COBIZ FINANCIAL INC
Form 10-Q
October 31, 2011
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011.

o **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 x No o

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 x No o

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

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

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

There were 37,067,458 shares of the registrant s Common Stock, $0.01 par value per share, outstanding at October 28, 2011.

Table of Contents

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

Table of Contents

Part I. Financial Information

Item 1. Condensed Consolidated Financial Statements (unaudited)

CoBiz Financial Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

At September 30, 2011 and December 31, 2010

(unaudited)

(in thousands, except share amounts)	September 30, 2011	December 31, 2010
Assets		
Cash and due from banks	$ 40,625	$ 15,929
Interest-bearing deposits and federal funds sold	9,813	8,237
Total cash and cash equivalents	50,438	24,166
Investment securities available for sale (cost of $601,807 and $626,023, respectively)	612,804	637,444
Investment securities held to maturity (fair value of $247 and $270, respectively)	240	262
Other investments	9,535	6,962
Total investments	622,579	644,668
Loans, net of allowance for loan losses of $59,695 and $65,892, respectively	1,600,104	1,577,835
Intangible assets, net of amortization of $5,030 and $4,551, respectively	3,558	4,119
Bank-owned life insurance	39,425	36,043
Premises and equipment, net of depreciation of $31,700 and $29,433, respectively	8,146	9,048
Accrued interest receivable	8,139	8,081
Deferred income taxes, net	18,829	16,449
Other real estate owned and repossessed assets, net of valuation allowance of $8,867 and $5,879, respectively	20,986	25,095
Other	43,848	49,584
TOTAL ASSETS	$ 2,416,052	$ 2,395,088
Liabilities		
Deposits		
Demand	$ 707,606	$ 681,534
NOW and money market	718,689	663,572
Savings	10,251	9,144
Eurodollar	104,971	105,793
Certificates of deposits	339,000	429,325
Total deposits	1,880,517	1,889,368
Securities sold under agreements to repurchase	131,877	157,690
Other short-term borrowings	74,373	14,012
Accrued interest and other liabilities	36,794	38,930
Junior subordinated debentures	72,166	72,166
Subordinated notes payable	20,984	20,984
TOTAL LIABILITIES	2,216,711	2,193,150
Commitments and Contingencies		

Shareholders Equity				
Cumulative preferred, $.01 par value; 2,000,000 shares authorized; and 57,366 issued and outstanding ($57,366 liquidation value)		1		1
Common, $.01 par value; 50,000,000 shares authorized; and 37,067,458 and 36,876,658 issued and outstanding, respectively		367		366
Additional paid-in capital		221,794		225,454
Accumulated deficit		(24,438)		(30,414)
Accumulated other comprehensive income, net of income tax of $992 and $3,882, respectively		1,617		6,331
TOTAL SHAREHOLDERS EQUITY		199,341		201,738
Noncontrolling interest				200
TOTAL EQUITY		199,341		201,938
TOTAL LIABILITIES AND EQUITY	$	2,416,052	$	2,395,088

See Notes to Condensed Consolidated Financial Statements

Table of Contents

CoBiz Financial Inc. and Subsidiaries

Three and nine months ended September 30, 2011 and 2010

Condensed Consolidated Statements of Income and Comprehensive Income (Loss)

(unaudited)

(in thousands, except per share amounts)	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
INTEREST INCOME:				
Interest and fees on loans	$ 22,186	$ 23,247	$ 66,657	$ 71,020
Interest and dividends on investment securities:				
Taxable securities	5,337	5,148	17,035	16,196
Nontaxable securities	2	9	9	44
Dividends on securities	59	102	176	361
Federal funds sold and other	28	44	103	106
Total interest income	27,612	28,550	83,980	87,727
INTEREST EXPENSE:				
Interest on deposits	1,896	2,866	6,280	9,859
Interest on short-term borrowings and securities sold under agreements to repurchase	225	276	650	884
Interest on subordinated debentures	1,517	1,521	4,501	4,171
Total interest expense	3,638	4,663	11,431	14,914
NET INTEREST INCOME BEFORE PROVISION	23,974	23,887	72,549	72,813
Provision for loan losses		7,344	3,622	31,608
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	23,974	16,543	68,927	41,205
NONINTEREST INCOME:				
Service charges	1,274	1,252	3,737	3,779
Investment advisory and trust income	1,291	1,298	4,260	4,124
Insurance income	2,952	3,173	9,633	9,875
Investment banking income	205	794	1,806	2,884
Other income	329	1,496	3,437	3,989
Total noninterest income	6,051	8,013	22,873	24,651
NONINTEREST EXPENSE:				
Salaries and employee benefits	14,584	14,904	46,025	45,325
Occupancy expenses, premises and equipment	3,358	3,459	10,034	10,305
Amortization of intangibles	160	161	479	482
FDIC and other assessments	627	1,370	2,901	3,931
Other real estate owned and loan workout costs	821	1,364	2,654	4,590
Net other than temporary impairment losses on securities recognized in earnings	136	70	507	379
Loss on securities, other assets and other real estate owned	720	1,227	2,654	6,389
Other	2,824	3,664	8,680	10,542
Total noninterest expense	23,230	26,219	73,934	81,943
INCOME (LOSS) BEFORE INCOME TAXES	6,795	(1,663)	17,866	(16,087)
Provision (benefit) for income taxes	2,352	234	6,358	(5,923)
NET INCOME (LOSS) BEFORE NONCONTROLLING INTEREST	4,443	(1,897)	11,508	(10,164)
LESS: NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTEREST				(199)

NET INCOME (LOSS)	$ 4,443	$ (1,897)	$ 11,508	$ (10,363)
UNREALIZED DEPRECIATION ON SECURITIES AVAILABLE FOR SALE AND DERIVATIVE INSTRUMENTS, net of tax	(6,455)	(79)	(4,714)	(2,794)
COMPREHENSIVE INCOME (LOSS)	$ (2,012)	$ (1,976)	$ 6,794	$ (13,157)
EARNINGS PER SHARE:				
Basic	$ 0.05	$ (0.08)	$ 0.19	$ (0.36)
Diluted	$ 0.05	$ (0.08)	$ 0.19	$ (0.36)

See Notes to Condensed Consolidated Financial Statements

Table of Contents

CoBiz Financial Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

For the Nine Months Ended September 30, 2011 and 2010

(unaudited)

	For the nine months ended September 30,	
(in thousands)	**2011**	**2010**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 11,508	$ (10,164)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Net amortization on investment securities	1,866	1,101
Depreciation and amortization	2,770	2,934
Amortization of net loan fees	(422)	(129)
Provision for loan and credit losses	3,622	31,608
Stock-based compensation	1,137	1,180
Federal Home Loan Bank stock dividend	(8)	(188)
Deferred income taxes	650	(760)
Increase in cash surrender value of bank-owned life insurance	(896)	(904)
Excess tax benefit from stock-based compensation		(10)
Supplemental executive retirement plan	99	513
Loss on securities, other assets and other real estate owned	3,161	6,817
Other operating activities, net	186	(639)
Changes in operating assets and liabilities:		
Restricted cash		(5,007)
Accrued interest and other liabilities	(1,519)	4,152
Accrued interest receivable	129	(101)
Other assets	564	(1,855)
Net cash provided by operating activities	22,847	28,548
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of other investments	(3,315)	(558)
Proceeds from other investments	1,881	11,544
Purchases of investment securities available for sale	(158,532)	(255,067)
Proceeds from sale of investment securities available for sale	8,916	365
Maturities of investment securities available for sale	160,056	222,124
Maturities of investment securities held to maturity	22	32
Restricted cash	7,359	
Purchase of bank-owned life insurance	(2,486)	
Net proceeds from sale of loans, OREO and repossessed assets	10,346	26,609
Loan originations and repayments, net	(34,892)	62,338
Purchase of premises and equipment	(1,385)	(2,571)
Other investing activities, net	10	1
Net cash provided by (used in) investing activities	(12,020)	64,817
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand, NOW, money market, Eurodollar and savings accounts	81,474	71,060
Net decrease in certificates of deposits	(90,325)	(138,440)
Net increase (decrease) in short-term borrowings	60,361	(240)
Net increase (decrease) in securities sold under agreements to repurchase	(25,813)	25,766
Proceeds from issuance of common stock, net	362	593

Proceeds from the issuance of series C preferred stock, net		57,346		
Redemption of TARP preferred stock		(64,450)		
Dividends paid on common stock		(1,102)		(1,102)
Dividends paid on preferred stock		(2,394)		(2,417)
Excess tax benefit from stock-based compensation				10
Net distribution to noncontrolling interests				(1,160)
Other financing activities, net		(14)		
Net cash provided by (used in) financing activities		15,445		(45,930)
NET INCREASE IN CASH AND CASH EQUIVALENTS		26,272		47,435
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		24,166		47,637
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	50,438	$	95,072

See Notes to Condensed Consolidated Financial Statements

Table of Contents

CoBiz Financial Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(unaudited)

1. Condensed Consolidated Financial Statements

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

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

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

Basis of Presentation These financial statements and notes thereto should be read in conjunction with, and are qualified in their entirety by, the Company s Annual Report on Form 10-K for the year ended December 31, 2010, 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, 2011, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2011.

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

The voting interest model is used when the equity investment is sufficient to absorb the expected losses and the equity investment has all of the characteristics of a controlling financial interest. Under the voting interest model, the party with the controlling voting interest consolidates the legal entity. The VIE model is used when any of the following conditions exist: the equity investment at risk is not sufficient to finance the entity s activities without additional subordinated financial support; the holders of the equity investment do not have a controlling voting interest; or the holders of the equity investment are not obligated to absorb the expected losses or residual returns of the legal entity. An enterprise is considered to have a controlling financial interest of a VIE if it has both

Table of Contents

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 s wholly owned trusts, CoBiz Statutory Trust I, CoBiz Capital Trust II and CoBiz Capital Trust III are VIEs for which the Company is not considered the primary beneficiary. In making this determination, the Company considered its role and economic interest in the trusts, as well as the trusts business purpose and capital structure. Based on the capitalization structure of the Trusts , the Company is not exposed to loss as the Company s investments are offset by a corresponding liability.

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

The following table summarizes the Company s assets, liabilities, commitments and loss exposure on VIEs at September 30, 2011:

	At September 30, 2011		
(in thousands)		**Balance**	**Balance Sheet Classification**
Assets:			
Wholly owned trusts	$	2,172	Other investments
Investments in limited partnerships		8,034	Other assets
Liabilities:			
Junior subordinated debentures	$	72,166	Junior subordinated debentures
Commitments:			
Investments in limited partnerships	$	5,644	Commitments and contingencies
Maximum exposure to loss:			
Wholly owned trusts	$		
Investments in limited partnerships		13,678	

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)	**2011**		**2010**	
Cash paid (received) during the period for:				
Interest	$	11,855	$	15,515
Income taxes		6,857		(571)
Other noncash activities:				
Loans transferred to held for sale	$	4,278	$	22,262

Loans transferred to OREO and repossessed assets	5,780	16,899
Financed sales of OREO and loans held for sale	660	1,152

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

Table of Contents

Available for sale securities consist of mortgage-backed securities, bonds, notes and debentures not classified as held to maturity securities and are reported at fair value as determined by quoted market prices. Unrealized holding gains and losses, net of tax, are reported as a net amount in accumulated other comprehensive income (loss) until realized.

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

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

The Company separates the amount of other-than-temporary-impairment (OTTI) 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.

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

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

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

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

The allowance for loan losses 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.

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

Table of Contents

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 ASC Topic 310-10-35, *Receivables Subsequent Measurement* (ASC 310) and ASC Topic 450-20, *Loss Contingencies* (ASC 450).

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

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.

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

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 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 offset when represented under a master netting arrangement.

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

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

the beginning of the period.

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

Table of Contents

2. Recent Accounting Pronouncements

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

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

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

In June 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income* (ASU 2011-05), intended to increase the prominence of items reported in other comprehensive income and to facilitate convergence of accounting guidance in this area with that of the IASB. The amendments require that all non-owner changes in stockholders equity be presented in a single continuous statement of comprehensive income or in two separate but consecutive statements. Amendments under ASU 2011-05 for public entities should be applied retrospectively for fiscal years, and interim periods within those years, beginning December 15, 2011. The Company is evaluating the impact adoption of ASU 2011-04 will have on its condensed consolidated financial statements.

3. Earnings (Loss) per Common Share and Dividends Declared per Common Share

Earnings (loss) per common share is calculated based on the two-class method prescribed in ASC 260. The two-class method is an earnings 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 the common shareholder basic earnings per share for the three and nine months ended September 30, 2011. However the effect of including those shares would be anti-dilutive due to the net loss in the three and nine month periods ending September 30, 2010, and are therefore not considered in the basic per share calculation. The weighted average shares outstanding used in the calculation of basic and diluted loss per share are as follows:

Table of Contents

(in thousands, except share amounts)	Three months ended September 30, 2011	2010	Nine months ended September 30, 2011	2010
Net income (loss) attributable to CoBiz Financial Inc.	$ 4,443	$ (1,897)	$ 11,508	$ (10,363)
Preferred stock dividends	(2,535)	(942)	(4,430)	(2,820)
Net income (loss) available to common shareholders	$ 1,908	$ (2,839)	$ 7,078	$ (13,183)
Distributed earnings (1)	$ 369	$	$ 1,100	$
Undistributed earnings (loss)	1,531	(2,839)	5,922	(13,183)
Income (loss) allocated to common stock	$ 1,900	$ (2,839)	$ 7,022	$ (13,183)
Weighted average common shares - issued	37,042,719	36,820,329	37,005,380	36,778,072
Average nonvested restricted share awards	(295,229)	(257,867)	(336,148)	(255,606)
Weighted average common shares outstanding - basic	36,747,490	36,562,462	36,669,232	36,522,466
Effect of dilutive stock awards outstanding	102,366		154,573	
Weighted average common shares outstanding - diluted	36,849,856	36,562,462	36,823,805	36,522,466
Weighted average antidilutive common shares outstanding (2)	3,400,827	3,864,511	3,258,673	3,711,884
Basic earnings per share	$ 0.05	$ (0.08)	$ 0.19	$ (0.36)
Diluted earnings per share	$ 0.05	$ (0.08)	$ 0.19	$ (0.36)
Dividends declared per share	$ 0.01	$ 0.01	$ 0.03	$ 0.03

(1) Dividends paid during the three and nine months ended September 30, 2010 were not considered distributions of current period earnings.

(2) Shares excluded from the diluted earnings (loss) per share computation due to the antidilutive effect.

In September 2011, the Company redeemed the Fixed Rate Cumulative Perpetual Preferred Stock, Series B (Series B Preferred Stock) originally issued in December 2008 to the U.S. Department of the Treasury. Concurrent with the redemption, the Company issued Senior Non-Cumulative Perpetual Preferred Stock, Series C (Series C Preferred Stock) to the Secretary of the Treasury under the Small Business Lending Program (SBLF). Preferred stock dividends for the three and nine months ended September 30, 2011 include dividends and discount accretion recorded until the redemption date. Also included for those periods is the difference between the Series B Preferred Stock carrying value and redemption value which is considered a deemed dividend. All amounts in 2010 relate to Series B Preferred Stock dividends.

4. Comprehensive Income (Loss)

Comprehensive income (loss) is the total of (1) net income (loss) plus (2) all other changes in net assets arising from non-owner sources, which are referred to as other comprehensive income (OCI). Presented below are the changes in other comprehensive income (loss) for the periods indicated.

(in thousands)	Three months ended September 30, 2011	2010	Nine months ended September 30, 2011	2010
Other comprehensive items:				

Unrealized gain (loss) on available for sale securities, gross	$	(4,538)	$	2,073	$	(756)	$	3,325
-Reclassification to operations		182		79		(98)		527
Change in OTTI-related component of unrealized gain (loss)		(50)		570		430		994
Unrealized loss on derivative securities, gross		(5,596)		(2,594)		(6,045)		(9,226)
-Reclassification to operations		(410)		(255)		(1,135)		(127)
Tax benefit related to items of other comprehensive income		3,957		48		2,890		1,713
Other comprehensive loss, net of tax	$	(6,455)	$	(79)	$	(4,714)	$	(2,794)

5. Investments

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

Table of Contents

	September 30, 2011				December 31, 2010			
(in thousands)	**Amortized cost**	**Gross unrealized gains**	**Gross unrealized losses**	**Estimated fair value**	**Amortized cost**	**Gross unrealized gains**	**Gross unrealized losses**	**Estimated fair value**
Available for sale securities:								
Mortgage-backed securities	$ 393,216	$ 12,713	$ 125	$ 405,804	$ 395,842	$ 10,740	$ 1,037	$ 405,545
U.S. government agencies	48,916	373		49,289	80,214	449	44	80,619
Trust preferred securities	104,494	1,671	2,298	103,867	86,543	2,556	791	88,308
Corporate debt securities	51,390	516	427	51,479	58,204	1,425	34	59,595
Private-label MBS	3,466		1,426	2,040	4,288		1,856	2,432
Municipal securities	325			325	932	13		945
Total	$ 601,807	$ 15,273	$ 4,276	$ 612,804	$ 626,023	$ 15,183	$ 3,762	$ 637,444
Held to maturity securities:								
Mortgage-backed securities	$ 240	$ 7	$	$ 247	$ 262	$ 8	$	$ 270

Proceeds from the sale of investment securities available for sale totaled $5.7 million and $8.9 million for the three and nine months ended September 30, 2011, respectively. Proceeds from the sale of investment securities available for sale totaled $0.2 million and $0.4 million for the three and nine months ended September 30, 2010, respectively. As a result of the sale of these securities, a net (loss)/gain of $(0.2) million and $0.1 million was recognized for the three and nine months ended September 30, 2011, respectively. A net loss of $(0.1) million and $(0.5) million was recognized for the three and nine months ended September 30, 2010, respectively.

