Bancorp, Inc.
Form 10-Q
August 11, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: June 30, 2014

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OF 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from: _____ to _____

Commission file number: 51018

THE BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware	23-3016517
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

409 Silverside Road	
Wilmington, DE	19809
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code: (302) 385-5000

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

Yes [X] No [ ]

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

Yes [X] No [ ]

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

(Check one):

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

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

Yes [ ] No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of August 6, 2014 there were 37,708,777 outstanding shares of common stock, $1.00 par value.

THE BANCORP, INC

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

THE BANCORP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS

	June 30, 2014	December 31, 2013
	(in thousands)	
ASSETS		
Cash and cash equivalents		
Cash and due from banks	$ 15,192	$ 33,883
Interest earning deposits at Federal Reserve Bank	441,422	1,196,515
Securities purchased under agreements to resell	15,906	7,544
Total cash and cash equivalents	472,520	1,237,942
Investment securities, available-for-sale, at fair value	1,459,626	1,253,117
Investment securities, held-to-maturity (fair value $94,927 and $95,030, respectively)	97,130	97,205
Commercial loans held for sale	154,474	69,904
Loans, net of deferred loan fees and costs	2,049,561	1,958,445
Allowance for loan and lease losses	(46,945)	(38,182)
Loans, net	2,002,616	1,920,263
Federal Home Loan and Atlantic Central Bankers Bank stock	3,409	3,209
Premises and equipment, net	16,236	15,659
Accrued interest receivable	14,508	13,131
Intangible assets, net	6,988	7,612
Other real estate owned	26,781	26,295
Deferred tax asset, net	24,606	30,415
Other assets	36,270	31,313
Total assets	$ 4,315,164	$ 4,706,065
LIABILITIES		
Deposits		
Demand and interest checking	$ 3,563,447	$ 3,722,602
Savings and money market	307,927	536,162
Time deposits	8,962	9,773

Time deposits, $100,000 and over	1,474	4,452
Total deposits	3,881,810	4,272,989
Securities sold under agreements to repurchase	17,481	21,221
Subordinated debenture	13,401	13,401
Other liabilities	29,978	38,850
Total liabilities	3,942,670	4,346,461
SHAREHOLDERS' EQUITY		
Common stock - authorized, 50,000,000 shares of $1.00 par value; 37,808,777 and 37,720,945		
shares issued at June 30, 2014 and December 31, 2013, respectively	37,809	37,721
Treasury stock, at cost (100,000 shares)	(866)	(866)
Additional paid-in capital	296,523	294,576
Retained earnings	27,762	27,615
Accumulated other comprehensive income	11,266	558
Total shareholders' equity	372,494	359,604
Total liabilities and shareholders' equity	$ 4,315,164	$ 4,706,065

The accompanying notes are an integral part of these consolidated statements.

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THE BANCORP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
	(in thousands, except per share data)			
Interest income				
Loans, including fees	$ 21,926	$ 20,908	$ 43,307	$ 41,230
Interest on investment securities:				
Taxable interest	5,356	3,801	10,493	7,288
Tax-exempt interest	2,956	873	5,040	1,598
Federal funds sold/securities purchased under agreements to resell	85	98	191	122
Interest bearing deposits	411	505	1,175	1,343
	30,734	26,185	60,206	51,581
Interest expense				
Deposits	2,695	2,476	5,472	4,974
Securities sold under agreements to repurchase	11	12	23	26
Subordinated debenture	113	118	228	318
	2,819	2,606	5,723	5,318
Net interest income	27,915	23,579	54,483	46,263
Provision for loan and lease losses	15,500	9,500	32,800	15,000
Net interest income after provision for loan and lease losses	12,415	14,079	21,683	31,263
Non-interest income				

