255	892	363	40.7	%
Net income (loss)	$ (159)	$ 21	$ (180)	(857.1)	%	$ (785)	$ 1	$ (786)	nm	%

nm - not meaningful

The Fee-Based Lines segment is composed of financial service activities that are complementary to the Company's core Commercial Banking segment. Revenue from this segment includes investment advisory fees and insurance income. Net income before management fees and overhead allocations decreased

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during the three and nine months ended September 30, 2016. Revenue in the respective three and nine month comparative periods was stable. Slight growth in insurance income offset lower investment advisory fees, which are directly related to AUM. Average AUM fell 3.4% and 5.2% in the three and nine month periods ended September 30, 2016 compared to the respective 2015 periods. Noninterest expense increased in both the three and nine month periods of 2016 and primarily related to higher salary and benefit costs.

Corporate Support and Other Income Statement (in thousands)	Three months ended September 30, 2016	2015	2016 vs 2015 Increase (decrease) Amount	%	Nine months ended September 30, 2016	2015	2016 vs 2015 Increase (decrease) Amount	%
Net interest income	$ (1,726)	$ (1,720)	$ (6)	(0.3) %	$ (5,171)	$ (2,512)	$ (2,659)	(105.9)%
Provision for loan losses	(10)	(12)	2	16.7 %	(150)	(130)	(20)	(15.4) %
Noninterest income	1,128	158	970	613.9 %	1,890	920	970	105.4 %
Noninterest expense	12,257	12,213	44	0.4 %	37,621	35,478	2,143	6.0 %
Benefit for income taxes	(4,157)	(5,223)	1,066	20.4 %	(13,075)	(14,039)	964	6.9 %
Net loss before management fees and overhead allocations	(8,688)	(8,540)	(148)	(1.7) %	(27,677)	(22,901)	(4,776)	(20.9) %
Management fees and overhead allocations, net of tax	(8,221)	(6,907)	(1,314)	(19.0)%	(25,086)	(20,321)	(4,765)	(23.4) %
Net loss	$ (467)	$ (1,633)	$ 1,166	71.4 %	$ (2,591)	$ (2,580)	$ (11)	(0.4) %

The Corporate Support and Other segment is composed of activities of the parent company (Parent); non-production, back-office support operations; and eliminating transactions in consolidation. Non-production, back-office operations include human resources, accounting and finance, information technology, 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 nonemployee overhead operating costs not directly associated with another segment.

The primary component of net interest expense for the segment is interest expense related to the Company's long-term debt. Net interest income decreased $2.7 million during the nine months ended September 30, 2016 compared to the 2015 period as a result of additional interest expense of $1.7 million relating to the Notes and the collection of past due interest on a problem loan resolution in the first quarter of 2015. The increase in noninterest income for the three and nine months ended September 30, 2016 is due to a $1.0 million increase in income on equity method investments. Higher salary, health insurance, facility rents and service contract costs resulted in an increase in noninterest expense for the three and nine months ended September 30, 2016 compared to the prior year periods.

Contractual Obligations and Commitments

Summarized below are the Company's contractual obligations (excluding deposit liabilities) to make future payments at September 30, 2016:

(in thousands)	Within one year	After one but within three years	After three but within five years	After five years	Total
Federal funds purchased (1)	$ 2,199	$ -	$ -	$ -	$ 2,199
Repurchase agreements (1)	52,114	-	-	-	52,114
Operating lease obligations	1,152	9,462	7,549	16,172	34,335
Long-term debt obligations (2)(3)	7,274	14,547	11,926	147,964	181,711
Total contractual obligations	$ 62,739	$ 24,009	$ 19,475	$ 164,136	$ 270,359

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

(2) Principal repayment of the junior subordinated debentures is assumed to be at the contractual maturity, currently beyond five years. Interest on the junior subordinated debentures is calculated at the fixed-rate associated with the applicable hedging instrument through the instrument maturity date and is reported in the "due within" categories during which the interest expense is expected to be incurred. Interest payments on junior subordinated debentures after maturity of the related fixed interest rate swap hedges are variable and no estimate of those payments has been

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included in the preceding table. The weighted average variable rate applicable to the junior subordinated debentures as of the date of this report is 3.16% and ranges from 2.29% to 3.81%.