The amortized cost and estimated fair value of investments in debt securities at September 30, 2011, by contractual maturity are shown below. Expected maturities can differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties.

	Available for sale		Held to maturity	
(in thousands)	**Amortized cost**	**Estimated fair value**	**Amortized cost**	**Estimated fair value**
Due in one year or less	$ 9,868	$ 10,022	$	$
Due after one year through five years	84,047	84,622		
Due after five years through ten years	6,717	6,449		
Due after ten years	104,493	103,867		
Mortgage-backed securities	396,682	407,844	240	247
Total	$ 601,807	$ 612,804	$ 240	$ 247

Investment securities with an approximate fair value of $195.2 million and $184.4 million were pledged to secure public deposits of $155.2 million and $135.6 million at September 30, 2011 and December 31, 2010, respectively. Securities sold under agreements to repurchase of $131.9 million and $157.7 million at September 30, 2011 and December 31, 2010, respectively, consisted primarily of mortgage-backed securities with an estimated fair value of $145.2 million and $170.1 million, respectively.

Changes in interest rates and market liquidity may cause adverse fluctuations in the market price of securities resulting in temporary unrealized losses. At September 30, 2011, the majority of the total unrealized loss of $4.3 million is comprised of private-label mortgage-backed and trust preferred securities (TPS). The Company has recognized other-than-temporary impairments (OTTI) of $2.3 million on the private label MBS, including $0.1 million and $0.5 million recognized during the three and nine months ended September 30, 2011, respectively. The TPS are all single-entity issues that continue to pay their regularly scheduled dividend payments.

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

Table of Contents

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

The Company has determined there was no unrecognized OTTI associated with the 52 securities noted within the table below at September 30, 2011.

	Less than 12 months		12 months or greater		Total	
(in thousands)	**Fair value**	**Unrealized loss**	**Fair value**	**Unrealized loss**	**Fair value**	**Unrealized loss**
Mortgage-backed securities	$ 27,778	$ 125	$	$	$ 27,778	$ 125
Trust preferred securities	53,673	2,178	1,289	120	54,962	2,298
Corporate debt securities	15,218	378	4,951	49	20,169	427
Private-label MBS			2,040	1,426	2,040	1,426
Total	$ 96,669	$ 2,681	$ 8,280	$ 1,595	$ 104,949	$ 4,276

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

The following tables present a roll-forward of the credit loss component of OTTI on securities recognized in earnings during the three and nine months ended September 30, 2011 and 2010.

	For the three months ended		For the nine months ended	
(in thousands)	**September 30, 2011**	**September 30, 2010**	**September 30, 2011**	**September 30, 2010**
Beginning balance	$ 2,153	$ 1,640	$ 1,782	$ 1,331
Additional credit impairment	136	70	507	379
Ending balance	$ 2,289	$ 1,710	$ 2,289	$ 1,710

During the three and nine months ended September 30, 2011, the Company recognized credit related OTTI in earnings on two private-label MBS. In determining the credit loss, the Company estimated expected future cash flows of the security by estimating the expected future cash flows of the underlying collateral and applying those collateral cash flows, together with any credit enhancements such as subordination interests owned by third parties, to the security. The expected future cash flows of the underlying collateral are determined using the remaining contractual cash flows adjusted for future expected credit losses (which consider current and future delinquencies, default rates and loss severities) and prepayments. The expected cash flows of the security are then discounted to arrive at a present value amount.

At September 30, 2011, an unrealized loss of $1.4 million on private-label MBS was recognized in other comprehensive income. See Note 4 to the Condensed Consolidated Financial Statements for additional information on changes in the OTTI-related unrealized loss recognized in OCI.

The following table presents a summary of the significant inputs considered in determining the measurement of the credit loss component recognized in earnings for the private label mortgage-backed securities during the nine months ending September 30, 2011. These inputs are developed by examining the three-, six- and nine-month history of actual prepayment speeds, default rates and severity and, in most instances, selecting the worst of these metrics to project losses for the remaining life of each instrument. The Company validates the information in Bloomberg to the remittance reports provided by the servicing agents. A range of inputs is provided for securities with multiple impairments during the year.

Table of Contents

Inputs at September 30, 2011		**Security #1**		**Security #2**
Prepayment speed (CPR) (1)		9.5-13.6%		7.0-9.9%
Default rate (CDR) (2)		7.0-8.9%		6.8-8.2%
Severity (3)		49.4-52.0%		45.9-50.4%
Credit Impairment	$	120	$	387

(1) Estimated prepayments as a percentage of outstanding loans

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

(3) Estimated loss rate on collateral liquidations

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

	Underlying Loan Characteristics			
		Security #1		**Security #2**
Purpose:				
Purchase		62.6%		62.8%
Equity take out		33.1%		29.3%
Refinance		4.2%		7.9%
Type:				
Single family		65.2%		56.7%
2-4 family		8.6%		7.0%
Condominium		3.7%		9.1%
Planned unit development		22.5%		26.7%
Owner occupied		100.0%		90.9%
Vacation		0.0%		0.4%
Investment		0.0%		8.7%
Terms:				
30 year amortization		100.0%		100.0%
ARM		100.0%		100.0%
Geography:				
Northern CA		28.2%		26.6%
Sourhtern CA		35.3%		37.4%
Current Averages:				
Loan rate		2.9%		2.8%
LTV based on origination value		76.8%		73.7%
Loan balance	$	466,400	$	363,900
Age (months)		78		81
FICO at origination		715		715
Delinquent 60+ days		8.6%		21.2%
Delinquent 90+ days		8.6%		20.6%

Other investments at September 30, 2011 and December 31, 2010, consist of the following:

(in thousands)		September 30, 2011		December 31, 2010
Bank stocks at cost	$	7,363	$	4,790
Investment in statutory trusts equity method		2,172		2,172
Total	$	9,535	$	6,962

Bank stocks consist primarily of stock in the FHLB which is part of the Federal Home Loan Bank System (FHLB System). The purpose of the FHLB investment relates to maintenance of a borrowing base with the FHLB. FHLB stock holdings are largely dependent upon the Company s liquidity position. To the extent the need for wholesale funding increases or decreases, the Company may purchase additional or sell excess FHLB stock, respectively. The Company evaluates impairment in this investment based on the ultimate recoverability of the par value and at September 30, 2011, did not consider the investment to be other than temporarily impaired.

Table of Contents

6. 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 segments are:

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

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

- **Land Acquisition and Development Loans** The Company has a portfolio of loans for the acquisition and future development of land for residential building projects, as well as finished lots prepared to enter the construction phase. Due to overall market illiquidity and the significant value declines on raw land, the Company has ceased new lending activities for the acquisition and future development of land. The primary risks include the borrower s inability to pay and the inability of the Company to recover its investment due to a decline in the fair value of the underlying collateral.

- **Real Estate Construction Loans** The Company originates loans to finance construction projects involving one- to four-family residences. Residential construction loans are due upon the sale of the completed project and are generally collateralized by first liens on the real estate and have floating interest rates. Construction loans are considered to have higher risks due to the ultimate repayment being sensitive to interest rate changes, governmental regulation of real property and the availability of long-term financing. Additionally, economic conditions may impact the Company s ability to recover its investment in construction loans. Adverse economic conditions may negatively impact the real estate market which could affect the borrowers ability to complete and sell the project. Additionally, the fair value of the underlying collateral may fluctuate as market conditions change.

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

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

The loan portfolio segments at September 30, 2011 and December 31, 2010 were as follows:

Table of Contents

(in thousands)	September 30, 2011	December 31, 2010
Commercial	$ 587,677	$ 564,882
Real estate - mortgage	783,241	784,009
Land acquisition & development	68,034	83,909
Real estate - construction	68,728	87,116
Consumer	112,799	94,661
Other	39,653	29,388
Loans held for investment	1,660,132	1,643,965
Allowance for loan losses	(59,695)	(65,892)
Unearned net loan fees	(333)	(238)
Net loans held for investment	$ 1,600,104	$ 1,577,835

The following table provides information about loans sold:

	Three months ended September 30, 2011			Nine months ended September 30, 2011		
Loan Segment (in thousands)	Number of loans	Loan sale proceeds	Gain / (loss or charge-off) on sale	Number of loans	Loan sale proceeds	Gain / (loss or charge-off) on sale
Commercial		$	$	2	$ 3,070	$
Real estate - mortgage	2	1,278	(270)	2	1,278	(270)
Loans sold	2	$ 1,278	$ (270)	4	$ 4,348	$ (270)

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

	Three months ended September 30, 2011		Nine months ended September 30, 2011	
Loan Segment (in thousands)	Number of loans	Amount	Number of loans	Amount
Real estate - mortgage	1	$ 1,700	1	$ 1,700
Other	3	1,610	32	19,681
Loans purchased	4	$ 3,310	33	$ 21,381

The Company uses qualifying loans as collateral for advances and a line of credit from the FHLB. The FHLB line of credit, which had a $71.8 million balance outstanding at September 30, 2011, was collateralized by loans of $639.0 million with a lending value of $342.6 million.

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

changes are evaluated on a monthly basis. Loans above a certain dollar amount that are adversely graded are reported to the Problem Loan Committee of the Bank and the Chief Credit Officer along with current financial information, a collateral analysis and an action plan.

The loan portfolio showing total non-classified and classified balances by loan class at September 30, 2011 and December 31, 2010 is summarized below:

Table of Contents

(in thousands)	At September 30, 2011 Non-classified	Classified	Total
Commercial			
Manufacturing	$ 65,676	$ 15,323	$ 80,999
Finance and insurance	84,096	1,170	85,266
Health care	53,330	174	53,504
Real estate services	64,637	13,405	78,042
Construction	47,825	9,262	57,087
Retail trade	26,315	859	27,174
Wholesale trade	64,424	5,651	70,075
Other	130,074	5,456	135,530
	536,377	51,300	587,677
Real estate - mortgage			
Residential & commercial owner-occupied	385,324	39,743	425,067
Residential & commercial investor	328,428	29,674	358,102
Other	72		72
	713,824	69,417	783,241
Land acquisition & development			
Commercial	17,919	10,154	28,073
Residential	26,687	6,050	32,737
Other	7,070	154	7,224
	51,676	16,358	68,034
Real estate - construction			
Residential & commercial owner-occupied	18,420		18,420
Residential & commercial investor	38,769	11,539	50,308
	57,189	11,539	68,728
Consumer	108,130	4,669	112,799
Other	39,653		39,653
Total loans, excluding fees and costs	$ 1,506,849	$ 153,283	$ 1,660,132
Unearned net loan fees			(333)
Total loans			$ 1,659,799

Table of Contents

(in thousands)	Non-classified	At December 31, 2010 Classified	Total
Commercial			
Manufacturing	$ 72,036	$ 14,695	$ 86,731
Finance and insurance	75,258	2,061	77,319
Health care	70,110	396	70,506
Real estate services	63,272	15,948	79,220
Construction	41,125	10,224	51,349
Retail trade	22,516	4,367	26,883
Wholesale trade	51,219	2,268	53,487
Other	111,387	8,000	119,387
	506,923	57,959	564,882
Real estate - mortgage			
Residential & commercial owner-occupied	403,644	28,261	431,905
Residential & commercial investor	313,157	38,947	352,104
	716,801	67,208	784,009
Land acquisition & development			
Commercial	17,540	10,050	27,590
Residential	33,168	10,613	43,781
Other	8,599	3,939	12,538
	59,307	24,602	83,909
Real estate - construction			
Residential & commercial owner-occupied	22,411		22,411
Residential & commercial investor	43,939	20,766	64,705
	66,350	20,766	87,116
Consumer	90,239	4,422	94,661
Other	29,388		29,388
Total loans, excluding fees and costs	$ 1,469,008	$ 174,957	$ 1,643,965
Unearned net loan fees			(238)
Total loans			$ 1,643,727

Transactions in the allowance for loan losses by segment for the nine months ended September 30, 2011 are summarized below:

(in thousands)	Commercial	Real estate - mortgage	Land acquisition & development	Real estate - construction	Consumer	Other	Unallocated	Total
Balance at December 31, 2010	$ 17,169	$ 17,677	$ 14,938	$ 6,296	$ 3,373	$ 354	$ 6,085	$ 65,892
Provision	537	4,758	(2,004)	534	451	210	(864)	3,622
Charge-offs	(3,618)	(2,138)	(1,635)	(5,098)	(184)	(61)		(12,734)
Recoveries	1,136	1,018	603	69	86	3		2,915
Balance at September 30, 2011	$ 15,224	$ 21,315	$ 11,902	$ 1,801	$ 3,726	$ 506	$ 5,221	$ 59,695

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

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

status, type of loan, and collateral). The ALL is comprised of the following components:

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

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

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

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

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

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

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

The aforementioned factors enable management to recognize environmental conditions contributing to inherent losses in the portfolio, which have not yet manifested in Migration. Due to current and recent adverse economic conditions resulting in increased loan loss levels for the

Company, management relies more heavily on actual empirical charge-off history. Management believes Migration history adequately captures a great percentage of estimated losses within the portfolio.

In addition to the allocated reserve for graded loans, a portion of the allowance is determined by segmenting the portfolio into product groupings with similar risk characteristics. Part of the segmentation involves assigning increased reserve factors to those lending activities deemed higher-risk such as leverage-financings, unsecured loans, certain loans lacking personal guarantees, land acquisition and development loans, and speculative real-estate loans. This supplemental portion of the allowance includes judgmental consideration of any additional amounts necessary for subjective factors such as economic uncertainties and excess concentration risks.

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

Table of Contents

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

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

At September 30, 2011	Commercial	Real estate - mortgage	Land acquisition & development	Real estate - construction	Consumer	Other	Unallocated	Total
Allowance for loan losses	$ 15,224	$ 21,315	$ 11,902	$ 1,801	$ 3,726	$ 506	$ 5,221	$ 59,695
Individually evaluated for impairment	1,551	6,720	1,084	244	1,469			11,068
Collectively evaluated for impairment	13,673	14,595	10,818	1,557	2,257	506	5,221	48,627
Allowance for credit losses	$ 61	$	$	$	$	$	$	$ 61
Individually evaluated for impairment	61							61
Loans held for investment	$ 587,345	$ 782,771	$ 67,944	$ 68,442	$ 112,709	$ 40,588	$	$ 1,659,799
Individually evaluated for impairment	5,606	35,290	6,105	8,197	2,966			58,164
Collectively evaluated for impairment	581,739	747,481	61,839	60,245	109,743	40,588		1,601,635

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

Information on impaired loans at September 30, 2011 and December 31, 2010 is reported in the following table:

(in thousands)	At and for the period ended September 30, 2011

	Recorded investment on impaired loans	Unpaid principal balance	Recorded investment with a related ALL	Recorded investment with no related ALL	Average recorded investment	Related allowance
Commercial						
Manufacturing	$ 194	$ 222	$	$ 194	$ 246	$
Finance and insurance	97	97	97		379	158
Health care	135	135	135		15	130
Real estate services	2,325	2,325	1,588	737	2,361	753
Construction	1,068	1,157	301	767	1,640	257
Retail trade	611	2,106	159	452	1,159	35
Wholesale trade	144	339		144	173	
Other	1,032	1,426	642	390	1,422	279
	5,606	7,807	2,922	2,684	7,395	1,612
Real estate - mortgage						
Residential & commercial owner-occupied	9,905	10,483	8,742	1,163	9,274	3,589
Residential & commercial investor	9,245	9,244	5,318	3,927	4,034	1,778
	19,150	19,727	14,060	5,090	13,308	5,367
Land acquisition & development						
Commercial	3,093	3,768	2,076	1,017	2,348	372
Residential	3,012	7,841	1,237	1,775	4,412	712
	6,105	11,609	3,313	2,792	6,760	1,084
Real estate - construction						
Residential & commercial investor	8,197	10,116	1,552	6,645	9,233	244
Consumer	2,966	2,966	2,966		2,675	1,469
Total	$ 42,024	$ 52,225	$ 24,813	$ 17,211	$ 39,371	$ 9,776

Table of Contents

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

For the three and nine months ending September 30, 2011, interest income recognized on impaired loans was immaterial.

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

(in thousands)	At September 30, 2011	At December 31, 2010
Nonaccrual loans	$ 33,511	$ 41,271
Nonaccrual troubled debt restructurings	7,854	1,261
Total impaired loans	$ 41,365	$ 42,532
Loans 90 days or more delinquent and still accruing	$	$ 202
Performing troubled debt restructurings	$ 659	$ 16,488

The Company had $0.7 million and $16.5 million in performing troubled debt restructurings at September 30, 2011 and December 31, 2010, respectively. Performing troubled debt restructurings at December 31, 2010 were comprised of four credit relationships. The Company still maintains these credit relationships. However, in accordance with ASC 310-40-50-2, these loans were no longer subject to the disclosure requirements as these loans were in compliance with their modified terms and had a market rate of interest at the time of restructuring.

The below table provides information regarding troubled debt restructurings that occurred during the nine months ended September 30, 2011:

Troubled debt restructurings (in thousands)	Number of contracts	Pre-modification outstanding recorded investment	Post-modification oustanding recorded investment	Year-to-date net charge-off
Commercial	2	$ 1,773	$ 1,759	$
Real estate - mortgage	1	825	659	
Real estate - construction	1	5,618	4,893	3,160
Total	4	$ 8,216	$ 7,311	$ 3,160

Current period troubled debt restructurings resulted primarily from granting an interest rate below market, reducing the loan amount or extending the maturity date. No loans modified as troubled debt restructurings within the previous twelve months had a payment default during the nine months ended September 30, 2011. At September 30, 2011 and December 31, 2010, there were no outstanding commitments on restructured loans.