Service fees on deposit accounts	1,377	1,084	2,587	2,144
Card payment and ACH processing fees	1,317	1,046	2,620	1,913
Prepaid card fees	12,898	11,531	26,366	23,505
Gain on sale of loans	5,212	5,748	10,696	7,926
Gain on sale of investment securities	159	476	400	743
Other than temporary impairment on securities held-to-maturity	-	-	-	(20)
Leasing income	1,015	642	1,396	1,229
Debit card income	456	201	882	397
Affinity fees	668	850	1,202	1,706
Other	608	784	1,716	1,951
Total non-interest income	23,710	22,362	47,865	41,494
Non-interest expense				
Salaries and employee benefits	16,324	13,615	31,685	25,904
Depreciation and amortization	1,133	935	2,183	1,731
Rent and related occupancy cost	1,177	1,064	2,259	1,945
Data processing expense	3,535	2,796	6,871	5,403
Printing and supplies	626	437	1,197	869
Audit expense	400	305	776	616
Legal expense	915	791	2,247	1,410
Amortization of intangible assets	304	250	608	500
Losses on sale and write downs on other real estate owned	(92)	815	(30)	1,066
FDIC insurance	1,116	858	2,805	1,834
Software	1,133	982	2,308	1,791
Other real estate owned expense	325	125	651	235
Bank Secrecy Act and lookback consulting expenses	2,169	-	2,169	-

Other	6,765		4,614		13,058		8,762	
Total non-interest expense	35,830		27,587		68,787		52,066	
Net income before income tax	295		8,854		761		20,691	
Income tax provision (benefit)	(43)		3,262		125		7,693	
Net income	$	338	$	5,592	$	636	$	12,998
Net income per share - basic	$	0.01	$	0.15	$	0.02	$	0.35
Net income per share - diluted	$	0.01	$	0.15	$	0.02	$	0.34

The accompanying notes are an integral part of these consolidated statements.

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THE BANCORP INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the six months ended June 30, 2014		2013	
	(in thousands)			
Net income	$	636	$	12,998
Other comprehensive income, net of reclassifications into net income:				
Other comprehensive income (loss)				
Change in net unrealized gain/(loss) during the period	16,863		(13,121)	
Reclassification adjustments for gains included in income	(400)		(743)	
Amortization of losses previously held as available-for-sale	11		79	
Net unrealized gain/(loss) on investment securities	16,474		(13,785)	
Deferred tax expense (benefit)				
Securities available-for-sale				
Change in net unrealized gain/(loss) during the period	5,902		(4,592)	
Reclassification adjustments for gains included in income	(140)		(261)	
Amortization of losses previously held as available-for-sale	4		28	
Income tax expense (benefit) related to items of other comprehensive income (loss)	5,766		(4,825)	
Other comprehensive income (loss), net of tax and reclassifications into net income	10,708		(8,960)	
Comprehensive income	$	11,344	$	4,038

The accompanying notes are an integral part of these consolidated statements.

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THE BANCORP INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the six months ended June 30, 2014

(in thousands, except share data)

	Common stock shares	Common stock	Treasury stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Total
Balance at January 1, 2014	37,720,945	$ 37,721	$ (866)	$ 294,576	$ 27,615	$ 558	$ 359,6
Net income					636		636
Common stock issued from option exercises, net of tax benefits	9,249	9	-	94	-	-	103
Common stock issued from option exercises, cashless exercise, net of tax benefits	29,208	30	-	459	(489)	-	-
Common stock issued as restricted shares, net of tax benefits	49,375	49		(49)			-
Stock-based compensation	-	-	-	1,443	-	-	1,443
Other comprehensive income net of reclassification adjustments	-	-	-	-	-	10,708	10,708

and tax													
Balance at June 30, 2014	37,808,777	$	37,809	$	(866)	$	296,523	$	27,762	$	11,266	$	372,4

The accompanying notes are an integral part of this consolidated statement.

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THE BANCORP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

	For the six months ended June 30, 2014	2013
Operating activities		
Net income	$ 636	$ 12,998
Adjustments to reconcile net income to net cash (used in) provided by operating activities		
Depreciation and amortization	3,262	2,718
Provision for loan and lease losses	32,800	15,000
Net amortization of investment securities premiums/discounts	4,794	2,615
Stock-based compensation expense	1,443	1,558
Loans originated for sale	(323,926)	(110,117)
Sale of loans originated for resale	243,960	101,721
Gain on sale of loans originated for resale	(4,604)	(7,926)
Gain on sale of fixed assets	(2)	1
Other than temporary impairment on securities held-to-maturity	-	20
(Gain) loss on sale and write downs on other real estate owned	(30)	1,066
Gain on sale of investment securities	(400)	(743)
Increase in accrued interest receivable	(1,377)	(2,503)
Decrease in interest payable	(29)	(8)
(Increase) decrease in other assets	(5,570)	773
(Decrease) increase in other liabilities	(15,673)	1,445
Net cash (used in) provided by operating activities	(64,716)	18,618
Investing activities		
Purchase of investment securities available-for-sale	(343,628)	(442,958)
Purchase of investment securities held-to-maturity	-	(50,875)
Proceeds from sale of investment securities available-for-sale	46,507	51,149
Proceeds from redemptions and prepayments of securities held-to-maturity	38	-
Proceeds from redemptions and prepayments of securities available-for-sale	109,559	103,091
Proceeds from sale of other real estate owned	3,903	694
Net increase in loans	(119,512)	(97,813)
Proceeds from sale of fixed assets	11	79
Purchases of premises and equipment	(2,768)	(5,151)
Net cash used in investing activities	(305,890)	(441,784)