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

The contractual amount of the Company's financial instruments with off-balance sheet risk at September 30, 2016, is presented below, classified by the type of commitment and the term within which the commitment expires:

(in thousands)	Within one year	After one but within three years	After three but within five years	After five years	Total
Unfunded loan commitments	$ 634,900	$ 206,530	$ 45,871	$ 9,661	$ 896,962
Standby letters of credit	21,546	1,056	283	10	22,895
Commercial letters of credit	161	-	-	-	161
Unfunded commitments for unconsolidated investments	6,203	-	-	-	6,203
Company guarantees	2,320	-	-	755	3,075
Total commitments	$ 665,130	$ 207,586	$ 46,154	$ 10,426	$ 929,296

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

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

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 $63.0 million of total loan commitments at September 30, 2016 represented commitments to extend credit at fixed rates of interest, which exposes the Company to some degree of interest rate risk.

The Company has also entered into interest rate swap agreements under which it is required to either receive cash or pay cash to the counterparty depending on changes in interest rates. The interest rate swaps are carried at fair value on the Condensed Consolidated Balance Sheets with the fair value representing the net present value of expected future cash receipts or payments based on market interest rates as of the balance sheet date. The fair value of interest rate swaps recorded on the balance sheet at September 30, 2016 do not represent the actual amounts that will ultimately be received or paid under the contracts since the fair value is based on estimated future interest rates and are therefore excluded from the table above.

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Liquidity and Capital Resources

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

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

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

Liquidity from asset categories is provided through cash and interest-bearing deposits with other banks, which totaled $86.1 million at September 30, 2016, compared to $67.3 million at December 31, 2015. Additional asset liquidity sources include principal and interest payments from securities in the Company's investment portfolio and cash flows from its amortizing loan portfolio. Liability liquidity sources include attracting deposits at competitive rates and maintaining wholesale borrowing (short-term borrowings and brokered CDs) credit relationships.

The Company's loan to core deposit ratio decreased to 96.3% at September 30, 2016, from 98.4% at December 31, 2015. At September 30, 2016, the Company had $2.2 million of wholesale borrowings outstanding and average wholesale borrowings of $110.4 million during the nine months ended September 30, 2016. Average wholesale borrowings were $62.3 million during the year ended December 31, 2015. Wholesale borrowings are used as part of our liquidity management strategy and fluctuate based on the Company's cash position. The Company's wholesale funding needs are largely dependent on core deposit levels and asset growth.

The Company uses various forms of short-term borrowings for cash management and liquidity purposes, regularly accessing its federal funds and FHLB lines to manage its daily cash position. At September 30, 2016, the Bank had approved federal funds purchase lines with eight correspondent banks with an aggregate credit line of $170.0 million. The Bank also has a line of credit from the FHLB that is limited by the amount of eligible collateral available to secure it and the Company's investment in FHLB stock. Borrowings under the FHLB line are required to be secured by unpledged securities and qualifying loans. Borrowings may also be used on a longer-term basis to support expanded lending activities and to match the maturity or repricing intervals of assets.

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Available funding through correspondent lines and the FHLB at September 30, 2016 totaled $746.4 million. Available funding is comprised of $167.8 million through the unsecured federal fund lines and $578.6 million in secured FHLB borrowing capacity. Access to funding through correspondent lines is dependent upon the cash position of the correspondent banks and there may be times when certain lines are not available. In addition, certain lines require a resting period after a specified number of consecutive days of accessing the lines. The Company believes it has sufficient borrowing capacity and diversity in correspondent banks to meet its needs.

At the holding company level, our primary sources of funds are dividends paid from the Bank and fee-based subsidiaries, management fees assessed to the Bank and the fee-based business lines, proceeds from the issuance of common stock, and other capital markets activity. The main use of this liquidity is the quarterly payment of dividends on our common stock, quarterly interest payments on the subordinated debentures and the Notes, payments for mergers and acquisitions activity, and payments for the salaries and benefits for the employees of the holding company.

The Company maintains a revolving line of credit for an aggregate amount of up to $20.0 million, all of which was available at September 30, 2016. The line of credit has a one year term and matures in May 2017. Funds drawn will be used for general corporate purposes and backup liquidity.