Table of Contents

The Company s nonaccrual loans by class at September 30, 2011 and December 31, 2010 are reported in the following table:

(in thousands)	September 30, 2011	December 31, 2010
Commercial		
Manufacturing	$ 194	$ 341
Finance and insurance	97	608
Health care	135	
Real estate services	2,325	2,457
Construction	1,068	1,673
Retail trade	611	1,669
Wholesale trade	144	221
Other	1,032	1,753
Total commercial	5,606	8,722
Real estate - mortgage		
Residential & commercial owner-occupied	9,246	6,865
Residential & commercial investor	9,245	1,581
Total real estate - mortgage	18,491	8,446
Land acquisition & development		
Commercial	3,093	2,430
Residential	3,012	5,684
Other		1,576
Total land acquisition & development	6,105	9,690
Real estate - construction		
Residential & commercial investor	8,197	12,614
Consumer	2,966	3,060
Total nonaccrual loans	$ 41,365	$ 42,532

The following tables summarize the aging of the Company s loan portfolio at September 30, 2011 and December 31, 2010. At September 30, 2011, there were no loans that were 90 days or more past due and still accruing.

Table of Contents

	At September 30, 2011						
(in thousands)	30 - 59 Days past due	60 - 89 Days past due	90+ Days past due	Total past due	Current	Total loans	Recorded investment in loans 90 days or more past due and accruing
Commercial							
Manufacturing	$	$	$	$	$ 80,999	$ 80,999	$
Finance and insurance					85,266	85,266	
Health care	90			90	53,414	53,504	
Real estate services	23	7,856	500	8,379	69,663	78,042	
Construction	3,232	141	925	4,298	52,789	57,087	
Retail trade	38			38	27,136	27,174	
Wholesale trade	195	14	63	272	69,803	70,075	
Other	76		583	659	134,871	135,530	
	3,654	8,011	2,071	13,736	573,941	587,677	
Real estate - mortgage							
Residential & commercial owner-occupied	224	2,869	4,890	7,983	417,084	425,067	
Residential & commercial investor	682	4,004	669	5,355	352,747	358,102	
					72	72	
	906	6,873	5,559	13,338	769,903	783,241	
Land acquisition & development							
Commercial		3,349	2,076	5,425	22,648	28,073	
Residential			2,476	2,476	30,261	32,737	
Other					7,224	7,224	
		3,349	4,552	7,901	60,133	68,034	
Real estate - construction							
Residential & commercial owner-occupied					18,420	18,420	
Residential & commercial investor		1,013	2,291	3,304	47,004	50,308	
		1,013	2,291	3,304	65,424	68,728	
Consumer	14		2,887	2,901	109,898	112,799	
Other					39,653	39,653	
Total loans, excluding fees and costs	$ 4,574	$ 19,246	$ 17,360	$ 41,180	$ 1,618,952	$ 1,660,132	$
Unearned net loan fees						(333)	
Total loans						$ 1,659,799	

	At December 31, 2010						
(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	$	$	$ 82	$ 82	$ 86,649	$ 86,731	$
Finance and insurance	108		500	608	76,711	77,319	
Health care					70,506	70,506	
Real estate services	540	156	116	812	78,408	79,220	
Construction	51	58	1,503	1,612	49,737	51,349	50
Retail trade	1,543	890	157	2,590	24,293	26,883	
Wholesale trade	323		227	550	52,937	53,487	17
Other	277	42	723	1,042	118,345	119,387	
	2,842	1,146	3,308	7,296	557,586	564,882	67
Real estate - mortgage							
Residential & commercial owner-occupied	696		2,549	3,245	428,660	431,905	

Residential & commercial investor	301	920	1,242	2,463	349,641	352,104	
	997	920	3,791	5,708	778,301	784,009	
Land acquisition & development							
Commercial			1,358	1,358	26,232	27,590	
Residential	1,064	342	3,875	5,281	38,500	43,781	135
Other			1,576	1,576	10,962	12,538	
	1,064	342	6,809	8,215	75,694	83,909	135
Real estate - construction							
Residential & commercial owner-occupied					22,411	22,411	
Residential & commercial investor	2,900	9,449	3,557	15,906	48,799	64,705	
	2,900	9,449	3,557	15,906	71,210	87,116	
Consumer	27	6	489	522	94,139	94,661	
Other					29,388	29,388	
Total loans, excluding fees and costs	$ 7,830	$ 11,863	$ 17,954	$ 37,647	$ 1,606,318	$ 1,643,965	$ 202
Unearned net loan fees						(238)	
Total loans						$ 1,643,727	

Table of Contents

7. Intangible Assets

The Company s intangible assets and related amortization at the dates indicated consist of the following:

(in thousands)		Customer contracts, lists and relationships
December 31, 2010	$	4,119
Disposal		(82)
Amortization		(479)
September 30, 2011	$	3,558

During the first quarter of 2011, the Company sold a book of business related to an insurance product line that was no longer being pursued. Amortization expense on intangible assets for each of the five succeeding years (excluding approximately $0.2 million to be recognized for the remaining three months of fiscal 2011) is estimated in the following table.

(in thousands)		
2012	$	638
2013		426
2014		316
2015		300
2016		300

8. Derivatives

ASC Topic 815 *Derivative and Hedging* (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 uncertain cash amounts, the value of which are determined by interest rates. The Company s derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company s known or expected cash receipts and its known or expected cash payments principally related to certain variable rate loan assets and variable rate borrowings.

The Company s objective in using derivatives is to minimize the impact of interest rate fluctuations on the Company s interest income and to reduce asset sensitivity. To accomplish this objective, the Company uses interest-rate swaps as part of its cash flow hedging strategy. For accounting purposes, these swaps are designated as hedging the overall changes in cash flows related to portfolios of the Company s Prime-based loans. Specifically, the Company has designated as the hedged transactions the first Prime-based interest payments received by the Company each calendar month during the term of the swaps that, in the aggregate for each period, are interest payments on principal from specified portfolios equal to the notional amount of the swaps.

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

Table of Contents

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

	Asset derivatives						Liability derivatives				
		Fair value at						Fair value			
(in thousands)	Balance sheet classification	September 30, 2011		December 31, 2010		Balance sheet classification	September 30, 2011		December 31, 2010		
Derivatives designated as hedging :											
Instruments under ASC 815 Interest rate swap	Other assets	$		$	504	Accrued interest and other liabilities	$	8,388	$	1,712	
Derivatives not designated as hedging :											
Instruments under ASC 815 Interest rate swap	Other assets	$	7,956	$	4,840	Accrued interest and other liabilities	$	8,722	$	5,106	

Cash Flow Hedges of Interest Rate Risk For hedges of the Company s variable-rate loan assets, interest-rate swaps designated as cash flow hedges involve the receipt of fixed-rate amounts from a counterparty in exchange for the Company making variable-rate payments over the life of the agreements without exchange of the underlying notional amount. For hedges of the Company s variable-rate borrowings, interest-rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments. In February 2009, the Company executed a series of interest-rate swap transactions designated as cash flow hedges that were effective for interest payments starting in 2010. The intent of the transactions was to fix the effective interest rate for payments due on its junior subordinated debentures with the objective of reducing the Company s exposure to adverse changes in cash flows relating to payments on its LIBOR-based floating rate debt. The swaps have contractual lives ranging between five and 14 years. Select critical terms of the cash flow hedges are as follows:

Hedged item (in thousands)		Notional	Fixed rate	Termination date
CoBiz Statutory Trust I	$	20,000	6.04%	March 17, 2015
CoBiz Capital Trust II	$	30,000	5.99%	April 23, 2020
CoBiz Capital Trust III	$	20,000	5.02%	March 30, 2024

In addition to the cash flow hedges in the table above, the Company has one other interest-rate swap with an aggregate notional amount of $25.0 million designated as cash flow hedges of interest-rate risk at September 30, 2011.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. These derivatives were used to hedge the variable cash inflows associated with existing pools of Prime-based loans, as well as variable cash outflows associated with its junior subordinated debentures. 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, 2011 and 2010.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest income or expense as interest payments are received/made on the Company s variable-rate assets/liabilities. During the next 12 months, the Company estimates that $2.0 million will be reclassified as an increase to interest expense.

Non-designated Hedges Derivatives not designated as hedges are not speculative and result from a service the Company provides to its customers. The Company executes interest-rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest-rate swaps are simultaneously hedged by offsetting interest-rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. As the interest-rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings. At September 30, 2011, the Company had 79 interest-rate swaps with an aggregate notional amount of $174.2 million related to this program. During the three and nine months ended September 30, 2011, the Company recognized respective net losses of $0.4 million and

Table of Contents

$0.5 million related to changes in fair value of these swaps. During the three and nine months ended September 30, 2010, the Company recognized respective net losses of $0.1 million and $0.4 million related to changes in fair value of these swaps. The gains and losses arising from changes in the fair value of these swaps are included in Other income in the accompanying condensed consolidated statements of operations.

The table below summarizes gains and losses recognized in OCI in conjunction with our derivatives designated as hedging instruments for the three and nine months ended September 30, 2011 and 2010.

	Loss recognized in OCI (effective portion)			
	for the three months ended September 30,		for the nine months ended September 30,	
(in thousands)	2011	2010	2011	2010
Cash flow hedges:				
Interest rate swap	$ (6,006)	$ (2,849)	$ (7,180)	$ (9,353)

	Loss reclassified from accumulated OCI into earnings (effective portion)			
	for the three months ended September 30,		for the nine months ended September 30,	
(in thousands)	2011	2010	2011	2010
Cash flow hedges:				
Interest rate swap	$ (410)	$ (255)	$ (1,135)	$ (127)

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, 2011, the fair value of derivatives in a net liability position, including accrued interest but excluding any adjustment for nonperformance risk, related to these agreements was $17.3 million. The Company has minimum collateral posting thresholds with certain of its derivative counterparties and has posted collateral of $24.8 million against its obligations under these agreements. At September 30, 2011, the Company was not in default with any of its debt covenants.

9. Long-Term Debt

A summary of the outstanding subordinated debentures at September 30, 2011 is as follows:

(in thousands)	At September 30, 2011	Original Interest Rate	Effective Interest Rate	Maturity date	Earliest call date
Junior subordinated debentures:					
CoBiz Statutory Trust I	$ 20,619	3-month LIBOR + 2.95%	Fixed 6.04%	September 17, 2033	December 17, 2011
CoBiz Capital Trust II	30,928		Fixed 5.99%	July 23, 2034	October 23, 2011

			3-month LIBOR + 2.60%			
CoBiz Capital Trust III		20,619	3-month LIBOR + 1.45%	Fixed 5.02%	September 30, 2035	December 31, 2011
Total junior subordinated debentures	$	72,166				
Other long-term debt:						
Subordinated notes payable	$	20,984	Fixed 9.00%	Fixed 9.00%	August 18, 2018	August 18, 2013

Effective for interest payments beginning in February 2010, the Company fixed the interest rate on its junior subordinated debentures through a series of interest-rate swaps. For further discussion of the interest-rate swaps and the corresponding terms, see Note 8 to the Condensed Consolidated Financial Statements.

10. Share-Based Compensation Plans

During the three and nine months ended September 30, 2011, the Company recognized compensation expense (net of estimated forfeitures) of $0.4 million and $1.1 million, respectively, for share-based compensation awards

Table of Contents

for which the requisite service was rendered in the period as compared to $0.3 million and $1.2 million for the respective prior year periods. Estimated forfeitures are periodically evaluated based on historical and expected forfeiture behavior.

The Company uses the Black-Scholes model to estimate the fair value of stock options using various interest, dividend, volatility and expected life assumptions. Expected life is evaluated on an ongoing basis using historical and expected exercise behavior assumptions.

The following table summarizes changes in option awards during the nine months ended September 30, 2011.

	Shares		Weighted average exercise price
Outstanding December 31, 2010	2,659,750	$	12.70
Granted	65,850		6.76
Exercised	2,750		4.87
Forfeited	248,380		10.96
Outstanding September 30, 2011	2,474,470	$	12.73
Exercisable September 30, 2011	1,996,886	$	14.16

The weighted average grant date fair value of options granted during the nine months ended September 30, 2011 was $3.01.

The following table summarizes changes in stock awards for the nine months ended September 30, 2011.

	Shares		Weighted average grant date fair value
Unvested December 31, 2010	261,390	$	6.77
Granted	149,367		6.52
Vested	90,633		6.96
Forfeited	27,341		6.90
Unvested September 30, 2011	292,783	$	6.57

At September 30, 2011, there was $2.2 million of total unrecognized compensation expense related to unvested share-based compensation arrangements granted under the Company s equity incentive plans. The cost is expected to be recognized over a weighted average period of 1.8 years.

11. SHAREHOLDERS EQUITY

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

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

The Series C Preferred Stock is non-voting, except in limited circumstances that could impact the SBLF investment, such as (i) authorization of senior stock, (ii) charter amendments adversely affecting the Series C Preferred Stock and (iii) extraordinary transactions such as mergers, asset sales, share exchanges and the like

Table of Contents

(unless the Series C Preferred Stock remains outstanding and the rights and preferences thereof are not impaired by such transaction).

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

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

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

The Series B Preferred Stock was issued to the Treasury in December 2008 in connection with the Company s participation in the TARP Capital Purchase Program. A warrant to purchase 895,968 shares of the Company s common stock over a 10-year term at an exercise price of $10.79 issued to Treasury in December 2008 was not repurchased from Treasury.

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

Dividends Dividends on the Series C Preferred Stock are payable the first day of each October, January, April and July until redeemed.

Dividends for the Series C Preferred Stock began accruing at five percent (5%) on September 8, 2011, when issued. The rate is effective for the first calendar quarter (or partial period thereof). During the second through ninth calendar quarters after closing the SBLF Program transaction, the dividend rate will fluctuate between one percent (1%) and five percent (5%) to reflect the amount of change in the Bank s level of Qualified Small Business Lending (QSBL) compared to the initial baseline. More specifically, if the Bank s QSBL two quarters prior to the quarter under measurement has increased as compared to the baseline, then the dividend rate payable on the Series C Preferred Stock would change as follows:

Relative increase in QSBL to baseline	**Dividend rate**
Less than 2.5%	5%
Between 2.5% and 5.0%	4%
Between 5.0% and 7.5%	3%
Between 7.5% and 10.0%	2%

10% or more	1%

QSBL is defined as certain loans of up to $10.0 million to businesses with up to $50.0 million in annual revenues. QSBL includes: (i) commercial and industrial loans; (ii) owner-occupied nonfarm, nonresidential real estate loans; (iii) loans to finance agricultural production and other loans to farmers; and, (iv) loans secured by farmland. The SBLF requires that quarterly supplemental reports be submitted to Treasury, based in part on information already provided by the Bank in its quarterly Call Report. Changes in QSBL compared to baseline QSBL based on the supplemental reports will determine the applicable dividend rate. It is not feasible to predict the volume of QSBL in future periods or to estimate specific future dividend rates.

From the tenth calendar quarter through 4.5 years after closing of the SBLF Program transaction, the dividend rate on the Series C Preferred Stock may be fixed at or between one percent (1%) and nine percent (9%) based on the level of QSBL at that time, as compared to the baseline; however, the dividend rate will increase to 9%

Table of Contents

only if the rate of small business lending has stayed the same or decreased. If any Series C Preferred Stock remains outstanding after 4.5 years, the dividend rate will increase to nine percent (9%).

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

12. Segments

The Company s segments consist of Commercial Banking, Investment Banking, Wealth Management, Insurance and Corporate Support and Other. The financial information for each business segment reflects that information which is specifically identifiable or which is allocated based on an internal allocation method.

Results of operations and selected financial information by operating segment are as follows:

	Three months ended September 30, 2011					
(in thousands)	**Commercial Banking**	**Investment Banking**	**Wealth Management**	**Insurance**	**Corporate Support and Other**	**Consolidated**
Income Statement						
Total interest income	$ 27,797	$ 1	$	$ 1	$ (187)	$ 27,612
Total interest expense	2,155		2	1	1,480	3,638
Provision for loan losses	(2,068)				2,068	
Noninterest income	1,653	205	2,154	2,089	(50)	6,051
Noninterest expense	7,403	868	2,191	2,181	10,587	23,230
Management fees and allocations	5,705	47	164	115	(6,031)	
Provision (benefit) for income taxes	8,149	(253)	(4)	(29)	(5,511)	2,352
Net income (loss)	$ 8,106	$ (456)	$ (199)	$ (178)	$ (2,830)	$ 4,443

	Nine months ended September 30, 2011					
(in thousands)	**Commercial Banking**	**Investment Banking**	**Wealth Management**	**Insurance**	**Corporate Support and Other**	**Consolidated**
Income Statement						
Total interest income	$ 83,706	$ 6	$ 2	$ 1	$ 265	$ 83,980
Total interest expense	7,050		28	4	4,349	11,431
Provision for loan losses	(157)				3,779	3,622
Noninterest income	7,177	1,806	6,815	7,078	(3)	22,873
Noninterest expense	23,027	2,741	6,967	6,849	34,350	73,934
Management fees and allocations	17,063	118	472	288	(17,941)	

Provision (benefit) for income taxes	22,510	(363)	(72)	100	(15,817)	6,358
Net income (loss)	$ 21,390	$ (684)	$ (578)	$ (162)	$ (8,458)	$ 11,508

Table of Contents

(in thousands)	Commercial Banking	Investment Banking	Wealth Management	Insurance	Corporate Support and Other	Consolidated
	Three months ended September 30, 2010					
Income Statement						
Total interest income	$ 28,254	$ 2	$ 1	$ 1	$ 292	$ 28,550
Total interest expense	3,215		2	3	1,443	4,663
Provision for loan losses	5,860				1,484	7,344
Noninterest income	2,780	794	2,443	2,028	(32)	8,013
Noninterest expense	6,902	1,085	2,748	2,118	13,366	26,219
Management fees and allocations	6,656	40	168	83	(6,947)	
Provision (benefit) for income taxes	5,674	(113)	(122)	(34)	(5,171)	234
Net income (loss)	$ 2,727	$ (216)	$ (352)	$ (141)	$ (3,915)	$ (1,897)

(in thousands)	Commercial Banking	Investment Banking	Wealth Management	Insurance	Corporate Support and Other	Consolidated
	Nine months ended September 30, 2010					
Income Statement						
Total interest income	$ 86,720	$ 5	$ 1	$ 1	$ 1,000	$ 87,727
Total interest expense	10,950		29	9	3,926	14,914
Provision for loan losses	25,547				6,061	31,608
Noninterest income	7,519	2,884	7,294	6,705	249	24,651
Noninterest expense	27,455	3,240	7,712	6,672	36,864	81,943
Management fees and allocations	18,775	122	545	256	(19,698)	
Provision (benefit) for income taxes	10,842	(139)	(176)	17	(16,467)	(5,923)
Net income (loss)	670	(334)	(815)	(248)	(9,437)	(10,164)
Noncontrolling interest					(199)	(199)
Net income (loss) after noncontrolling interest	$ 670	$ (334)	$ (815)	$ (248)	$ (9,636)	$ (10,363)

13. 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.