Financing activities		
Net (decrease) increase in deposits	(391,179)	137,436
Net (decrease) increase in securities sold under agreements to repurchase	(3,740)	511
Proceeds from issuance of common stock	-	1,629
Proceeds from the exercise of options	103	290
Excess tax benefit from share-based payment arrangements	-	(3)
Net cash (used in) provided by financing activities	(394,816)	139,863
Net decrease in cash and cash equivalents	(765,422)	(283,303)
Cash and cash equivalents, beginning of period	1,237,942	968,092
Cash and cash equivalents, end of period	$ 472,520	$ 684,789
Supplemental disclosure:		
Interest paid	$ 5,734	$ 5,326
Taxes paid	$ 2,093	$ 8,349
Transfers of loans to other real estate owned	$ 4,359	$ 3,827
Transfers of loans to held for sale	$ -	$ 21,692

The accompanying notes are an integral part of these consolidated statements.

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THE BANCORP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLDIATED FINANCIAL STATEMENTS

Note 1. Structure of Company

The Bancorp, Inc. (the Company) is a Delaware corporation and a registered financial holding company. Its primary subsidiary is The Bancorp Bank (the Bank) which is wholly owned by the Company. The Bank is a Delaware chartered commercial bank located in Wilmington, Delaware and is a Federal Deposit Insurance Corporation (FDIC) insured institution. Through the Bank, the Company provides retail and commercial banking services in the Philadelphia, Pennsylvania and Wilmington, Delaware areas and other banking services nationally, which include prepaid debit cards, health savings accounts, institutional banking and private label banking. In Europe, the Company maintains three operational service subsidiaries and one subsidiary through which it offers prepaid card issuing services. The principal medium for the delivery of the Company's banking services is the Internet.

Note 2. Significant Accounting Policies

Basis of Presentation

The financial statements of the Company, as of June 30, 2014 and for the three and six month periods ended June 30, 2014 and 2013, are unaudited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principlesgenerally accepted in the United States of America have been condensed or omitted in this Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission. However, in the opinion of management, these interim financial statements include all necessary adjustments to fairly present the results of the interim periods presented. The unaudited interim consolidated financial statements should be read in conjunction with the audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 (Form 10-K report). The results of operations for the six month period ended June 30, 2014 may not necessarily be indicative of the results of operations for the full year ending December 31, 2014.

Note 3. Share-based Compensation

The Company recognizes compensation expense for stock options in accordance with Financial Accounting Standards Board (FASB) Accounting Series Codification (ASC) 718, Stock Based Compensation. The expense of the option is generally measured at fair value at the grant date with compensation expense recognized over the service period, which is usually the vesting period. For grants subject to a service condition, the Company utilizes the Black-Scholes option-pricing model to estimate the fair value of each option on the date of grant. The Black-Scholes model takes into consideration the exercise price and expected life of the options, the current price of the underlying stock and its expected volatility, the expected dividends on the stock and the current risk-free interest rate for the expected life of the option. The Company's estimate of the fair value of a stock option is based on expectations derived from historical experience and may not necessarily equate to its market value when fully vested. In accordance with ASC 718, the Company estimates the number of options for which the requisite service is expected to be rendered. At June 30, 2014, the Company had three stock-based compensation plans, which are more fully described in its Annual Report on Form 10-K for the year ended December 31, 2013 and the portions of the Company's Proxy Statement dated March 18, 2014, incorporated therein by reference.

The Company did not grant stock options in the first six months of 2014. In the first quarter of 2013, the Company granted 215,000 common stock options; 35,000 had a vesting period of one year and 180,000 had a vesting period of four years. The weighted-average fair value of the stock options issued was $4.85. There were 63,874 common stock options exercised in the six month period ended June 30, 2014 and 64,149 common stock options exercised in the six month period ended June 30, 2013. The total intrinsic value of the options exercised during the six months ended June 30, 2014 and 2013 was $619,000 and $270,000, respectively.