The approval of the Colorado State Banking Board is required prior to the declaration of any dividend by the Bank if the total of all dividends declared by the Bank in any calendar year exceeds the total of its net profits for that year combined with the retained net profits for the preceding two years. In addition, the Federal Deposit Insurance Corporation Improvement Act of 1991 provides that the Bank cannot pay a dividend if it will cause the Bank to be "undercapitalized." The Bank was not otherwise restricted in its ability to pay dividends to the holding company. The Company's ability to pay dividends on its common stock depends upon the availability of dividends from the Bank, earnings from its fee-based lines, and upon the Company's compliance with the capital adequacy guidelines of the Federal Reserve Board of Governors. The holding company has a liquidity policy that requires the maintenance of at least 18 months of liquidity on the balance sheet based on projected cash usages, exclusive of dividends from the Bank. At September 30, 2016, the holding company had a liquidity position that exceeds the policy limit and the Company believes it has the ability to continue paying dividends.

Changes in shareholders' equity are due to the following:

(in thousands)	Three months ended September 30, 2016	Nine months ended September 30, 2016
Beginning balance	$ 286,052	$ 273,536
Stock-based compensation	691	2,492
Options and restricted stock, net	331	450
Dividends paid-common	(2,077)	(5,783)

Other comprehensive income (loss), net of tax	570	(1,035)
Other	1	11
Net income	10,269	26,166
Ending balance	$ 295,837	$ 295,837

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

We are subject to minimum risk-based capital limitations as set forth by federal banking regulations at both the consolidated Company level and the Bank level. Under the risk-based capital guidelines, different categories of assets, including certain off-balance sheet items, such as loan commitments in excess of one year and letters of credit, are assigned different risk weights, based generally on the perceived credit risk of the asset. These risk weights are multiplied by corresponding asset balances to determine a “risk-weighted” asset base. For purposes of the risk-based capital guidelines, total capital is defined as the sum of “Common Equity Tier 1”, “Additional Tier 1” and “Tier 2” capital elements. Common Equity Tier 1 is comprised of common stock, related surplus and retained earnings. Additional Tier 1 capital includes, with certain restrictions, noncumulative perpetual preferred stock, certain grandfathered regulatory capital instruments and minority interests in consolidated subsidiaries. Tier 2 capital includes, with certain limitations, perpetual preferred stock not included in Tier 1 capital, subordinated debt, certain maturing capital instruments, and the allowance for loan and credit losses.

Beginning in 2016, the CCB requirement became effective for banking organizations. The CCB is designed to establish a capital range above minimum requirements to insulate banks from periods of stress and discourage unacceptable practices that may shift certain risks from an organization’s shareholders to its depositors. When the capital buffer is breached, an organization’s ability to pay dividends, execute share repurchases and make discretionary bonus payments may be limited to varying degrees depending on the severity of the breach. When fully phased-in in 2019, the CCB adds a 2.5% capital requirement above existing regulatory minimum ratios. At September 30, 2016, the Bank and Holding Company maintained capital buffers in excess of the fully phased-in requirements and were not subject to additional constraints on distributions, share repurchases or discretionary bonus payments beyond existing limits. At September 30, 2016, the Bank was well-capitalized with all capital ratios exceeding the well-capitalized requirement.

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

In July 2013, the Federal Reserve Board (FRB) 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 September 30, 2016 that was grandfathered under Basel III. The Non-Advanced Approaches Capital rules for banks and financial institutions such as 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 Condensed Consolidated Financial Statements do not reflect various off-balance sheet commitments that are made in the normal course of business, which may involve some liquidity risk. Off-balance sheet arrangements are discussed in the Contractual Obligations and Commitments section. The Company has commitments to extend credit under lines of credit and stand-by letters of credit. The Company has also committed to investing in certain partnerships. See the Contractual Obligations and Commitments section of this report for additional discussion on these commitments.

Effects of Inflation and Changing Prices

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

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Forward-Looking Statements

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

- Competitive pressures among depository and other financial institutions nationally and in our market areas may increase significantly.
- Adverse changes in the economy or business conditions, either nationally or in our market areas, could increase credit-related losses and expenses and/or limit growth.
- Increases in defaults by borrowers and other delinquencies could result in increases in our provision for losses on loans and related expenses.
- Our inability to manage growth effectively, including the successful expansion of our customer support, administrative infrastructure and internal management systems, could adversely affect our results of operations and prospects.
- Fluctuations in interest rates and market prices could reduce our net interest margin and asset valuations and increase our expenses.
- The consequences of continued bank acquisitions and mergers in our market areas, resulting in fewer but much larger and financially stronger competitors, could increase competition for financial services to our detriment.
- Changes in legislative or regulatory requirements applicable to us and our subsidiaries could increase costs, limit certain operations and adversely affect results of operations.
- Changes in tax requirements, including tax rate changes, new tax laws and revised tax law interpretations may increase our tax expense or adversely affect our customers' businesses.
- The risks identified under "Risk Factors" in Item 1A of our annual report on Form 10-K for the year ended December 31, 2015.