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

Available for sale securities At September 30, 2011, the Company holds, as part of its investment portfolio, available for sale securities reported at fair value consisting of MBS, municipal securities and trust preferred securities. The fair value of the majority of MBS and municipal securities are determined using widely accepted

Table of Contents

valuation techniques including matrix pricing and broker-quote based applications. Inputs include benchmark yields, reported trades, issuer spreads, prepayment speeds and other relevant items. As a result, the Company has determined that these valuations fall within Level 2 of the fair value hierarchy. Private-label MBS are valued using broker-dealer quotes. As the private-label MBS market has become increasingly illiquid, these securities are being valued more often based on modeling techniques rather than observable trades. Accordingly, the Company has determined the appropriate input level for the private-label MBS is Level 3. The Company also holds TPS that are recorded at fair values based on unadjusted quoted market prices for identical securities in an active market. The majority of the TPS are actively traded in the market and as a result, the Company has determined that the valuation of these securities falls within Level 1 of the fair value hierarchy. The Company also holds a small number of TPS for which unadjusted market prices are not available or the market is not active. For these securities, broker-dealer quotes or valuations based on similar but not identical securities are used and the Company has determined that these valuations fall within Level 2 of the fair value hierarchy.

During the three and nine months ended September 30, 2011, the Company recognized credit related OTTI of $0.1 million and $0.5 million, respectively. During the three and nine months ended September 30, 2010, the Company recognized credit related OTTI of $0.1 million and $0.4 million, respectively, in addition to a $0.1 million OTTI related to a TPS position the Company intended to sell. Credit related OTTI is reported in Net other than temporary impairment losses on securities recognized in earnings and non-credit related OTTI is reported in Loss on securities, other assets and other real estate owned in the condensed consolidated statement of operations.

Derivative financial instruments The Company uses interest-rate swaps as part of its cash flow strategy to manage its interest-rate risk. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including strike price, forward rates, volatility estimates, and discount rates. The fair values of interest-rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves.

Pursuant to guidance in ASC 820, credit valuation adjustments are incorporated into the valuation to appropriately reflect both the Company s own nonperformance risk and the respective counterparty s nonperformance risk in the fair value measurements. 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.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. 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 (CVA) in basis points and as a percentage of the overall derivative portfolio valuation and the overall notional value. The Company s assessment determined that CVAs were not significant to the overall valuation of the portfolio. In addition, the significance of CVAs and overall derivative portfolio to the Company s financial statements was considered. As a result of the insignificance of the CVAs to the derivative portfolio valuations and the Company s financial statements, the Company classified the derivative valuations in their entirety in Level 2.

Private equity investments The valuation of nonpublic private equity investments requires significant management judgment due to the absence of quoted market prices, inherent lack of liquidity and the long-term nature of such assets. The carrying values of private equity investments are adjusted either upwards or downwards from the transaction price to reflect expected exit values as evidenced by financing and sale transactions with third parties, or when determination of a valuation adjustment is confirmed through ongoing reviews by management. A variety of factors are reviewed and monitored to assess positive and negative changes in valuation including, but not limited to, current operating

performance and future expectations of the particular investment, industry valuations of comparable public companies, changes in market outlook and the third-party financing environment. In determining valuation adjustments resulting from the investment review process, emphasis is placed on current company performance and market conditions. As a result, the Company

Table of Contents

has determined that private equity investments are classified in Level 3 of the fair value hierarchy. The value of private equity investments was not material at September 30, 2011.

Impaired Loans Certain collateral-dependent impaired loans are reported at the fair value of the underlying collateral. Impairment is measured based on the fair value of the collateral, which is typically derived from appraisals that take into consideration prices in observed transactions involving similar assets and similar locations. 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 re-assessed at least quarterly or more frequently when circumstances occur that indicate a change in fair value. The fair value of other impaired loans is measured using a discounted cash flow analysis considered to be a Level 3 input.

Loans held for sale Loans held for sale are primarily nonperforming loans that management intends to sell within the next 12 months. Fair value on these loans is estimated based on price quotes from potential buyers. There is not an active market with observable prices for these loans and the Company considers the measurements to be Level 3 inputs.

The following tables present the Company s assets measured at fair value on a recurring basis at September 30, 2011 and December 31, 2010, aggregated by the level in the fair value hierarchy within which those measurements fall.

		Fair value measurements using:		
(in thousands)	**Balance at September 30, 2011**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Assets				
Mortgage-backed securities	$ 405,804	$	$ 405,804	$
U.S. government agencies	49,289		49,289	
Trust preferred securities	103,867	96,108	7,759	
Corporate debt securities	51,479		51,479	
Private label MBS	2,040			2,040
Municipal securities	325		325	
Total available for sale securities	$ 612,804	$ 96,108	$ 514,656	$ 2,040
Derivatives:				
Cash flow hedge - interest rate swap	$	$	$	$
Reverse interest rate swap	7,956		7,956	
Total derivative assets	$ 7,956	$	$ 7,956	$
Liabilities				
Derivatives:				
Cash flow hedge - interest rate swap	$ 8,388	$	$ 8,388	$
Reverse interest rate swap	8,722		8,722	
Total derivative liabilities	$ 17,110	$	$ 17,110	$

Table of Contents

(in thousands)	Balance at December 31, 2010	Fair value measurements using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets				
Available for sale securities:				
Mortgage-backed securities (MBS)	$ 405,545	$	$ 405,545	$
Private label MBS	2,432			2,432
U.S. government agencies	80,619		80,619	
Trust preferred securities (TPS)	88,308	79,093	9,215	
Corporate debt securities	59,595		59,595	
Municipal securities	945		945	
Total available for sale securities	$ 637,444	$ 79,093	$ 555,919	$ 2,432
Derivatives:				
Cash flow hedge - interest rate swap	$ 504	$	$ 504	$
Reverse interest rate swap	4,840		4,840	
Total derivative assets	$ 5,344	$	$ 5,344	$
Liabilities				
Derivatives:				
Cash flow hedge - interest rate swap	$ 1,712	$	$ 1,712	$
Reverse interest rate swap	5,106		5,106	
Total derivative liabilities	$ 6,818	$	$ 6,818	$

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

(in thousands)	For the three months ended September 30, 2011	For the nine months ended September 30, 2011	For the year ended December 31, 2010
Beginning balance	$ 2,324	$ 2,432	$ 2,373
Realized loss on OTTI	(136)	(507)	(451)
Paydowns	(148)	(469)	(714)
Net accretion	50	154	158
Unrealized gain (loss) included in comprehensive income	(50)	430	1,066
Ending balance	$ 2,040	$ 2,040	$ 2,432

Fair value is used on a nonrecurring basis to evaluate certain financial assets and financial liabilities in specific circumstances. The following tables present the Company s assets measured at fair value on a nonrecurring basis at September 30, 2011 and December 31, 2010, aggregated by the level in the fair value hierarchy within which those measurements fall.

(in thousands)	Balance at September 30, 2011	Fair value measurements using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)

Impaired loans, net of specific reserve	$	47,096	$		$		$	47,096

(in thousands)		Balance at December 31, 2010		Fair value measurements using: Quoted prices in active markets for identical assets (Level 1)		Significant other observable inputs (Level 2)		Significant unobservable inputs (Level 3)
Impaired loans, net of specific reserve	$	47,616	$		$		$	47,616

Table of Contents

During the nine months ended September 30, 2011, the Company recorded a provision for loan losses of $11.9 million and charged-off $12.7 million of impaired loans.

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

Other real estate owned (OREO) and repossessed assets   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 and repossessed assets are based on appraisals adjusted at management s discretion to reflect anticipated declines in fair value since the time the appraisal analysis was performed. It has been the Company s experience that appraisals quickly become outdated due to the volatile real-estate environment. Therefore, the inputs used to determine the fair value of OREO and repossessed assets fall within Level 3.

Intangible assets   Intangible assets consist of a non-amortizing trade name that was initially recorded at fair value. Intangible assets are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The fair value of intangible assets is based on an income approach using a present value model, considered a Level 3 input by the Company.

The following tables present the Company s nonfinancial assets measured at fair value on a nonrecurring basis at September 30, 2011 and December 31, 2010, aggregated by the level in the fair value hierarchy within which those measurements fall.

		Fair value measurements using:			
(in thousands)	Balance at September 30, 2011	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total loss for the nine months ended September 30, 2011
OREO	$ 22,061	$	$	$ 22,061	$ (3,084)
Repossessed assets	28			28	(147)

		Fair value measurements using:			
(in thousands)	Balance at December 31, 2010	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total gain (loss) for the year ended December 31, 2010
OREO	$ 26,416	$	$	$ 26,416	$ (7,392)
Tradename					(149)

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

(in thousands)	At September 30, 2011	At December 31, 2010
OREO recorded at fair value	$ 22,061	$ 26,416
Estimated selling costs	(1,103)	(1,321)
OREO	$ 20,958	$ 25,095

OREO valuation adjustments and additional gains or losses at the time of sales are recognized in current earnings under the caption Loss on securities, other assets and other real estate owned. Below is a summary of OREO transactions during the nine months ended September 30, 2011:

Table of Contents

(in thousands)		OREO
At December 31, 2010		$ 25,095
Foreclosed loans	9,748	
Charge-offs	(4,143)	
Transferred in		5,605
OREO sales		(6,658)
Net loss on sale and valuation adjustments		(3,084)
At September 30, 2011		20,958
Estimated selling costs		1,103
OREO recorded at fair value		$ 22,061

In accordance with ASC Topic 350, *Intangibles Goodwill and Other,* the Company performed an impairment test on a tradename intangible asset during the second quarter of 2010 and concluded that the Company s decision not to use the tradename in the future was a triggering event for an impairment charge. As a result an impairment charge of $0.1 million was included in earnings for the three and nine months ended September 30, 2010.

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, 2011 and December 31, 2010.

	At September 30, 2011		At December 31, 2010	
(in thousands)	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Financial assets:				
Cash and cash equivalents	$ 50,438	$ 50,438	$ 24,166	$ 24,166
Restricted cash	8,531	8,531	15,872	15,872
Investment securities available for sale	612,804	612,804	637,444	637,444
Investment securities held to maturity	240	247	262	270
Other investments	9,535	9,535	6,962	6,962
Loans net	1,600,104	1,611,471	1,577,835	1,562,844
Accrued interest receivable	8,139	8,139	8,081	8,081
Interest rate swaps	7,956	7,956	5,344	5,344
Bank-owned life insurance	39,425	39,425	36,043	36,043
Financial liabilities:				
Deposits	$ 1,880,517	$ 1,881,831	$ 1,889,368	$ 1,891,107
Other short-term borrowings	74,373	74,373	14,012	14,012
Securities sold under agreements to repurchase	131,877	135,799	157,690	154,776
Accrued interest payable	707	707	930	930
Junior subordinated debentures	72,166	72,166	72,166	72,166
Subordinated notes payable	20,984	22,721	20,984	18,610
Interest rate swaps	17,110	17,110	6,818	6,818

The estimation methodologies utilized by the Company are summarized as follows:

Cash, cash equivalents and restricted cash The carrying amount of cash, cash equivalents and restricted cash is a reasonable estimate of fair value.

Other investments The estimated fair value of other investments approximates their carrying value.

Loans The fair value of loans is estimated by discounting future contractual cash flows using the estimated market rate that reflects credit and liquidity risk inherent in the loans. 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.

Table of Contents

Accrued interest receivable/payable The carrying amount of accrued interest receivable/payable is a reasonable estimate of fair value due to the short-term nature of these amounts.

Bank-owned life insurance The carrying amount of bank-owned life insurance is based on the cash surrender value of the policies and is a reasonable estimate of fair value.

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

Short-term borrowings The estimated fair value of short-term borrowings approximates their carrying value, due to their short-term nature.

Securities sold under agreements to repurchase Estimated fair value is based on discounting cash flows for comparable instruments.

Junior subordinated debentures The estimated fair value of junior subordinated debentures approximates their carrying value, due to the variable interest rate paid on the debentures.

Subordinated notes payable The estimated fair value of subordinated notes payable is based on discounting cash flows for comparable instruments.

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

The fair value estimates presented herein are based on pertinent information available to management at September 30, 2011 and December 31, 2010. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

14. Regulatory Matters

The following table shows capital amounts, ratios and regulatory thresholds at September 30, 2011:

At September 30, 2011 **(in thousands)**	**Company**	**Bank**
Shareholders equity (GAAP capital)	$ 199,341	$ 227,388
Disallowed intangible assets	(3,370)	
Unrealized gain on available for sale securities	(6,818)	(6,818)
Unrealized loss on cash flow hedges	5,201	
Subordinated debentures	65,908	
Other deductions	(1,588)	(1,462)
Tier I regulatory capital	$ 258,674	$ 219,108
Subordinated notes payable and debentures	$ 25,076	$
Allowance for loan losses	24,918	24,629
Other deductions	(1,462)	(1,462)
Total risk-based regulatory capital	$ 307,206	$ 242,275

Table of Contents

	Company			Bank		
	Risk-based		Leverage	Risk-based		Leverage
At September 30, 2011	Tier I	Total capital	Tier I	Tier I	Total capital	Tier I
Regulatory capital	$ 258,674	$ 307,206	$ 258,674	$ 219,108	$ 242,275	$ 219,108
Well-capitalized requirement	117,520	195,867	119,049	116,307	193,845	117,279
Regulatory capital - excess	$ 141,154	$ 111,339	$ 139,625	$ 102,801	$ 48,430	$ 101,829
Capital ratios	13.2%	15.7%	10.9%	11.3%	12.5%	9.3%
Minimum capital requirement	4.0%	8.0%	4.0%	4.0%	8.0%	4.0%
Well capitalized requirement (1)	6.0%	10.0%	5.0%	6.0%	10.0%	5.0%

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

The Series C Preferred Stock discussed in Note 11 is an unrestricted core capital element included in Tier 1 capital.

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

This discussion should be read in conjunction with our condensed consolidated financial statements and notes thereto included in this Form 10-Q. Certain terms used in this discussion are defined in the notes to these financial statements. For a description of our accounting policies, see Note 1 of the Notes to Consolidated Financial Statements included in our Form 10-K for the year ended December 31, 2010. For a discussion of the segments included in our principal activities, see Note 12 to the notes to condensed consolidated financial statements.

Executive Summary

The Company is a financial holding company that offers a broad array of financial service products to its target market of professionals, small and medium-sized businesses, and high-net-worth individuals. Our operating segments include: commercial banking, investment banking, wealth management and insurance.

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

Industry Overview

At the September 2011 meeting, the Federal Open Market Committee (FOMC) kept the target range for federal funds rate at 0-25 basis points in order to promote the ongoing economic recovery. Economic growth remains slow as indicated by continued weakness in overall labor market conditions and elevated unemployment rates. Inflation has moderated and longer-term inflation expectations have remained stable. The FOMC currently anticipates that economic conditions are likely to warrant exceptionally low levels for the federal funds rate at least through mid-2013. The FOMC stated its intention to purchase, by the end of June 2012, $400 billion of Treasury securities with remaining maturities of 6 years to 30 years and to sell an equal amount of Treasury securities with remaining maturities of 3 years or less, putting downward pressure on longer-term interest rates and helping to make broader financial conditions more accommodative. In an October 2011 Congressional committee meeting, Federal Reserve Chairman Ben Bernanke said that the recovery is close to faltering and that monetary policy alone cannot cure all the economy s ailments. In other remarks, Chairman Bernanke called on Congress to adopt a plan for paying down the federal debt and to address loopholes in the tax code as ways to help the recovery and stability of the economy. The Federal Reserve and the Chairman expect improvements in the health of the economy but that there remains significant risk of a second recession unless actions are taken to increase growth.

Table of Contents

The unemployment rate has decreased from 9.4% in December 2010 to 9.1% at September 2011, ranging from 8.8% to 9.2% during the first three quarters of 2011. Since the employment low achieved in February 2010, the private sector has added 2.6 million jobs through September 2011 or an average of 136,000 per month, although average monthly job gains since April 2011 were just 72,000. Recent job gains have been concentrated in the private-sector while government employment continued to trend down. The FOMC expects some pickup in the pace of recovery but anticipates only gradual improvement in the unemployment rate.