The Company estimated the fair value of each grant on the date of grant using the Black-Scholes options pricing model with the following weighted average assumptions:

	June 30,	
	2014	2013
Risk-free interest rate	0.00%	1.86%
Expected dividend yield	-	-
Expected volatility	0.00%	49.71%-56.81%
Expected lives (years)	-	4.03-4.22

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Expected volatility is based on the historical volatility of the Company's stock and peer group comparisons over the expected life of the grant. The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury strip rate in effect at the time of the grant. The life of the option is based on historical factors which include the contractual term, vesting period, exercise behavior and employee terminations. In accordance with ASC 718, Stock Based Compensation, stock based compensation expense for the six month period ended June 30, 2014 is based on awards that are ultimately expected to vest and has been reduced for estimated forfeitures. The Company estimates forfeitures using historical data based upon the groups identified by management.

A summary of the status of the Company's equity compensation plans is presented below.

	Shares	Weighted average exercise price		Weighted-average remaining contractual term (years)	Aggregate intrinsic value	
	(in thousands, except per share data)					
Outstanding at January 1, 2014	2,620,874	$	9.70			
Granted	-	-		-	-	
Exercised	(63,874)	9.27		-	-	
Expired	-	-		-	-	
Forfeited	-	-		-	-	
Outstanding at June 30, 2014	2,557,000	$	9.71	5.81	$	-
Exercisable at June 30, 2014	1,891,250	$	10.06	5.24	$	4,986,887

The Company granted 197,481 restricted stock units with a vesting period of four years at a fair value of $10.46 in the first six months of 2013. There were no restricted stock units granted in the first six months of 2014. The total fair value of restricted stock units vested for the six months ended June 30, 2014 and 2013 was $886,000 and $ 0, respectively.

A summary of the status of the Company's restricted stock units is presented below.

	Shares	Weighted-average grant date fair value	Average remaining contractual term (years)	
Outstanding at January 1, 2014	197,841	$ 10.46	2.6	
Granted	-	-	-	
Vested	(49,460)	-		-
Expired/forfeited	-	-		-
Outstanding at June 30, 2014	148,381			

As of June 30, 2014, there was a total of $3.6 million of unrecognized compensation cost related to unvested awards under share-based plans. This cost is expected to be recognized over a weighted average period of 1.0 years. Related compensation expense for the six months ended June 30, 2014 and 2013 was $1.4 million and $1.6 million respectively.

Note 4. Earnings Per Share

The Company calculates earnings per share under ASC 260, Earnings Per Share. Basic earnings per share exclude dilution and are computed by dividing income available to common shareholders by the weighted average common shares outstanding during the period. Diluted earnings per share takes into account the potential dilution that could occur if securities or other contracts to issue common stock were exercised and converted into common stock.

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The following tables show the Company’s earnings per share for the periods presented:

	For the three months ended June 30, 2014				
	Income (numerator)		Shares (denominator)	Per share amount	
	(dollars in thousands except per share data)				
Basic earnings per share					
Net income available to common shareholders	$	338	37,706,491	$	0.01
Effect of dilutive securities					
Common stock options	-		779,814	-	
Diluted earnings per share					
Net income available to common shareholders	$	338	38,486,305	$	0.01

Stock options for 227,750 shares, exercisable at prices between $15.94 and $25.43 per share, were outstanding at June 30, 2014 but were not included in dilutive shares because the exercise price per share was greater than the average market price.

	For the six months ended June 30, 2014				
	Income (numerator)		Shares (denominator)	Per share amount	
	(dollars in thousands except per share data)				
Basic earnings per share					
Net income available to common shareholders	$	636	37,693,624	$	0.02
Effect of dilutive securities					
Common stock options	-		892,109	-	
Diluted earnings per share					
Net income available to common shareholders	$	636	38,585,733	$	0.02

Stock options for 3,000 shares exercisable at prices between $20.98 and $25.43 per share, were outstanding at June 30, 2014 but were not included in dilutive shares because the exercise price per share was greater than the average market price.

	For the three months ended June 30, 2013		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except per share data)		
Basic earnings per share			
Net income available to common shareholders	$ 5,592	37,343,396	$ 0.15
Effect of dilutive securities			
Common stock options	-	631,418	-
Diluted earnings per share			
Net income available to common shareholders	$ 5,592	37,974,814	$ 0.15

Stock options for 656,091 shares, exercisable at prices between $14.24 and $25.43 per share, were outstanding at June 30, 2013 but were not included in dilutive shares because the exercise price per share was greater than the average market price.