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Asset/Liability Management

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

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changes in interest rates under various interest rate scenarios. From these simulations, interest rate risk is quantified and appropriate strategies are developed and implemented.

The following table presents an analysis of the interest rate sensitivity inherent in our net interest income for the next 12 months and market value of equity. The interest rate scenario presented in the table includes interest rates at September 30, 2016, as adjusted by rate changes upward of up to 300 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 September 30, 2016, with prime set at 300 basis points above the FOMC target. The downward movement analysis was limited to a 100 basis point change. The market value sensitivity analysis presented includes assumptions that (i) the composition of our interest rate sensitive assets and liabilities existing at September 30, 2016, will remain constant; and (ii) that changes in market rates are parallel across the yield curve regardless of duration or repricing characteristics of specific assets or liabilities. Further, the analysis does not contemplate any actions that we might undertake in response to changes in market interest rates. Accordingly, this analysis is not intended to and does not provide a precise forecast of the effect actual changes in market rates will have on us.

	Change in interest rates in basis points					
	-200	-100	0	+100	+200	+300
Impact on:						
Net interest income	n/a	(2.6) %	- %	3.0 %	5.9 %	8.9 %
Market value of equity	n/a	(24.6) %	- %	16.5 %	30.5 %	41.7 %

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

In October of 2016, the Company entered into two interest rate swaps to hedge the risk of changes in cash flow on its LIBOR-based loan portfolio and to reduce its asset sensitivity. The interest rate swaps have a weighted average term of six years and have a combined notional value of $100.0 million. The Company will pay a variable rate based on 1-month LIBOR and receive a weighted average fixed-rate of 1.23%.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures at September 30, 2016, the end of the period covered by this report ("Evaluation Date"), pursuant to Exchange Act Rule 13a-15(e). Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic SEC filings.

Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (Exchange Act) is

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

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

PART II. OTHER INFORMATION

Item 1A. Risk Factors

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 (collectively, the “Agencies”) finalized joint supervisory guidance in 2006 on sound risk management practices for concentrations in commercial real estate (CRE) 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 CRE loan concentrations may expose institutions to unanticipated earnings and capital volatility in the event of adverse changes in CRE 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 CRE loan concentrations that may warrant greater supervisory scrutiny. The guidance does not limit banks’ CRE lending, but rather guides institutions in developing risk management practices and levels of capital that are commensurate with the level and nature of their CRE concentrations.

In December 2015, the Agencies released a new statement on prudent risk management for CRE lending (2015 Statement). The Agencies expressed concern in the 2015 Statement about an easing of CRE underwriting standards and an observation of troubling risk management practices at some institutions. In light of these developments, the Agencies directed financial institutions to review their policies and practices related to CRE lending and to maintain risk management practices and capital levels commensurate with the level and nature of their CRE concentration risk. In 2016, the Agencies will continue to pay “special attention to potential risks associated with CRE lending”.

Our CRE portfolio at September 30, 2016 did not meet the definition of a CRE concentration according to the Agencies’ guidelines. However, 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.

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

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

Period	Total number of shares	Average price paid per share
July 1 - July 31, 2016	208	$ 12.90

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Item 6. Exhibits

Exhibit Number	Exhibit Description	Filed Herewith	Incorporated by Reference Form	File No.	Exhibit	Filing Date
10.1	Amendment to the Amended and Restated 2005 Equity Incentive Plan	X				
31.1	Rule13a-14(a)/15d-14(a) Certification of the CEO	X				
31.2	Rule13a-14(a)/15d-14(a) Certification of the CFO	X				
32.1	Section 1350 Certification of the CEO	X				
32.2	Section 1350 Certification of the CFO	X				
101.INS	XBRL Instance Document	X				
101.SCH	XBRL Taxonomy Extension Schema Document	X				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	X				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	X				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	X				

SIGNATURES

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

COBIZ FINANCIAL INC.

Date: October 28, 2016 By: /s/ Steven Bangert

			Steven Bangert Chairman and Chief Executive Officer
Date:	October 28, 2016	By:	/s/ Lyne B. Andrich Lyne B. Andrich Executive Vice President and Chief Financial Officer