Bank failures have also continued to weigh on the industry and have increased assessment rates for all banks. During 2009, 140 banks failed and went into receivership with the FDIC, causing estimated losses of $35.6 billion to the Depository Insurance Fund. In 2010, another 157 banks went into receivership, setting an 18-year high and causing an additional $24.2 billion in losses. Through October 14, 2011, the FDIC has taken possession of 80 banks, including four banks in Colorado and one bank in Arizona. At June 2011, there were 865 problem institutions, down from 888 at March 2011, reversing the uptrend that has continued since 2006. There were 702 problem banks at the end of 2009 and 252 at the end of 2008.

In the second quarter of 2011, FDIC insured commercial banks reported a combined net income of $29 billion, marking the eighth consecutive quarter that industry earnings have improved year over year. Over half of all institutions reporting improved earnings year over year, driven primarily by falling loss provisions which have decreased seven consecutive quarters at June 2011. However, net operating revenue fell for a second straight quarter reflecting increased pressure on yields. Half of insured institutions reported year over year declines in net interest margin (NIM), averaging 3.61% in the second quarter of 2011 and 3.83% for the community banks. Loan loss trends continue to improve, recording favorable change for a fourth consecutive quarter and net charge-offs were lower across all major loan categories. Total loans and leases at insured institutions rose by 0.9% during the second quarter of 2011 with Commercial and Industrial (C&I) loans posting gains for a fourth consecutive quarter. Average return on assets (ROA) rose to 0.85% from 0.63% a year earlier for all insured institutions.

The banking industry and SEC-registered companies continue to be impacted by new legislative and regulatory reform proposals. On July 14, 2011, the Federal Reserve Board announced the approval of a final rule to repeal Regulation Q, which prohibited the payment of interest on demand deposits by member banks of the Federal Reserve System. Beginning on July 21, 2011, member banks were allowed to pay interest on demand deposits as established by the Dodd-Frank Act.

Financial and Operational Highlights

Noted below are some of the Company s significant financial performance measures and operational results for the first nine months of 2011:

- Net income and earnings per share improve significantly for the three and nine months ended September 30, 2011 over prior year results.

INCOME STATEMENT	**Three months ended September 30,**				**Nine months ended September 30,**			
(in thousands, except per share amounts)		**2011**		**2010**		**2011**		**2010**
Net interest income before provision	$	23,974	$	23,887	$	72,549	$	72,813
Provision for loan losses	$		$	7,344	$	3,622	$	31,608
Noninterest income	$	6,051	$	8,013	$	22,873	$	24,651

Net income (loss)	$	4,443	$	(1,897)	$	11,508	$	(10,363)
Diluted earnings (loss) per common share	$	0.05	$	(0.08)	$	0.19	$	(0.36)
Net interest margin		4.32%		4.33%		4.38%		4.41%
Return on average assets		0.74%		(0.31)%		0.64%		(0.57)%
Return on average shareholder equity		8.50%		(3.45)%		7.42%		(6.16)%

• Provision for loan and credit losses for the three and nine months ended September 30, 2011, was $0.0 million and $3.6 million, respectively, compared to $7.3 million and $31.6 million for the comparable periods in 2010. The provision for loan losses has decreased as credit quality has improved.

• Net interest income on a tax-equivalent basis for the three and nine months ended September 30, 2011, was $24.3 million and $73.4 million, respectively, compared to $24.0 million and $73.2 million for the same periods in 2010.

Table of Contents

BALANCE SHEET AND CREDIT QUALITY (in thousands)	**At September 30, 2011**	**At December 31, 2010**
Total assets	$ 2,416,052	$ 2,395,088
Total loans	$ 1,659,799	$ 1,643,727
Total deposits	$ 1,880,517	$ 1,889,368
Total shareholder equity	$ 199,341	$ 201,738
Allowance for loan losses	$ 59,695	$ 65,892
Nonperforming assets	$ 62,351	$ 67,829
Allowance for loan and credit losses to total loans	3.60%	4.01%
Nonperforming assets to total assets	2.58%	2.83%

- Gross loans increased $16.1 million at September 30, 2011 from December 31, 2010.

- Noninterest-bearing demand deposits increased $26.1 million from December 31, 2010 to $707.6 million or 37.6% of total deposits.

- Net loan charge-offs totaled $9.8 million for the nine months ended September 30, 2011, or 0.60% of average loans during the period, compared to 2.41% for the same period in 2010.

- Other real estate owned (OREO) and repossessed assets was $21.0 million at September 30, 2011, with $10.3 million located in Colorado and $10.6 million in Arizona. The average Colorado OREO, excluding the largest OREO of $6.3 million, was valued at $0.6 million. The average Arizona OREO value was $0.3 million.

- The allowance for loan and credit losses decreased to 3.6% of total loans at September 30, 2011, compared to 4.0% at December 31, 2010.

- Low interest rates reduced the value of interest rate swap hedges, resulting in a tax-effected decline of $4.5 million in accumulated other comprehensive income (AOCI) during 2011. Declines in the held for sale investment portfolio also adversely impact AOCI and shareholder equity.

- Series B Preferred Stock issued under the Company s participation in the US Treasury s Capital Purchase Program (CPP) was redeemed in full during September 2011 for $64.5 million plus accrued dividends. Concurrent with the redemption, Series C Preferred Stock was issued to Treasury under the Small Business Lending Fund (SBLF) for $57.4 million with an initial dividend rate of 5%. Together, the transactions resulted in a $7.0 million decline in shareholder equity.

- The Company s total risk-based capital ratio was 15.7% at September 30, 2011 compared to 15.5% at the end of 2010.

Critical Accounting Policies

The Company s discussion and analysis of its financial condition and results of operations are based upon the Company s condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions to Form 10-Q. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. In making those critical accounting estimates, we are required to make assumptions about matters that may be highly uncertain at the time of the estimate. Different estimates we could reasonably have used, or changes in the assumptions that could occur, could have a material effect on our financial condition or results of operations. In addition to the discussion on fair value measurements and deferred taxes below, a description of our critical accounting policies was provided in the Management s Discussion and Analysis of Financial Condition and Results of Operations section of our Annual Report on Form 10-K for the year ended December 31, 2010.

Fair Value Measurements. The Company measures or monitors certain assets and liabilities on a fair value basis in accordance with GAAP. ASC 820 emphasizes that fair value is a market-based measurement, not an entity-

Table of Contents

specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing an asset or liability. As a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity s own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). Fair value may be used on a recurring basis for certain assets and liabilities such as available for sale securities and derivatives in which fair value is the primary basis of accounting. Similarly, fair value may be used on a nonrecurring basis to evaluate certain assets or liabilities such as impaired loans and other real estate owned (OREO). Depending on the nature of the asset or liability, the Company uses various valuation techniques and assumptions in accordance with ASC 820 to determine the instrument s fair value. At September, 2011, 25.7% or $620.8 million of total assets represented assets recorded at fair value on a recurring basis. At September 30, 2011, 0.8% or $17.1 million of total liabilities represented liabilities recorded at fair value on a recurring basis. Assets recorded at fair value on a nonrecurring basis at September 30, 2011 represented $69.2 million or 2.9% of total assets.

At September 30, 2011, the Company holds, as part of its investment portfolio, available for sale securities reported at fair value consisting of MBS, government agencies, municipal securities, and corporate debt securities. The fair value of the majority of these securities is determined using widely accepted valuation techniques, including matrix pricing and broker-quote based applications, considered Level 2 inputs. The Company also holds trust preferred securities the majority of which are recorded at fair value based on quoted market prices, considered by the Company Level 1 inputs. Certain private-label MBS valued using broker-dealer quotes based on proprietary broker models, which are considered by the Company an unobservable input (Level 3), totaled $2.0 million at September 30, 2011. Investments incorporating Level 3 inputs as part of their valuation represent 0.1% of total assets at the report date. The Company recognized losses of $0.1 million and $0.5 million on the private-label MBS for the three and nine months ended September 30, 2011, respectively. Unrealized losses on the private-label MBS of $1.4 million were recorded in accumulated other comprehensive income at September 30, 2011.

The Company uses interest-rate swaps as part of its cash flow strategy to manage its interest-rate risk. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. To comply with the provisions of 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. Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs (i.e. estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties). However, at September 30, 2011 and December 31, 2010, the Company concluded that the impact of the credit valuation adjustments on the overall valuation of its derivative positions is not significant. Therefore, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

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 taking into consideration prices in observed transactions involving similar assets and similar locations, in accordance with GAAP. The fair value of other impaired loans is measured using a discounted cash flow analysis.

OREO and repossessed assets represents real property taken by the Bank either through foreclosure or through a deed in lieu thereof from the borrower. At the time of foreclosure, OREO is measured at fair value, less selling costs, which becomes its new cost basis. Subsequent to acquisition, OREO is carried at the lower of cost or fair value, less selling costs. Fair values are based on property appraisals, generally considered a Level 2 input by the Company. However, where the Company has adjusted an appraisal valuation downward due to its expectation of market conditions, the adjusted value is considered a Level 3 input.

Deferred Tax Assets. At September 30, 2011, the Company has recorded a net deferred tax asset of $18.8 million which relates primarily to expected future deductions arising in large part from the allowance for loan losses. Since there is no absolute assurance that these assets will be realized, the Company evaluates its ability to carryback losses, its tax planning strategies and forecasts of future earnings to determine the need for a

valuation allowance on these assets. If current available information raises doubt as to the realization of the deferred tax assets, an additional valuation allowance may be established.

We consider the determination of this valuation allowance to be a critical accounting policy because of the need to exercise significant judgment in evaluating the amount and timing of recognition of deferred tax liabilities and assets, including projections of future taxable income. These judgments and estimates are reviewed on a continual basis as regulatory and business factors change. At September 30, 2011, the Company has a valuation allowance of $15.6 million that was established in 2010. The Company has not adjusted the valuation allowance during 2011. An additional valuation allowance for deferred tax assets may be required if the amounts of taxes recoverable through loss carry backs decline, if we project lower levels of future taxable income, or we project lower levels of tax planning strategies. Such additional valuation allowance would be established through a charge to income tax expense that would adversely affect our operating results.

Financial Condition

Total assets at September 30, 2011 were $2.42 billion, increasing $21.0 million or 0.9% from $2.40 billion at December 31, 2010. Assets are comprised primarily of loans net of allowance for losses and investment securities, collectively making up over 92% of total assets. Total liabilities at September 30, 2011 were $2.22 billion, increasing $23.6 million or 1.1% from $2.19 billion at December 31, 2010. Liabilities are comprised primarily of deposits and securities sold under agreements to repurchase, collectively making up over 91% of total liabilities. Shareholder equity at September 30, 2011 was $199.3 million, decreasing $2.4 million or 1.2% from $201.7 million at December 31, 2010. During the third quarter of 2011, the Company redeemed its Series B Preferred Stock for $64.5 million and issued Series C Preferred Stock for $57.4 million. These transactions resulted in a $7.0 million decline in shareholder s equity. The following paragraphs discuss changes in the relative mix of certain assets and liability classes and reasons for such changes.

Investments. The Company manages its investment portfolio to provide interest income and to meet the collateral requirements for public deposits, our customer repurchase program and wholesale borrowings. Investments decreased slightly to 25.8% of total assets at September 30, 2011, from 26.9% at December 31, 2010.

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 trust preferred securities and corporate debt securities. The corporate debt securities portfolio is mainly comprised of six issuers in the Fortune 100. Over ninety percent of the corporate debt securities portfolio is investment grade with a rating of A- or better. None of the issuing institutions are in default nor have interest payments on the trust preferred securities been deferred.

Purchases of $158.5 million during 2011 were primarily comprised of MBS and U.S. government agencies. Maturities, sales, and paydowns of $169.0 million related primarily to the MBS and agencies portfolio. The net unrealized gain on available-for-sale securities decreased $0.4 million to $11.0 million at September 30, 2011 from $11.4 million at December 31, 2010. OTTI of $0.1 million and $0.5 million on two private-label MBS was recognized during the three and nine months ended September 30, 2011, respectively. At September 30, 2011, an unrealized loss of $1.4 million on private-label MBS was recognized in other comprehensive income. The Company may recognize additional losses on these securities if the underlying credit metrics were to worsen in the future.

(in thousands) AVAILABLE FOR SALE SECURITIES	September 30, 2011 Amortized cost	Fair value	% of portfolio	Net unrealized gain (loss)	% of unrealized gain (loss)
Mortgage-backed securities	$ 393,216	$ 405,804	66.3%	$ 12,588	114.5%
U.S. government agencies	48,916	49,289	8.0%	373	3.4%
Trust preferred securities	104,494	103,867	16.9%	(627)	(5.7)%
Corporate debt securities	51,390	51,479	8.4%	89	0.8%
Private label MBS	3,466	2,040	0.3%	(1,426)	(13.0)%
Municipal securities	325	325	0.1%		0.0%
Total available for sale securities	$ 601,807	$ 612,804	100.0%	$ 10,997	100.0%

Table of Contents

The Company also has Other Investments carried at cost with a value of $9.5 million at September 30, 2011, an increase of $2.5 million from $7.0 million at December 31, 2010. The year-to-date increase represents net purchases of FHLB stock. The FHLB stock is primarily related to a borrowing base maintained with the FHLB that is dependent upon the Company s liquidity position. To the extent that the Company s need for wholesale funding increases, the Company may purchase additional stock in the future.

Loans. Gross loans increased $16.1 million or approximately 1% to $1.66 billion at September 30, 2011 compared to December 31, 2010. During the nine months ended September 30, 2011, the Company advanced $274.3 million in new credit relationships and an additional $175.2 million on existing lines. Credit extensions during this period were offset by paydowns and maturities of $420.7 million and gross charge-offs of $12.7 million. Loan generation continues to be a challenge for both the Company and the industry and is the primary focus for the Company.

(in thousands)	**September 30, 2011**		**December 31, 2010**		**September 30, 2010**	
LOANS	**Amount**	**% of Portfolio**	**Amount**	**% of Portfolio**	**Amount**	**% of Portfolio**
Commercial	$ 587,345	36.7%	$ 565,145	35.8%	$ 569,607	36.1%
Real estate - mortgage	782,771	48.9%	783,675	49.7%	798,435	50.7%
Land acquisition & development	67,944	4.3%	83,871	5.3%	92,267	5.8%
Real estate - construction	68,442	4.3%	86,862	5.5%	85,763	5.4%
Consumer	112,709	7.0%	94,607	6.0%	75,233	4.8%
Other	40,588	2.5%	29,567	1.9%	17,913	1.1%
Gross loans	1,659,799	103.7%	1,643,727	104.2%	1,639,218	103.9%
Less allowance for loan losses	(59,695)	-3.7%	(65,892)	-4.2%	(65,325)	-4.1%
Net loans held for investment	1,600,104	100.0%	1,577,835	100.0%	1,573,893	99.8%
Loans held for sale		0.0%		0.0%	3,405	0.2%
Total net loans	$ 1,600,104	100.0%	$ 1,577,835	100.0%	$ 1,577,298	100.0%

Growth in gross loans during the nine months ended September 30, 2011, was primarily the result of growth of $22.2 million in the commercial segment. Concerted effort to promote newer products such as jumbo mortgages and tax-exempt financing resulted in additional loan balances of $18.1 million and $11.0 million in consumer and other loans, respectively. Growth in the loan portfolio was muted by declines in the Land A&D ($15.9 million) and real estate construction ($18.4 million) portfolios. The decrease in the Land A&D portfolio is the result of ongoing efforts to reduce high-risk loan concentration levels. At September 30, 2011, Land A&D comprises only 4.1% of gross loans down from 5.1% at December 31, 2010.

The allowance for loan losses decreased $6.2 million during the nine months ended September 30, 2011 as a result of net charge-offs of $9.8 million offset by $3.6 million in provision for loan losses. See the *Provision and Allowance for Loan and Credit Losses* section and Note 6 of the Notes to the condensed consolidated financial statements for additional discussion.

Deferred Income Taxes. Net deferred income taxes increased $2.4 million to $18.8 million at September 30, 2011, from $16.4 million at December 31, 2010. The increase was primarily related to a change in the fair value of our interest rate swaps resulting in a deferred tax asset of $2.7 million. The Company established a valuation allowance at December 31, 2010 in the amount of $15.6 million that was not adjusted during 2011. An additional valuation allowance for deferred tax assets may be required if the amounts of taxes recoverable through loss carry backs decline, future taxable income levels decrease, or lower levels of tax planning strategies are anticipated.

Other Real Estate Owned and Repossessed Assets. OREO and repossessed assets decreased $4.0 million to $21.0 million at September 30, 2011 from $25.1 million at December 31, 2010. During the nine months ended September 30, 2011, the Company foreclosed on 17 properties with a fair value of $5.6 million; received sales proceeds of $6.7 million; and recognized losses on OREO sales and valuation adjustments of $3.1 million. At September 30, 2011, $10.3 million OREO was in Colorado and $10.6 million was in Arizona.

Other Assets. Other Assets decreased $5.7 million to $43.8 million at September 30, 2011 from $49.6 million at December 31, 2010. The change is primarily attributable to the following declines: cash deposits pledged to correspondent banks as collateral for confirming letters of credit ($7.4 million); prepaid expenses, primarily prepaid FDIC insurance assessments ($2.1 million). These declines were offset by increases in fair market value of derivatives in an asset position ($3.2 million) and taxes receivable ($0.9 million).