For the six months ended June 30, 2013

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	Income (numerator)		Shares (denominator)	Per share amount	
	(dollars in thousands except per share data)				
Basic earnings per share					
Net income available to common shareholders	$	12,998	37,317,750	$	0.35
Effect of dilutive securities					
Common stock options	-		559,962	(0.01)	
Diluted earnings per share					
Net income available to common shareholders	$	12,998	37,877,712	$	0.34

Stock options for 656,091 shares, exercisable at prices between $14.24 and $25.43 per share, were outstanding at June 30, 2013 but were not included in dilutive shares because the exercise share price was greater than the average market price.

Note 5. Investment Securities

The amortized cost, gross unrealized gains and losses, and fair values of the Company's investment securities classified as available-for-sale and held-to-maturity at June 30, 2014 and December 31, 2013 are summarized as follows (in thousands):

Available-for-sale	June 30, 2014							
	Amortized cost		Gross unrealized gains		Gross unrealized losses		Fair value	
U.S. Government agency securities	$	20,617	$	71	$	(3)	$	20,685
Federally insured student loan securities	128,901		946		(113)		129,734	
Tax-exempt obligations of states and political subdivisions	512,216		11,131		(221)		523,126	
Taxable obligations of states and political subdivisions	63,225		2,325		(125)		65,425	
Residential mortgage-backed securities	380,408		3,117		(900)		382,625	
Commercial mortgage-backed securities	142,960		1,813		(784)		143,989	
Corporate and other debt securities	192,981		1,292		(231)		194,042	
	$	1,441,308	$	20,695	$	(2,377)	$	1,459,626

Held-to-maturity	June 30, 2014			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Other debt securities - single issuers	$ 21,036	$ 473	$ (4,177)	$ 17,332
Other debt securities - pooled	76,094	1,501	-	77,595
	$ 97,130	$ 1,974	$ (4,177)	$ 94,927

Available-for-sale	December 31, 2013			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Government agency securities	$ 10,680	$ 46	$ -	$ 10,726
Federally insured student loan securities	147,717	575	(719)	147,573
Tax-exempt obligations of states and political subdivisions	378,180	2,721	(1,951)	378,950
Taxable obligations of states and political subdivisions	78,638	1,276	(746)	79,168
Residential mortgage-backed securities	323,199	1,838	(2,263)	322,774
Commercial mortgage-backed securities	118,838	1,919	(410)	120,347
Corporate and other debt securities	194,010	789	(1,220)	193,579
	$ 1,251,262	$ 9,164	$ (7,309)	$ 1,253,117

Held-to-maturity	December 31, 2013			
	Amortized	Gross unrealized	Gross unrealized	Fair

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	cost	gains	losses	value
Other debt securities - single issuers	$ 21,027	$ 367	$ (4,222)	$ 17,172
Other debt securities - pooled	76,178	1,680	-	77,858
	$ 97,205	$ 2,047	$ (4,222)	$ 95,030

Investments in Federal Home Loan and Atlantic Central Bankers Bank stock are recorded at cost and amounted to $3.2 million at June 30, 2014 and at December 31, 2013.

The amortized cost and fair value of the Company's investment securities at June 30, 2014, by contractual maturity, are shown below (in thousands). Expected maturities may differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-sale		Held-to-maturity	
	Amortized cost	Fair value	Amortized cost	Fair value
Due before one year	$ 88,521	$ 88,845	$ -	$ -
Due after one year through five years	364,784	367,817	-	-
Due after five years through ten years	274,007	279,089	10,203	10,276
Due after ten years	713,996	723,875	86,927	84,651
	$ 1,441,308	$ 1,459,626	$ 97,130	$ 94,927

At June 30, 2014 and December 31, 2013, investment securities with a book value of approximately $26.2 million and $29.1 million, respectively, were pledged to secure securities sold under repurchase agreements as required or permitted by law.

Fair value of available-for-sale securities are based on the fair market value supplied by a third-party market data provider while the fair value of held-to-maturity securities are based on the present value of cash flows, which discounts expected cash flows from principal and interest using yield to maturity at the measurement date. The Company periodically reviews its investment portfolio to determine whether unrealized losses are other than temporary, based on an evaluations of the creditworthiness of the issuers/guarantors as well as the underlying collateral if applicable, in addition to the continuing performance of the securities. The Company did not recognize any other-than-temporary impairment charges in the first six months of 2014. The Company recognized other-than-temporary impairment charges of $20,000 on one trust preferred security in the first six months of 2013. The amount of the credit impairment was calculated by estimating the discounted cash flows for those securities.

The table below indicates the length of time individual securities had been in a continuous unrealized loss position at June 30, 2014 (dollars in thousands):

Available-for-sale		Less than 12 months		12 months or longer		Total
	Number of securities	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value
Description of Securities						
U.S. Government agency securities	1	$ 1,792	$ (3)	$ -	$ -	$ 1,792
Federally insured student loan securities	5	-	-	40,955	(113)	40,955
Tax-exempt obligations of states and political subdivisions	61	19,994	(90)	24,949	(131)	44,943
Taxable obligations of states and political subdivisions	13	-	-	11,377	(125)	11,377
Residential mortgage-backed securities	30	46,700	(195)	72,778	(705)	119,478
Commercial mortgage-backed securities	25	70,579	(665)	7,909	(119)	78,488
Corporate and other debt securities	34	4,424	(8)	30,546	(223)	34,970
Total temporarily impaired investment securities	169	$ 143,489	$ (961)	$ 188,514	$ (1,416)	$ 332,003

Held-to-maturity		Less than 12 months		12 months or longer		Total	
	Number of securities	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Unrealized losses
Description of Securities							

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Single issuers	2	$ -	$ -	$ 7,941	$ (4,177)	$ 7,941	$ (4,177)
Total temporarily impaired investment securities	2	$ -	$ -	$ 7,941	$ (4,177)	$ 7,941	$ (4,177)

The table below indicates the length of time individual securities had been in a continuous unrealized loss position at December 31, 2013 (dollars in thousands):

Available-for-sale		Less than 12 months		12 months or longer		Total
	Number of securities	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value
Description of Securities						
Federally insured student loan securities	4	$ 3,300	$ -	$ -	$ -	$ 3,300
Tax-exempt obligations of states and political subdivisions	9	50,498	(676)	6,202	(44)	56,700
Taxable obligations of states and political subdivisions	229	169,995	(1,951)	-	-	169,995
Residential mortgage-backed securities	52	46,888	(737)	1,808	(9)	48,696
Commercial mortgage-backed securities	38	147,717	(1,656)	55,064	(606)	202,781
Corporate and other debt securities	26	76,668	(399)	405	(11)	77,073
Other equity securities	101	97,904	(1,024)	4,255	(196)	102,159
Total temporarily impaired						

investment securities	459	$	592,970	$	(6,443)	$	67,734	$	(866)	$ 660,704

Held-to-maturity		Less than 12 months		12 months or longer		Total	
	Number of securities	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Unre losse
Description of Securities							
Single issuers	2	$ -	$ -	$ 7,887	$ (4,222)	$ 7,887	$
Total temporarily impaired investment securities	2	$ -	$ -	$ 7,887	$ (4,222)	$ 7,887	$

Other securities, included in the held-to-maturity classification at June 30, 2014, consisted of three securities secured by diversified portfolios of corporate securities, one bank senior note, three single issuer trust preferred securities and one pooled trust preferred security.

A total of $21.0 million of other debt securities - single issuers is comprised of the following: the amortized cost of the three single issuer trust preferred securities was $14.0 million, of which one security for $1.9 million was issued by a bank and two securities totaling $12.1 million were issued by two different insurance companies. The book value of the bank senior note was $7.0 million.

A total of $76.2 million of other debt securities – pooled is comprised of the following: the one pooled trust preferred security totaled $332,000 and was collateralized by bank trust preferred securities. The book value for the three securities consisting of diversified portfolios of corporate securities was $75.8 million.

The following table provides additional information related to our single issuer trust preferred securities as of June 30, 2014 (in thousands):

Single issuer	Book value	Fair value	Unrealized gain/(loss)	Credit rating
Security A	$ 1,897	$ 2,000	$ 103	Not rated
Security B	3,181	2,884	(297)	Not rated

Security C	8,937	5,056	(3,881)	Not rated
Class: All of the above are trust preferred securities.				