Table of Contents

Deposits. Total deposits decreased $8.9 million to $1.88 billion at September 30, 2011 from $1.89 billion at December 31, 2010. The overall decrease in total deposits is primarily the result of a decline of $63.8 million in reciprocal CDARS, which is primarily attributed to a single customer relationship. Additionally, certificates of deposits $100,000 and over contributed $20.7 million to the decline in total deposits. Offsetting these declines in total deposits were NOW and money market and noninterest bearing deposit accounts reflecting growth of $55.1 million and $26.1 million, respectively. The CDARS program is provided through a third party and designed to provide full FDIC insurance on deposit amounts larger than the stated maximum by exchanging or reciprocating larger depository relationships with other member banks. Depositor funds are broken into smaller amounts and placed with other banks that are members of the network. Each member bank issues CDs in amounts under $250,000, so the entire deposit is eligible for FDIC insurance. CDARS are technically brokered deposits; however, the Company considers the reciprocal deposits placed through the CDARS program as core funding due to the customer relationship that generated the transaction and does not report the balances as brokered sources in its internal or external financial reports. The Company maintains strong noninterest-bearing deposit levels. Noninterest-bearing deposits represented 37.6% of total deposits at September 30, 2011, compared to 36.1% at December 31, 2010.

(in thousands)	**September 30, 2011**		**December 31, 2010**		**September 30, 2010**	
DEPOSITS AND CUSTOMER REPURCHASE AGREEMENTS	**Amount**	**% of Portfolio**	**Amount**	**% of Portfolio**	**Amount**	**% of Portfolio**
NOW and money market	$ 718,689	35.7%	$ 663,572	32.4%	$ 693,063	33.5%
Savings	10,251	0.5%	9,144	0.5%	9,160	0.4%
Eurodollar	104,971	5.2%	105,793	5.2%	116,681	5.6%
Certificates of deposits under $100,000	36,126	1.8%	41,845	2.0%	44,209	2.1%
Certificates of deposits $100,000 and over	208,965	10.4%	229,701	11.2%	261,632	12.8%
Reciprocal CDARS	93,909	4.6%	157,679	7.7%	155,188	7.5%
Brokered deposits		0.0%	100	0.0%	100	0.0%
Total interest-bearing deposits	1,172,911	58.2%	1,207,834	59.0%	1,280,033	61.9%
Noninterest-bearing demand deposits	707,606	35.2%	681,534	33.3%	621,420	30.1%
Customer repurchase agreements	131,877	6.6%	157,690	7.7%	165,559	8.0%
Total deposits and customer repurchase agreements	$ 2,012,394	100.0%	$ 2,047,058	100.0%	$ 2,067,012	100.0%

Securities Sold Under Agreements to Repurchase. Securities sold under agreement to repurchase are transacted with customers as a way to enhance our customers interest-earning ability. The Company does not consider customer repurchase agreements to be a wholesale funding source, but rather an additional treasury management service provided to our customer base. Our customer repurchase agreements are based on an overnight investment sweep that can fluctuate based on our customers operating account balances. Securities sold under agreements to repurchase decreased $25.8 million or 16.4% to $131.9 million at September 30, 2011, from $157.7 million at December 31, 2010.

Other Short-Term Borrowings. Other short-term borrowings normally consist of federal funds purchased and overnight and term borrowings from the Federal Home Loan Bank (FHLB). Other short-term borrowings are used as part of our liquidity management strategy and fluctuate based on the Company s cash position. The Company s wholesale funding needs are largely dependent on core deposit levels which can be volatile in uncertain economic conditions and sensitive to competitive pricing. A decline in deposits and growth in the loan portfolio during 2011 reduced the Company s need for wholesale borrowings. At September 30, 2011, there was $74.4 million in short-term borrowings outstanding compared to $14.0 million at December 31, 2010. 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, which historically bear a higher interest cost than core deposits.

Accrued Interest and Other Liabilities. Accrued interest and other liabilities decreased $2.1 million, or 5.5%, to $36.8 million at September 30, 2011, compared to $38.9 million at December 31, 2010. The decrease is primarily due to a decline of $11.8 million in liabilities accrued for investment purchases in 2010 that settled in 2011. Offsetting this decline was an increase of $10.9 million since December 31, 2010 in the fair market value of derivatives in a liability position.

Results of Operations

Overview

The following table presents the condensed consolidated statements of operations for the three and nine months ended September 30, 2011 and 2010.

Table of Contents

(in thousands)	Three months ended September 30, 2011	Three months ended September 30, 2010	Increase/(decrease) $	Increase/(decrease) %	Nine months ended September 30, 2011	Nine months ended September 30, 2010	Increase/(decrease) $	Increase/(decrease) %
INCOME STATEMENT DATA								
Interest income	$ 27,612	$ 28,550	$ (938)	(3.3)%	$ 83,980	$ 87,727	$ (3,747)	(4.3)%
Interest expense	3,638	4,663	(1,025)	(22.0)%	11,431	14,914	(3,483)	(23.4)%
NET INTEREST INCOME BEFORE PROVISION	23,974	23,887	87	0.4%	72,549	72,813	(264)	(0.4)%
Provision for loan losses		7,344	(7,344)	(100.0)%	3,622	31,608	(27,986)	(88.5)%
NET INTEREST INCOME AFTER PROVISION	23,974	16,543	7,431	44.9%	68,927	41,205	27,722	67.3%
Noninterest income	6,051	8,013	(1,962)	(24.5)%	22,873	24,651	(1,778)	(7.2)%
Noninterest expense	23,230	26,219	(2,989)	(11.4)%	73,934	81,943	(8,009)	(9.8)%
INCOME (LOSS) BEFORE INCOME TAXES	6,795	(1,663)	8,458	nm	17,866	(16,087)	33,953	nm
Provision (benefit) for income taxes	2,352	234	2,118	905.1%	6,358	(5,923)	12,281	nm
NET INCOME (LOSS) BEFORE NONCONTROLLING INTEREST	4,443	(1,897)	6,340	nm	11,508	(10,164)	21,672	nm
Net income attributable to noncontrolling interest						(199)	199	nm
NET INCOME (LOSS)	$ 4,443	$ (1,897)	$ 6,340	nm	$ 11,508	$ (10,363)	$ 21,871	nm

nm = not meaningful

The annualized return on average assets for the three and nine months ended September 30, 2011 was 0.74% and 0.64%, respectively, compared to (0.31)% and (0.57)% for the same prior year periods. The annualized return on average shareholders equity for the three and nine months ended September 30, 2011 was 8.50% and 7.42%, respectively, compared to (3.45)% and (6.16)% for the same periods in 2010. Improvement in return on average assets and shareholders equity during the three and nine months ended September 30, 2011 is primarily attributable to a reduction in the provision for loan losses of $7.3 million and $28.0 million, respectively, over the comparable prior year periods. Declines in noninterest expense exceeded declines in noninterest income and contributed to the improvement in the Company s returns. The Company s efficiency ratio was 74.52% and 74.17% for the three and nine months ended September 30, 2011, respectively, compared to 78.12% and 77.29% for the same periods in 2010.

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

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

The following tables set 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, 2011 and 2010.

Table of Contents

	Three months ended September 30 ,					
	2011			2010		
(in thousands)	Average balance	Interest earned or paid	Average yield or cost (1)	Average balance	Interest earned or paid	Average yield or cost (1)
Assets						
Federal funds sold and other	$ 26,980	$ 27	0.39%	$ 40,923	$ 45	0.43%
Investment securities (2)	610,128	5,413	3.55%	556,950	5,289	3.80%
Loans (2), (3)	1,656,737	22,516	5.32%	1,671,370	23,328	5.46%
Allowance for loan losses	(63,056)			(69,139)		
Total interest-earning assets	$ 2,230,789	$ 27,956	4.77%	$ 2,200,104	$ 28,662	4.95%
Noninterest-earning assets	155,148			222,311		
Total assets	$ 2,385,937			$ 2,422,415		
Liabilities and Shareholders Equity						
Deposits						
NOW and money market	$ 726,054	$ 1,072	0.59%	$ 692,659	$ 1,182	0.68%
Savings	10,473	4	0.15%	9,309	7	0.30%
Eurodollar	97,005	180	0.73%	118,278	267	0.88%
Certificates of deposit						
Brokered under $100,000			0.00%	387	2	2.05%
Reciprocal	93,158	130	0.55%	160,051	370	0.92%
Under $100,000	36,585	79	0.86%	45,225	147	1.29%
$100,000 and over	216,096	431	0.79%	285,195	890	1.24%
	$ 1,179,371	$ 1,896	0.64%	$ 1,311,104	$ 2,865	0.87%
Other borrowings						
Securities sold under agreements to repurchase	160,807	216	0.53%	158,954	275	0.68%
Other short-term borrowings	13,914	9	0.25%	2,640	2	0.30%
Long term-debt	93,150	1,517	6.37%	93,150	1,521	6.39%
Total interest-bearing liabilities	$ 1,447,242	$ 3,638	0.99%	$ 1,565,848	$ 4,663	1.17%
Noninterest-bearing demand accounts	701,488			610,933		
Total deposits and interest-bearing liabilities	2,148,730			2,176,781		
Other noninterest-bearing liabilities	29,745			27,297		
Total liabilities	2,178,475			2,204,078		
Total equity	207,462			218,337		
Total liabilities and equity	$ 2,385,937			$ 2,422,415		
Net interest income - taxable equivalent		$ 24,318			$ 23,999	
Net interest spread			3.78%			3.78%
Net interest margin			4.32%			4.33%
Ratio of average interest-earning assets to average interest-bearing liabilities	154.14%			140.51%		

Table of Contents

(in thousands)	For the nine months ended September 30, 2011 Average balance	Interest earned or paid	Average yield or cost (1)	2010 Average balance	Interest earned or paid	Average yield or cost (1)
Assets						
Federal funds sold and other	$ 34,350	$ 102	0.39%	$ 27,941	$ 106	0.50%
Investment securities (2)	620,093	17,268	3.71%	545,189	16,696	4.08%
Loans (2), (3)	1,650,171	67,469	5.39%	1,717,693	71,321	5.48%
Allowance for loan losses	(63,717)			(72,255)		
Total interest earning-assets	$ 2,240,897	$ 84,839	4.85%	$ 2,218,568	$ 88,123	5.07%
Noninterest-earning assets	159,721			210,793		
Total assets	$ 2,400,618			$ 2,429,361		
Liabilities and Shareholders Equity						
Deposits						
NOW and money market	$ 708,065	$ 3,359	0.63%	$ 710,107	$ 3,771	0.71%
Savings	9,906	14	0.19%	9,824	24	0.33%
Eurodollar	95,964	536	0.74%	111,251	794	0.94%
Certificates of deposit						
Brokered under $100,000	7		1.37%	2,322	38	2.19%
Reciprocal	113,202	537	0.63%	171,836	1,315	1.02%
Under $100,000	38,873	279	0.96%	48,230	541	1.50%
$100,000 and over	225,938	1,555	0.92%	318,783	3,376	1.42%
Total interest-bearing deposits	$ 1,191,955	$ 6,280	0.70%	$ 1,372,353	$ 9,859	0.96%
Other borrowings						
Securities sold under agreements to repurchase	159,494	632	0.52%	143,630	862	0.79%
Other short-term borrowings	9,351	18	0.25%	9,946	22	0.29%
Long-term debt	93,150	4,501	6.37%	93,150	4,171	5.90%
Total interest-bearing liabilities	$ 1,453,950	$ 11,431	1.04%	$ 1,619,079	$ 14,914	1.22%
Noninterest-bearing demand accounts	713,306			563,934		
Total deposits and interest-bearing liabilities	2,167,256			2,183,013		
Other noninterest-bearing liabilities	26,114			20,885		
Total liabilities	2,193,370			2,203,898		
Total equity	207,248			225,463		
Total liabilities and equity	$ 2,400,618			$ 2,429,361		
Net interest income - taxable equivalent		$ 73,408			$ 73,209	
Net interest spread			3.81%			3.85%
Net interest margin			4.38%			4.41%
Ratio of average interest-earning assets to average interest-bearing liabilities	154.12%			137.03%		

(1) Average yield or cost for the three and nine months ended September 30, 2011 and 2010 has been annualized, and is not necessarily indicative of results for the entire year.

(2) Yields include adjustments for tax-exempt interest income based on the Company s effective tax rate.

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

Net interest income on a taxable equivalent basis for the three and nine months ended September 30, 2011 was relatively stable. Average interest-earning asset balances have increased $30.7 million and $22.3 million for the three and nine months ended September 30, 2011, respectively. The average net loan portfolio for the nine months ended September 30, 2011 and 2010, comprised 71% and 74% of average interest-bearing assets, respectively. The securities investment portfolio for the same respective periods comprised 28% and 25% of average interest-earning assets, a shift reflecting the low demand environment for lending and the Company s deployment of excess liquidity into the lower yielding investment securities portfolio. The Company expects to redeploy excess liquidity into higher yielding loans in future quarters.

Including the noninterest bearing deposits, the Company s overall deposit interest cost was 40 basis points (0.40%) and 44 basis points for the three and nine months ended September 30, 2011, respectively, compared to 59 and 68 basis points for the prior year periods. Rates on average interest-bearing liabilities for the three and nine months ended September 30, 2011 decreased 18 basis points to 0.99% and 1.04%, respectively, over the comparable prior year periods.

Noninterest Income

The following table presents noninterest income for the three and nine months ended September 30, 2011 and 2010.

Table of Contents

(in thousands)	Three months ended September 30, 2011	2010	Increase/(decrease) $	%	Nine months ended September 30, 2011	2010	Increase/(decrease) $	%
NONINTEREST INCOME								
Service charges	$ 1,274	$ 1,252	$ 22	1.8%	$ 3,737	$ 3,779	$ (42)	(1.1)%
Investment advisory and trust income	1,291	1,298	(7)	(0.5)%	4,260	4,124	136	3.3%
Insurance income	2,952	3,173	(221)	(7.0)%	9,633	9,875	(242)	(2.5)%
Investment banking income	205	794	(589)	(74.2)%	1,806	2,884	(1,078)	(37.4)%
Other income	329	1,496	(1,167)	(78.0)%	3,437	3,989	(552)	(13.8)%
Total noninterest income	$ 6,051	$ 8,013	$ (1,962)	(24.5)%	$ 22,873	$ 24,651	$ (1,778)	(7.2)%

Noninterest income includes revenues earned from sources other than interest income. These sources include: service charges and fees on deposit accounts; letters of credit and ancillary loan fees; income from investment advisory and trust services; income from life insurance and wealth transfer products; benefits brokerage; property and casualty insurance; retainer and success fees from investment banking engagements; and increases in the cash surrender value of bank-owned life insurance.

Service Charges. Service charges primarily consist of fees earned from our treasury management services. Customers are given the option to pay for these services in cash or by offsetting the fees for these services against an earnings credit that is given for maintaining noninterest-bearing deposits. Service charges were stable during all periods shown in the above table.

Investment Advisory and Trust Income. Investment advisory and trust income was relatively flat quarter-over-quarter and increased 3.3% to $4.3 million for the nine months ended September 30, 2011 compared to the same period in 2010. Fees earned are generally based on a percentage of the assets under management (AUM) and market volatility has a direct impact on earnings.

At September 30, 2011, discretionary AUM, comprised primarily of equity securities, decreased $44.7 million to $709.2 million compared to $753.9 million one year earlier. Total AUM (discretionary and custodial assets) was $1.47 billion at September 30, 2011 compared to $1.51 billion at September 30, 2010.

Insurance Income. Insurance income is derived from three main areas: wealth transfer, benefits consulting, and property and casualty. The majority of fees earned on wealth transfer transactions are earned at the inception of the product offering in the form of commissions. Fees on these products are transactional by nature and fee income can fluctuate from period to period based on the volume and size of transactions that have been closed. Revenue from benefits consulting and property and casualty is a more recurring revenue source as policies and contracts generally renew or rewrite on an annual or more frequent basis.

For the three and nine months ended on September 30, 2011 and 2010, insurance revenues were earned from the following product lines:

	Three months ended September 30, 2011	2010	Nine months ended September 30, 2011	2010
Wealth transfer and executive compensation	27.7%	34.2%	24.7%	30.1%
Benefits consulting	31.9%	22.9%	30.2%	23.6%

Property and casualty	38.4%	41.1%	43.2%	44.1%
Fee income	2.0%	1.8%	1.9%	2.2%
	100.0%	100.0%	100.0%	100.0%

Insurance income decreased $0.2 million or 7.0% to $3.0 million during the three months ended September 30, 2011, compared to the same period in 2010. During the first nine months of 2011, insurance income decreased $0.2 million compared to the prior-year period. The decrease for the third quarter of 2011, over the prior quarter, is primarily attributable to a decline in commissions earned on the sale of life insurance products and to a lesser extent P&C revenue. Year to date, life commissions were $0.6 million below 2010 levels and bonus and contingency income were down $0.2 million. Employee benefits consulting income increased in 2011 as a result of an increased sales force.

Investment Banking Income. Investment banking income includes retainer fees which are recognized over the expected term of the engagement and success fees which are recognized when the transaction is completed and collectability of fees is reasonably assured. Investment banking income is transactional by nature and will

Table of Contents

fluctuate based on the number of clients engaged and transactions successfully closed. Investment banking income for the three and nine months ended September 30, 2011, decreased $0.6 million and $1.1 million, respectively, compared to the same periods in 2010 due primarily to lower success fees.

Other Income. Other income is comprised of increases in the cash surrender value of bank-owned life insurance, earnings on equity method investments, swap fees, merchant charges, bankcard fees, wire transfer fees, foreign exchange fees and safe deposit income. Other income decreased $1.2 million and $0.6 million for the three and nine months ended September 30, 2011, respectively, compared to the same periods in 2010, due primarily to declines in revenue from equity method investments and revenue earned on the sale of interest-rate swaps to commercial banking clients.

Noninterest Expense

The following table presents noninterest expense for the three and nine months ended September 30, 2011 and 2010.

	Three months ended September 30,		Increase/(decrease)		Nine months ended September 30,		Increase/(decrease)	
(in thousands)	**2011**	**2010**	**$**	**%**	**2011**	**2010**	**$**	**%**
NONINTEREST EXPENSES								
Salaries and employee benefits	$ 14,212	$ 14,580	$ (368)	(2.52)%	$ 44,888	$ 44,145	$ 743	1.7%
Share-based compensation expense	372	324	48	14.8%	1,137	1,180	(43)	(3.6)%
Occupancy expenses, premises and equipment	3,358	3,459	(101)	(2.9)%	10,034	10,305	(271)	(2.6)%
Amortization of intangibles	160	161	(1)	(0.6)%	479	482	(3)	(0.6)%
FDIC and other assessments	627	1,370	(743)	(54.2)%	2,901	3,931	(1,030)	(26.2)%
Other real estate owned and loan workout costs	821	1,364	(543)	(39.8)%	2,654	4,590	(1,936)	(42.2)%
Net OTTI on securities recognized in earnings	136	70	66	94.3%	507	379	128	33.8%
Loss on securities, other assets and OREO	720	1,227	(507)	(41.3)%	2,654	6,389	(3,735)	(58.5)%
Other operating expenses	2,824	3,664	(840)	(22.9)%	8,680	10,542	(1,862)	(17.7)%
Total noninterest expenses	$ 23,230	$ 26,219	$ (2,989)	(11.4)%	$ 73,934	$ 81,943	$ (8,009)	(9.8)%

Salaries and Employee Benefits. Salaries and employee benefits decreased $0.4 million (-3%) and increased $1.1 million (+2%) during the three and nine months ended September 30, 2011, respectively, compared to the same periods in 2010. The quarterly decrease is primarily due to lower than expected medical claims on the Company s self-insured plan, lower commission-based expense due to the decrease in noninterest income and a decrease in vacation expense. The year to date increase is attributable to increases in bonuses and salaries, offset by lower executive retirement plan costs. Bonus compensation is based on the Company s overall financial performance as well as performance measures specific to employees and is adjusted throughout the year. The Company s full-time equivalent employees decreased to 545 at September 30, 2011 from 553 a year earlier.

Share-based Compensation. The Company uses share-based compensation to recruit new employees and reward and retain existing employees. Share-based compensation increased slightly during the three months ended September 30, 2011, compared to the prior-year period and is due to an increase in restricted stock issued in 2011. Year to date, expenses are down slightly from the prior-year period, due to the cancellation of

share-based awards that did not meet specified performance metrics in the second quarter of 2011. The Company recognizes compensation costs for the grant-date fair value of awards issued to employees. The Company expects to continue using share-based compensation in the future.

Occupancy Costs. Occupancy costs consist primarily of rent, depreciation, utilities, property taxes and insurance. Occupancy costs decreased $0.1 million and $0.3 million during the three and nine months ended September 30, 2011, respectively, compared to the same periods in 2010. The decrease is attributed primarily to declines in common area management fees on leased facilities.

FDIC and Other Assessments. FDIC and other assessments consist of premiums paid by FDIC-insured institutions and by Colorado chartered banks. The assessments are based on statutory and risk classification factors and capital structure. FDIC and other assessments decreased $0.7 million and $1.0 million for the three and nine months ended September 30, 2011, respectively, over the prior year periods. The FDIC assessment calculation and base rates changed in the second quarter of 2011, reducing the Company s cost. FDIC cost reductions were also affected by the discontinuation of the Temporary Liquidity Guarantee Program (TLGP) program which the Bank voluntarily participated in through the end of 2010.

OREO and Loan Workout Costs. For the three and nine months ended September 30, 2011, carrying costs and workout expenses of nonperforming loans and OREO decreased $0.5 million or 40% and $1.9 million or 42%,

Table of Contents

respectively, compared to the same periods in 2010. The decline in OREO and loan workout costs is consistent with the decrease of $30.6 million or 33% in nonperforming assets to $62.4 million at September 30, 2011, compared to $92.9 in the prior year.

Net OTTI on Securities 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, the credit component of OTTI is recognized in earnings. The credit loss component is the difference between a security s amortized cost basis and the present value of expected future cash flows discounted at the security s effective interest rate. The amount due to all other factors is recognized in other comprehensive income. During the three and nine months ended September 30, 2011, the Company recognized $0.1 million and $0.5 million in OTTI, respectively, related to two private-label MBS. At September 30, 2011, an unrealized loss of $1.4 million on private-label MBS was recognized in other comprehensive income. The Company may recognize additional losses on these securities if the underlying credit metrics worsen in the future. Private-label MBS comprise 0.3% of the carrying value of the overall available for sale portfolio at September 30, 2011.

Loss on Securities, Other Assets, and OREO. The loss on securities, other assets and OREO was comprised of the following:

(in thousands)	Three months ended September 30, 2011	2010	Increase/(decrease) $	%	Nine months ended September 30, 2011	2010	Increase/(decrease) $	%
OREO and repossessed assets	$ 674	$ 1,207	$ (533)	(44.2)%	$ 3,232	$ 5,803	$ (2,571)	(44.3)%
Investment securities	46	10	36	360.0%	(605)	149	(754)	(506.0)%
Loans held for sale		10	(10)	(100.0)%		359	(359)	(100.0)%
Other				0.0%	27	78	(51)	(65.4)%
	$ 720	$ 1,227	$ (507)	(41.3)%	$ 2,654	$ 6,389	$ (3,735)	(58.5)%

As the Company s credit quality continues to improve, the Company has realized lower losses on OREO and loans held for sale.

Other Operating Expenses. Other operating expenses consist primarily of business development expenses (meals, entertainment and travel), charitable donations, professional services (auditing, legal, marketing and courier), and provision expense for off-balance sheet commitments. Other operating expenses for the three and nine months ended September 30, 2011, decreased $0.8 million and $1.9 million, respectively, compared to the prior year periods. Legal, professional and accounting service expenses are the major contributors to the decline in other operating expenses, decreasing $1.6 million for the nine months ended September 30, 2011, compared to the same period in 2010, reflecting Company-wide efforts to manage costs.

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, 2011 and 2010:

(in thousands)	Three months ended September 30, 2011	2010	Increase / (decrease)	Nine months ended September 30, 2011	2010	Increase / (decrease)

Provision for loan losses	$	$ 7,344	$ (7,344)	$ 3,622	$ 31,608	$ (27,986)
Provision for credit losses (included in other expenses)						
Total provision for loan and credit losses	$	$ 7,344	$ (7,344)	$ 3,622	$ 31,608	$ (27,986)

The decrease in the provision for loan and credit losses of $7.3 million and $28.0 million for the three and nine months ended September 30, 2011, respectively, over the comparable prior year periods is primarily attributable to an improving trend in new problem loans and an overall improvement in asset quality.

All loans are continually monitored to identify potential problems with repayment and collateral deficiency. At September 30, 2011, the allowance for loan and credit losses was 3.60% of total loans, compared to 4.01% at December 31, 2010, and 3.99% at September 30, 2010. The combination of recent improvement of loan performance and proactive provisioning resulted in a higher ratio of allowance for loan and credit losses to nonperforming loans at September 30, 2011 (144.46%) and at December 31, 2010 (154.33%) as compared to September 30, 2010 (102.34%). Though management believes the current allowance provides adequate

Table of Contents

coverage of potential problems in the loan portfolio as a whole, continued 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.

During the three and nine months ended September 30, 2011, the Company had net charge-offs of $2.2 million and $9.8 million, respectively, compared to $10.0 million and $41.4 million for the same periods a year earlier. Approximately 47% of the total year-to-date net charge-offs were from Colorado relationships while 53% were from Arizona relationships. The majority of net charge-offs is concentrated within two categories: real estate construction (51%) and commercial (25%). Real estate mortgage and Land A&D each comprise 11% of total net charge-offs. Net charge-offs on two credit relationships represented approximately 56% of total net charge-offs; 38% in the Colorado market and 18% in the Arizona market. Quarterly net charge-offs have steadily decreased from the fourth quarter of 2009 through the third quarter of 2011. Charge-offs for the second and third quarter of 2011 remained flat. The ratio of net charge-offs to average loans for the nine months ended September 30, 2011 was 0.60% compared to 2.62% at December 31, 2010 and 2.41% a year earlier. The declining trend in net charge-offs is consistent with the decrease in quarterly loan loss provision and the continued improvement in asset quality during the same period.

The allowance for credit losses represents management s recognition of a separate reserve for off-balance sheet loan commitments and letters of credit. While the allowance for loan losses is recorded as a contra-asset to the loan portfolio on the consolidated balance sheet, the allowance for credit losses is recorded in Accrued interest and other liabilities in the accompanying condensed consolidated balance sheet. Although the allowances are presented separately on the balance sheet, any losses incurred from credit losses would be reported as a charge-off in the allowance for loan losses, since any loss would be recorded after the off-balance sheet commitment had been funded. Due to the relationship of these allowances as extensions of credit underwritten through a comprehensive risk analysis, information on both the allowance for loan and credit losses positions is presented in the following table.

Table of Contents

(in thousands)	Nine months ended September 30, 2011	Year ended December 31, 2010	Nine months ended September 30, 2010
Balance of allowance for loan losses at beginning of period	$ 65,892	$ 75,116	$ 75,116
Provision for loan losses charged to operations	3,622	35,127	31,608
Charge-offs:			
Commercial	(3,618)	(8,357)	(7,227)
Real estate mortgage	(2,138)	(11,490)	(9,844)
Land acquisition & development	(1,635)	(23,077)	(21,788)
Real estate construction	(5,098)	(6,181)	(5,822)
Consumer	(184)	(1,079)	(367)
Other	(61)	(443)	(442)
Total charge-offs	(12,734)	(50,627)	(45,490)
Recoveries:			
Commercial	1,136	2,361	1,094
Real estate mortgage	1,018	451	170
Land acquisition & development	603	2,662	2,560
Real estate construction	69	655	127
Consumer	86	134	127
Other	3	13	13
Total recoveries	2,915	6,276	4,091
Net charge-offs	(9,819)	(44,351)	(41,399)
Balance of allowance for loan losses at end of period	$ 59,695	$ 65,892	$ 65,325
Balance of allowance for credit losses at beginning of period	$ 61	$ 155	$ 155
Provision for credit losses charged to operations		(94)	
Balance of allowance for credit losses at end of period	$ 61	$ 61	$ 155
Total provision for loan and credit losses charged to operations	$ 3,622	$ 35,033	$ 31,608
Ratio of net charge-offs to average loans	0.60%	2.62%	2.41%
Average loans outstanding during the period	$ 1,650,171	$ 1,693,546	$ 1,717,693

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:

Table of Contents

(in thousands)	At September 30, 2011	At December 31, 2010	At September 30, 2010
Nonperforming loans:			
Loans 90 days or more past due and still accruing interest	$	$ 202	$ 3,761
Nonaccrual loans:			
Commercial	5,606	8,722	7,401
Real estate - mortgage	18,491	8,446	26,215
Land acquisition & development	6,105	9,690	10,998
Real estate - construction	8,197	12,614	14,673
Consumer and other	2,966	3,060	935
Total nonaccrual loans	41,365	42,532	60,222
Total nonperforming loans	41,365	42,734	63,983
OREO and repossessed assets	20,986	25,095	28,919
Total nonperforming assets	$ 62,351	$ 67,829	$ 92,902
Allowance for loan losses	$ 59,695	$ 65,892	$ 65,325
Allowance for credit losses	61	61	155
Allowance for loan and credit losses	$ 59,756	$ 65,953	$ 65,480
Nonperforming assets to total assets	2.58%	2.83%	3.84%
Nonperforming loans to total loans	2.49%	2.60%	3.90%
Nonperforming loans and OREO to total loans and OREO	3.71%	4.06%	5.56%
Allowance for loan and credit losses to total loans (excluding loans held for sale)	3.60%	4.01%	3.99%
Allowance for loan and credit losses to nonperforming loans	144.46%	154.33%	102.34%

Nonperforming assets of $62.4 million at September 30, 2011 were equally distributed between the Company s two markets, Colorado (51%) and Arizona (49%). OREO and repossessed assets represent 34% of total nonperforming assets while the remaining 66% is comprised of nonperforming loans. Nonperforming loans of $41.4 million are primarily comprised of real estate mortgage loans (45%), real estate - construction (20%), and land acquisition and development (15%). Nonperforming assets have decreased steadily since its peak in the fourth quarter of 2009. The Company has dedicated significant resources to the workout and resolution of nonaccrual loans and OREO and continues to closely monitor the financial condition of its clients.

Segment Results

Certain financial metrics and discussion of the results for the three and nine months ended September 30, 2011 and 2010, of each operating segment, are presented below.

COMMERCIAL BANKING	Three months ended September 30,		Increase/(decrease)		Nine months ended September 30,		Increase/(decrease)	
(in thousands, except other information)	2011	2010	$	%	2011	2010	$	%
Income Statement								
Net interest income	$ 25,642	$ 25,039	$ 603	2.4%	$ 76,656	$ 75,770	$ 886	1.2%
Provision for loan losses	(2,068)	5,860	(7,928)	(135.3)%	(157)	25,547	(25,704)	(100.6)%
Noninterest income	1,653	2,780	(1,127)	(40.5)%	7,177	7,519	(342)	(4.5)%
Noninterest expense	7,403	6,902	501	7.3%	23,027	27,455	(4,428)	(16.1)%
Provision (benefit) for income taxes	8,149	5,674	2,475	43.6%	22,510	10,842	11,668	107.6%
Net income (loss) before management fees and overhead	13,811	9,383	4,428	47.2%	38,453	19,445	19,008	97.8%
Management fees and overhead allocations, net of tax	5,705	6,656	(951)	(14.3)%	17,063	18,775	(1,712)	(9.1)%

Net income (loss)	$ 8,106	$ 2,727	$ 5,379	197.2%	$ 21,390	$ 670	$ 20,720	3,092.5%
Other information								
Full-time equivalent employees	207.4	215.0			207.0	210.9		

Earnings for the Commercial Banking segment during the three and nine months ended September 30, 2011, increased $5.4 million and $20.7 million, respectively, compared to the same periods in 2010. The increase is primarily the result of a decrease in provision for loan losses and noninterest expense offset by increased tax provision expense. The provision decline is the result of the Company s early efforts to proactively reserve for problem loans when repayment risks were first identified. Another factor contributing to the downward trend in loan loss provision is the Company s overall continued asset quality improvement first reflected in the third quarter of 2009. Noninterest income declined $1.1 million during the third quarter of 2011 primarily as a result of losses on the segment s equity method investments. The decrease in noninterest expense is primarily comprised of FDIC assessments, OREO and loan workout expenses and losses on securities, other assets and OREO.

Table of Contents

INVESTMENT BANKING	**Three months ended September 30,**		**Increase/(decrease)**		**Nine months ended September 30,**		**Increase/(decrease)**	
(in thousands, except other information)	**2011**	**2010**	**$**	**%**	**2011**	**2010**	**$**	**%**
Income Statement								
Net interest income	$ 1	$ 2	$ (1)	(50.0)%	$ 6	$ 5	$ 1	20.0%
Noninterest income	205	794	(589)	(74.2)%	1,806	2,884	(1,078)	(37.4)%
Noninterest expense	868	1,085	(217)	(20.0)%	2,741	3,240	(499)	(15.4)%
Provision (benefit) for income taxes	(253)	(113)	(140)	(123.9)%	(363)	(139)	(224)	(161.2)%
Net income (loss) before management fees and overhead	(409)	(176)	(233)	(132.4)%	(566)	(212)	(354)	(167.0)%
Management fees and overhead allocations, net of tax	47	40	7	17.5%	118	122	(4)	(3.3)%
Net income (loss)	$ (456)	$ (216)	$ (240)	(111.1)%	$ (684)	$ (334)	$ (350)	(104.8)%
Other information								
Full-time equivalent employees	19.9	21.8			19.4	22.3		

Earnings for the Investment Banking segment decreased $0.2 million and $0.3 million for the three and nine month periods ended September 30, 2011, respectively, compared to the year earlier periods. Year-to-date in 2011, the segment closed two deals compared to five deals in 2010. During the third quarter of 2011, no deals were closed and noninterest income is comprised solely of monthly retainers earned on active engagements.

WEALTH MANAGEMENT	**Three months ended September 30,**		**Increase/(decrease)**		**Nine months ended September 30,**		**Increase/(decrease)**	
(in thousands, except other information)	**2011**	**2010**	**$**	**%**	**2011**	**2010**	**$**	**%**
Income Statement								
Net interest income	$ (2)	$ (1)	$ (1)	(100.0)%	$ (26)	$ (28)	$ 2	7.1%
Noninterest income	2,154	2,443	(289)	(11.8)%	6,815	7,294	(479)	(6.6)%
Noninterest expense	2,191	2,748	(557)	(20.3)%	6,967	7,712	(745)	(9.7)%
Provision (benefit) for income taxes	(4)	(122)	118	96.7%	(72)	(176)	104	59.1%
Net income (loss) before management fees and overhead	(35)	(184)	149	81.0%	(106)	(270)	164	60.7%
Management fees and overhead allocations, net of tax	164	168	(4)	(2.4)%	472	545	(73)	(13.4)%
Net income (loss)	$ (199)	$ (352)	$ 153	43.5%	$ (578)	$ (815)	$ 237	29.1%
Other information								
Full-time equivalent employees	54.4	55.0			56.1	55.4		

Net loss for the Wealth Management segment decreased $0.2 million for the three and nine month periods ended September 30, 2011, compared to the year earlier periods. Revenue generated from wealth transfer transactions (typically facilitated through the use of whole life insurance products) decreased 25% and 19%, during the three and nine months ended September 30, 2011, respectively, compared to the prior year periods. The decrease in noninterest expense offset the declines in revenue.

Insurance revenues generated by wealth transfer are transactional by nature, with the majority of revenues earned at the time of the sale. Over the past several quarters these revenues have been lower than historical standards due to broader economic uncertainties. Whole life products generally require large, up-front cash premiums and potential clients have hesitated to make this investment.