The following table provides additional information related to our pooled trust preferred securities as of June 30, 2014:

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Pooled issue	Class	Book value	Fair value	Unrealized gain/(loss)	Credit rating	Subordination
Pool A (7 performing issuers)	Mezzanine *	$ 332	$ 407	$ 75	CAA1	**

* The actual deferrals and defaults as a percentage of the original collateral were 20.27%. Assumed losses resulting from expected deferrals and defaults as a percentage of remaining collateral is .75% annually with 15% recovery with a two year lag.
** There is no excess subordination in these securities.

The Company has evaluated the securities in the above tables and has concluded that none of these securities has impairment that is other-than-temporary. The Company evaluates whether a credit impairment exists by considering primarily the following factors: (a) the length of time and extent to which the fair value has been less than the amortized cost of the security, (b) changes in the financial condition, credit rating and near-term prospects of the issuer, (c) whether the issuer is current on contractually obligated interest and principal payments, (d) changes in the financial condition of the security's underlying collateral and (e) the payment structure of the security. The Company's best estimate of expected future cash flows which is used to determine the credit loss amount is a quantitative and qualitative process that incorporates information received from third-party sources along with internal assumptions and judgments regarding the future performance of the security. The Company concluded that most of the securities that are in an unrealized loss position are in a loss position because of changes in interest rates after the securities were purchased. The securities that have been in an unrealized loss position for 12 months or longer include other securities whose market values are sensitive to interest rates and changes in credit quality. The Company's unrealized loss for the debt securities, which includes three single issuer trust preferred securities and one pooled trust preferred security, is primarily related to general market conditions and the resultant lack of liquidity in the market. The severity of the impairments in relation to the carrying amounts of the individual investments is consistent with market developments. The Company's analysis for each investment is performed at the security level. As a result of its review, the Company concluded that other-than-temporary impairment did not exist due to the Company's ability and intention to hold these securities to recover their amortized cost basis.

Note 6. Loans

The Company originates loans for sale to other financial institutions which issue commercial mortgage backed securities or to secondary government guaranteed loan markets. The Company has elected fair value treatment for these loans to better reflect the economics of the transactions. At June 30, 2014 the Company had $154.5 million of loans held for sale, which were originated for sale either to institutions which issue commercial mortgage backed securities or to secondary government guaranteed loan markets. During the six months ended June 30, 2014, the Company recognized a related fair value gain of $4.6 million. In the six months ended June 30, 2014 the Company recognized $8.4 million in gains upon the sale of loans.

Major classifications of loans, excluding loans held for sale, are as follows (in thousands):

	June 30, 2014	December 31, 2013
Commercial	$ 476,799	$ 450,113
Commercial mortgage	593,622	625,810
Construction	264,667	258,889
Total commercial loans	1,335,088	1,334,812
Direct lease financing	185,878	175,610
Residential mortgage	96,009	94,850
Consumer and other loans	422,835	346,334
	2,039,810	1,951,606
Unamortized loan fees and costs	9,751	6,839
Total loans, net of deferred loan costs	$ 2,049,561	$ 1,958,445
Supplemental loan data:		
Construction 1-4 family	$ 40,226	$ 48,394
Commercial construction, acquisition and development	224,441	210,495

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$	264,667	$	258,889

Included in the table above are demand deposit overdrafts reclassified as loan balances totaling $5.4 million and $2.7 million at June 30, 2014 and December 31, 2013, respectively. Overdraft charge-offs and recoveries are reflected in the allowance for loan and lease losses.

The following table provides information about impaired loans at June 30, 2014 and December 31, 2013 (in thousands):

	Recorded investment		Unpaid principal balance		Related allowance		Average recorded investment		Interest income recognized	
June 30, 2014										
Without an allowance recorded										
Construction	$	3,344	$	11,102	$	-	$	3,856	$	-
Commercial mortgage	8,240		8,583		-		3,950		-	
Commercial	5,293		8,271		-		5,597		-	
Consumer - home equity	827		827		-		894		-	
Residential	1,175		1,175		-		1,175		-	
With an allowance recorded										
Construction	8,956		8,956		3,780		5,390		-	
Commercial mortgage	2,550		2,550		522		4,404		-	
Commercial	7,185		14,531		3,811		15,890		-	
Consumer - home equity	1,353		1,778		282		1,153		-	
Residential	-		-		-		280		-	
Total										
Construction	12,300		20,058		3,780		9,246		-	
Commercial mortgage	10,790		11,133		522		8,354		-	
Commercial	12,478		22,802		3,811		21,487		-	
Consumer - home equity	2,180		2,605		282		2,047		-	