Investment advisory revenues are generally a percentage of assets under management (AUM) and provide a revenue stream that can fluctuate with movement in the equity markets.

Discretionary AUM at September 30, 2011, decreased $44.7 million or 5.9% to $709.2 million compared to $753.9 million a year earlier. Total AUM, including custody and advisory assets, were $1.47 billion and $1.51 billion at September 30, 2011 and 2010, respectively.

INSURANCE	**Three months ended September 30,**		**Increase/(decrease)**		**Nine months ended September 30,**		**Increase/(decrease)**	
(in thousands, except other information)	**2011**	**2010**	**$**	**%**	**2011**	**2010**	**$**	**%**
Income Statement								
Net interest income	$	$ (2)	$ 2	100.0%	$ (3)	$ (8)	$ 5	62.5%
Noninterest income	2,089	2,028	61	3.0%	7,078	6,705	373	5.6%
Noninterest expense	2,181	2,118	63	3.0%	6,849	6,672	177	2.7%
Provision (benefit) for income taxes	(29)	(34)	5	14.7%	100	17	83	488.2%
Net income (loss) before management fees and overhead	(63)	(58)	(5)	(8.6)%	126	8	118	1,475.0%
Management fees and overhead allocations, net of tax	115	83	32	38.6%	288	256	32	12.5%
Net income (loss)	$ (178)	$ (141)	$ (37)	(26.2)%	$ (162)	$ (248)	$ 86	34.7%
Other information								
Full-time equivalent employees	55.0	48.7			53.1	52.4		

Earnings for the three months ended September 30, 2011 remained relatively consistent year-over-year. Earnings for the nine months ended September 30, 2011, increased $0.1 million over the comparable prior year

Table of Contents

period. Year-to-date revenue growth was primarily attributed to the employee benefit business. The employee benefit group upgraded its sales staff in 2010 and as a result is experiencing an increase in new business.

Employee benefits sales commissions have faced pressure in recent quarters as clients have responded to the economy by reducing headcount and reducing coverage. P&C commissions have also faced longstanding downward pressure as a soft premium environment persists, and clients have changed limits and their revenues, payrolls and property valuations have declined.

The P&C industry continues to experience a soft premium market and revenue gains are largely dependent on volume growth. The Employee Benefits business remains attentive to new healthcare legislation and the potential impact on its current and prospective clients. The Company has a large client base to which it could potentially cross-sell insurance business products. The Company has focused on refining its internal referral program to maximize its cross-sell opportunities.

CORPORATE SUPPORT	**Three months ended September 30,**		**Increase/(decrease)**		**Nine months ended September 30,**		**Increase/(decrease)**	
(in thousands, except other information)	**2011**	**2010**	**$**	**%**	**2011**	**2010**	**$**	**%**
Income Statement								
Net interest income	$ (1,667)	$ (1,151)	$ (516)	(44.8)%	$ (4,084)	$ (2,926)	$ (1,158)	(39.6)%
Provision for loan losses	2,068	1,484	584	39.4%	3,779	6,061	(2,282)	(37.7)%
Noninterest income	(50)	(32)	(18)	(56.3)%	(3)	249	(252)	(101.2)%
Noninterest expense	10,587	13,366	(2,779)	(20.8)%	34,350	36,864	(2,514)	(6.8)%
Provision (benefit) for income taxes	(5,511)	(5,171)	(340)	(6.6)%	(15,817)	(16,467)	650	3.9%
Net income (loss) before management fees and overhead	(8,861)	(10,862)	2,001	18.4%	(26,399)	(29,135)	2,736	9.4%
Management fees and overhead allocations, net of tax	(6,031)	(6,947)	916	13.2%	(17,941)	(19,698)	1,757	8.9%
Net income attributable to noncontrolling interest				0.0%		(199)	199	100.0%
Net income (loss)	$ (2,830)	$ (3,915)	$ 1,085	27.7%	$ (8,458)	$ (9,636)	$ 1,178	12.2%
Other information								
Full-time equivalent employees	211.7	208.7			209.9	204.5		

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, and loan and deposit operations. The Company has a process for allocating these support operations back to the production lines based on an internal allocation methodology that is updated annually.

Net loss for the Corporate Support and Other segment decreased $1.1 million and $1.2 million for the three and nine months ended September 30, 2011, respectively, compared to the year earlier periods. The primary component of net interest income (expense) for the segment is interest expense related to the Company s long-term debt (see Note 9 to the condensed consolidated financial statements). In the first quarter of 2010, interest expense on a portion of variable-rate debt was fixed through the use of interest-rate swaps (see Note 8 to the condensed consolidated financial statements). The decrease in net interest income is attributable to a decrease in interest income on the loan portfolio the Parent purchased from the Bank in 2009.

The provision for loan losses relates to the non-performing loan portfolio the Parent owns. This portfolio has steadily decreased since the 2009 purchase due to loan repayments and collateral sales. In addition, asset quality improvement within the portfolio has contributed to the decline

in the provision for loan losses.

Noninterest expense includes salaries and benefits of employees of the Parent and support functions as well as the nonemployee overhead operating costs not directly associated with another segment. Noninterest expense decreased $2.8 million and $2.5 million during the three and nine months ended September 30, 2011, respectively, primarily as a result of a decrease in loan workout expenses and other legal and professional expenses incurred in conjunction with the loan portfolio owned by the Parent. Additionally, compensation expense relating to the Supplemental Executive Retirement Plan decreased year-over-year.

Contractual Obligations and Commitments

Summarized below are the Company s contractual obligations (excluding deposit liabilities) to make future payments at September 30, 2011:

Table of Contents

(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)	$	2,534	$		$		$		$	2,534
FHLB overnight funds purchased (1)		71,839								71,839
Repurchase agreements (1)		131,877								131,877
Operating lease obligations		5,786		9,706		8,045		6,092		29,629
Long-term debt obligations (2)		6,024		30,897		7,391		115,318		159,630
Preferred Stock, Series C (3)		2,868		5,737		60,951				69,556
Supplemental executive retirement plan								3,826		3,826
Total contractual obligations	$	220,928	$	46,340	$	76,387	$	125,236	$	468,891

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

(2) Principal repayment of the junior subordinated debentures is assumed to be at the contractual maturity while principal repayment of the subordinated notes payable is assumed to be its first call date (See Note 9 to the Consolidated Financial Statements). Interest on the junior subordinated debentures is calculated at the fixed rate associated with the applicable hedging instrument through the instrument maturity date (see Note 8 to the Consolidated Financial Statements) and then at the current variable rate through contractual maturity and is reported in the due within categories during which the interest expense is expected to be incurred. Included in long-term debt obligations are estimated interest payments related to Subordinated Debt (junior and unsecured) of $6.0 million due Within one year , $9.9 million due After one but within three years , $7.5 million due After three but within five years and $42.6 million due After five years. Variable interest rate payments on junior subordinated debentures after maturity of the related fixed interest rate swap hedge and actual interest payments will differ based on actual LIBOR and actual amounts outstanding for the applicable periods.

(3) Series C Preferred Stock issued to Treasury in September 2011 includes dividends payable at 5% on $57.4 million. The preferred shares are shown in the table as being due in the After three but within five years category which assumes the $57.4 million in preferred stock will be redeemed in the year prior to the contractual dividend rate step up to 9% effective 4.5 years after issuance.

The contractual amount of the Company s financial instruments with off-balance sheet risk at September 30, 2011, 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	$	355,823	$	144,846	$	29,380	$	4,600	$	534,649
Standby letters of credit		39,532		2,737		3,223				45,492
Commercial letters of credit		229		54						283
Unfunded commitments for unconsolidated investments		5,644								5,644
Company guarantees		1,202								1,202
Total commitments	$	402,430	$	147,637	$	32,603	$	4,600	$	587,270

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

Table of Contents

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 $29.4 million of total loan commitments at September 30, 2011 represent commitments to extend credit at fixed rates of interest, which exposes the Company to some degree of interest-rate risk.

The Company has also entered into interest-rate swap agreements under which it is required to either receive 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, 2011 do not represent the actual amounts that will ultimately be received or paid under the contracts since the fair value is based on estimated future interest rates and are therefore excluded from the table above.

Liquidity and Capital Resources

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

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

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

Liquidity from asset categories is provided through cash and interest-bearing deposits with other banks, which totaled $50.4 million at September 30, 2011, compared to $24.2 million at December 31, 2010. Additional asset liquidity sources include principal and interest payments from securities in the Company s investment portfolio and cash flows from its amortizing loan portfolio. Liability liquidity sources include attracting deposits at competitive rates and maintaining wholesale borrowing (short-term borrowings and brokered CDs) credit relationships.

The Company s loan to core deposit ratio increased to 88.3% at September 30, 2011, from 87.0% at December 31, 2010, and above the last 4-quarter period ending average of 86.1%. This has allowed the Company to maintain low levels of wholesale borrowings which historically bear a higher cost than core deposits. At September 30, 2011, the Company had $71.8 million in outstanding borrowings with the FHLB. Average wholesale borrowings were $9.3 million during the nine months ended September 30, 2011, an increase from the

2010 fiscal year average of $4.6 million. The Company has no brokered deposits at September 30, 2011 and core deposits represent 100% of the Company s deposit base.

The Company uses various forms of short-term borrowings for cash management and liquidity purposes, regularly accessing its federal funds and FHLB lines to manage its daily cash position. At September 30, 2011, the Bank has approved federal funds purchase lines with seven correspondent banks with an aggregate credit line of $165.0 million. The Bank also has a line of credit from the FHLB that is limited by the amount of eligible collateral available to secure it and the Company s investment in FHLB stock. Borrowings under the FHLB line are required to be secured by unpledged securities and qualifying loans. Borrowings may also be used on a longer-term basis to support expanded lending activities and to match the maturity or repricing intervals of assets.

Available funding through correspondent lines and the FHLB at September 30, 2011, totaled $430.1 million or 19.2% of the Company s earning assets. Available funding is comprised of $162.6 million through the unsecured federal fund lines and $267.6 million in secured FHLB borrowing capacity. The Company had $85.5 million in securities available to be pledged as collateral for additional FHLB borrowings at September 30, 2011. Access to funding through correspondent lines is dependent upon the cash position of the correspondent banks and there may be times when certain lines are not available. In addition, certain lines require a one day rest period after a specified number of consecutive days of accessing the lines. Although the Company s aggregate correspondent credit lines decreased $80.0 million during 2010 due to three lines becoming unavailable in reaction to an overall tightening in the credit markets, it believes it has sufficient borrowing capacity and diversity in correspondent banks to meet its needs. A seventh correspondent line was added for $10.0 million during the quarter ended September 30, 2011.

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

The approval of the Colorado State Banking Board is required prior to the declaration of any dividend by the Bank if the total of all dividends declared by the Bank in any calendar year exceeds the total of its net profits for that year combined with the retained net profits for the preceding two years. In addition, the Federal Deposit Insurance Corporation Improvement Act of 1991 provides that the Bank cannot pay a dividend if it will cause the Bank to be undercapitalized. At September 30, 2011, the Bank was restricted in its ability to pay dividends to the holding company as its earnings in the prior two years, net of dividends paid during those years, were negative. The Company s ability to pay dividends on its common stock depends upon the availability of dividends from the Bank, earnings from its fee-based businesses, and upon the Company s compliance with the capital adequacy guidelines of the Federal Reserve Board of Governors (see Note 14 of the notes to the condensed consolidated financial statements). The holding company has a liquidity policy that requires the maintenance of at least 18 months of liquidity on the balance sheet based on projected cash usages, exclusive of dividends from the Bank. At September 30, 2011, the holding company had a liquidity position that exceeds the policy limit.

At September 30, 2011, shareholders equity totaled $199.3 million, a $2.4 million decrease from December 31, 2010. The decrease was primarily due to the net decline of $7.0 million relating to the redemption of the Series B Preferred Stock and the issuance of the Series C Preferred Stock (see Note 11 to the condensed consolidated financial statements for additional), common and preferred dividends of $3.6 million and declines of $4.7 million in accumulated comprehensive income associated with changes in the value of hedge derivatives. Offsetting the declines was a $1.4 million increase in common surplus relating to stock-based compensation, sales of stock under the ESPP plan and stock exercises and net income of $11.5 million for the nine months ended September 30, 2011.

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

Table of Contents

operations, we believe the Company will be able to sustain its ability to raise adequate capital through one or more of these financing sources.

We are subject to minimum risk-based capital limitations as set forth by federal banking regulations at both the consolidated Company level and the Bank level. Under the risk-based capital guidelines, different categories of assets, including certain off-balance sheet items, such as loan commitments in excess of one year and letters of credit, are assigned different risk weights, based generally on the perceived credit risk of the asset. These risk weights are multiplied by corresponding asset balances to determine a risk-weighted asset base. For purposes of the risk-based capital guidelines, total capital is defined as the sum of Tier 1 and Tier 2 capital elements, with Tier 2 capital being limited to 100% of Tier 1 capital. Tier 1 capital includes, with certain restrictions, common shareholders equity, perpetual preferred stock and minority interests in consolidated subsidiaries. Tier 2 capital includes, with certain limitations, perpetual preferred stock not included in Tier 1 capital, certain maturing capital instruments, and the allowance for loan and credit losses. At September 30, 2011, the Bank was well-capitalized with a Tier 1 Capital ratio of 11.3% and Total Capital ratio of 12.5%. The minimum ratios to be considered well-capitalized under the risk-based capital standards are 6% and 10%, respectively. At the holding company level, the Company s Tier 1 Capital ratio at September 30, 2011, was 13.2% and its Total Capital ratio 15.7%. In order to comply with the regulatory capital constraints, the Company and its Board of Directors constantly monitor the capital level and its anticipated needs based on the Company s growth. The Company has identified sources of additional capital that could be used if needed, and monitors the costs and benefits of these sources, which include both the public and private markets.

Effects of Inflation and Changing Prices

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

Forward Looking Statements

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

- Competitive pressures among depository and other financial institutions nationally and in our market areas may increase significantly.
- Adverse changes in the economy or business conditions, either nationally or in our market areas, could increase credit-related losses and expenses and/or limit growth.
- Increases in defaults by borrowers and other delinquencies could result in increases in our provision for losses on loans and related expenses.

- Our inability to manage growth effectively, including the successful expansion of our customer support, administrative infrastructure and internal management systems, could adversely affect our results of operations and prospects.

- Fluctuations in interest rates and market prices could reduce our net interest margin and asset valuations and increase our expenses.

- The consequences of continued bank acquisitions and mergers in our market areas, resulting in fewer but much larger and financially stronger competitors, could increase competition for financial services to our detriment.

- Our continued growth will depend in part on our ability to enter new markets successfully and capitalize on other growth opportunities.

Table of Contents

- 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, 2010.

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

At September 30, 2011, there have been no material changes in the quantitative and qualitative information about market risk provided pursuant to Item 305 of Regulation S-K as presented in our Form 10-K for the year ended December 31, 2010.

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, 2011, the end of the period covered by this report (Evaluation Date), pursuant to Exchange Act Rule 13a-15(e). Based upon that evaluation, the Company s Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company s periodic SEC filings.

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

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

PART II. OTHER INFORMATION

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

On September 8, 2011, the Company issued and sold to Treasury 57,366 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series C (Series C Preferred Stock), par value $0.01 per share, having a liquidation value of $1,000 per share, for a capital contribution of $57,366,000. The sale was made in conjunction with the Treasury s SBLF program established under the Small Business Jobs Act of 2010. There was no underwriter associated with this transaction. Proceeds of the transaction were used to redeem the Company s Fixed Rate Cumulative Perpetual Preferred Stock, Series B (Series B Preferred Stock).

On September 8, 2011, the Company used the proceeds from the issuance of the Series C Preferred Stock together with other available funds to redeem (repurchase) from Treasury all 64,450 outstanding share of its Series B Preferred Stock at a liquidation amount of $1,000 per share for a redemption price of $64,450,000, plus accrued but unpaid dividends to the redemption date. The Series B Preferred Stock was issued to Treasury December 2008 in connection with the Company s participation in the TARP Capital Purchase Program.

Table of Contents

Additional information on the Series B Preferred Stock redemption and the Series C Preferred Stock issuance including terms of the SBLF program are included in Form 8-K, filed with the SEC on September 8, 2011, as well as in Note 11 to the Condensed Consolidated Financial Statements for the period ended September 30, 2011.

Item 6. **Exhibits**

Exhibits and Index of Exhibits.

(1)	3.1	Amendment to Articles of Incorporation.
(1)	4.1	Form of Certificate for the Series C Preferred Stock.
(1)	10.1	Securities Purchase Agreement, dated September 8, 2011, by and between CoBiz Financial Inc. and the Secretary of the United States Department of the Treasury (Small Business Lending Fund Preferred Stock issuance/Series C Preferred Stock).
(1)	10.2	Repurchase Agreement dated September 8, 2011, between CoBiz Financial Inc. and the United States Department of the Treasury (TARP Preferred Stock redemption/Series B Preferred Stock).
	31.1	Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer.
	31.2	Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer.
	32.1	Section 1350 Certification of the Chief Executive Officer.
	32.2	Section 1350 Certification of the Chief Financial Officer.
	101	Pursuant to Rule 405 of Regulation S-T, the following materials from CoBiz Financial Inc. s Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Statement of Income and Comprehensive Income (Loss), (ii) the Condensed Consolidated Statement of Cash Flows, (iii) the Condensed Consolidated Balance Sheet, and (iv) Notes to the Condensed Consolidated Financial Statements.

---

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

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 31, 2011	By:	/s/ Steven Bangert Steven Bangert Chairman and Chief Executive Officer
Date: October 31, 2011	By:	/s/ Lyne B. Andrich Lyne B. Andrich

Executive Vice President and Chief Financial Officer