Residential	1,175	1,175	-	1,455	-

	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment	Interest income recognized
December 31, 2013					
Without an allowance recorded					
Construction	$ 1,104	$ 1,454	$ -	$ 1,506	$ -
Commercial mortgage	1,759	1,759	-	4,662	-
Commercial	9,021	11,131	-	7,014	-
Consumer - home equity	927	927	-	927	-
Residential	1,175	1,175	-	873	-
With an allowance recorded					
Construction	563	563	353	2,437	-
Commercial mortgage	4,102	4,102	1,476	4,581	-
Commercial	20,846	21,276	9,369	15,670	-
Consumer - home equity	429	429	135	190	-
Residential	841	841	84	373	-
Total					

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Construction	1,667	2,017	353	3,943	-
Commercial mortgage	5,861	5,861	1,476	9,243	-
Commercial	29,867	32,407	9,369	22,684	-
Consumer - home equity	1,356	1,356	135	1,117	-
Residential	2,016	2,016	84	1,246	-

The following tables summarize the Company's non-accrual loans, loans past due 90 days and still accruing and other real estate owned for the periods indicated (the Company had no non-accrual leases at June 30, 2014, June 30, 2013, or December 31, 2013) (in thousands):

	June 30, 2014	June 30, 2013	December 31, 2013
Non-accrual loans			
Construction	$ 12,300	$ 2,352	$ 1,667
Commercial mortgage	10,790	9,324	5,861
Commercial	12,269	26,935	29,651
Consumer	2,180	1,116	1,356
Residential	1,175	2,016	2,016
Total non-accrual loans	38,714	41,743	40,551
Loans past due 90 days or more	1,031	755	110
Total non-performing loans	39,745	42,498	40,661
Other real estate owned	26,781	6,308	26,295
Total non-performing assets	$ 66,526	$ 48,806	$ 66,956

The Company's loans that were modified as of June 30, 2014 and December 31, 2013 and considered troubled debt restructurings are as follows (dollars in thousands):

	June 30, 2014			December 31, 2013		
	Number	Pre-modification recorded investment	Post-modification recorded investment	Number	Pre-modification recorded investment	Post-modification recorded investment
Commercial	1	$ 209	$ 209	1	$ 217	$ 217
Commercial mortgage	4	3,977	3,977	3	3,055	3,055
Construction	1	263	263	1	263	263
Residential mortgage	-	-	-	-	-	-
Total	6	$ 4,449	$ 4,449	5	$ 3,535	$ 3,535

The balances below provide information as to how the loans were modified as troubled debt restructurings loans as of June 30, 2014 and December 31, 2013 (in thousands):

	June 30, 2014			December 31, 2013		
	Adjusted interest rate	Extended maturity	Combined rate and maturity	Adjusted interest rate	Extended maturity	Combined rate and maturity
Commercial	$ -	$ 209	$ -	$ -	$ 217	$ -
Commercial mortgage	3,763	214	-	681	214	2,160
Construction	-	263	-	-	263	-
Residential mortgage	-	-	-	-	-	-
Total	$ 3,763	$ 686	$ -	$ 681	$ 694	$ 2,160

As of June 30, 2014 loans there were no loans that were restructured within the last 12 months that have subsequently defaulted.

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As of June 30, 2014 and December 31, 2013, the Company had no commitments to lend additional funds to loan customers whose terms have been modified in troubled debt restructurings.

A detail of the changes in the allowance for loan and lease losses by loan category is as follows (in thousands):

Six months ended June 30, 2014	Commercial	Commercial mortgage	Construction	Residential mortgage	Consumer	Direct lease financing	Unall
Beginning balance	$ 18,206	$ 6,884	$ 10,559	$ 661	$ 937	$ 311	$
Charge-offs	(11,530)	(3,688)	(8,546)	(108)	(562)	-	
Recoveries	60	-	317	-	20	-	
Provision (credit)	11,188	4,635	15,142	(16)	1,501	690	(340)
Ending balance	$ 17,924	$ 7,831	$ 17,472	$ 537	$ 1,896	$ 1,001	$
Ending balance: Individually evaluated for impairment	$ 3,811	$ 522	$ 3,780	$ -	$ 282	$ -	$
Ending balance: Collectively evaluated for impairment	$ 14,113	$ 7,309	$ 13,692	$ 537	$ 1,614	$ 1,001	$