

Bancorp, Inc.
Form 10-K
September 28, 2015
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2014

OR

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

For the transition period from _____ to _____

Commission File Number 51018

The Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

23-3016517
(IRS Employer

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incorporation or organization) 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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value \$1.00 per share	NASDAQ Global Select

Securities registered pursuant to Section 12(g) of the Act:

Title of class

None

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

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(a) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Yes No

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller Reporting Company

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

The aggregate market value of the common shares of the registrant held by non-affiliates of the registrant, based upon the closing price of such shares on June 30, 2014 of \$11.91, was approximately \$431.4 million.

As of September 24, 2015, 37,758,237 shares of common stock, par value \$1.00 per share, of the registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for registrant's 2015 Annual Meeting of Shareholders are incorporated by reference in Part III of this Form 10-K.

THE BANCORP, INC.

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FORWARD-LOOKING STATEMENTS

The Securities and Exchange Commission, or SEC, encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions. This report contains such "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or Exchange Act.

Words such as "anticipates," "estimates," "expects," "projects," "intends," "plans," "believes," "should" and words and terms similar substance used in connection with any discussion of future operating and financial performance identify forward-looking statements. Unless we have indicated otherwise, or the context otherwise requires, references in this report to "we," "us," and "our" or similar terms, are to The Bancorp, Inc. and its subsidiaries.

We claim the protection of safe harbor for forward-looking statements provided in the Private Securities Litigation Reform Act of 1995. These statements may be made directly in this report and they may also be incorporated by reference in this report to other documents filed with the SEC, and include, but are not limited to, statements about future financial and operating results and performance, statements about our plans, objectives, expectations and intentions with respect to future operations, products and services, and other statements that are not historical facts. These forward-looking statements are based upon the current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are difficult to predict and generally beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. Actual results may differ materially from the anticipated results discussed in these forward-looking statements.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- the risk factors discussed and identified in Item 1A of this report and in other of our public filings with the SEC;
- weak economic and slow growth conditions in the U.S. economy and significant dislocations in the credit markets have had, and may in the future have, significant adverse effects on our assets and operating results, including increases in payment defaults and other credit risks, decreases in the fair value of some assets and increases in our provision for loan losses;
- weak economic and credit market conditions may result in a reduction in our capital base, reducing our ability to maintain deposits at current levels;
- operating costs may increase;
- adverse governmental or regulatory policies may be promulgated;
- management and other key personnel may be lost;
- competition may increase;
- the costs of our interest-bearing liabilities, principally deposits, may increase relative to the interest received on our interest-bearing assets, principally loans, thereby decreasing our net interest income;
- loan and investment yields may decrease for various reasons resulting in a lower net interest margin;
-

- possible geographic concentration of certain of our loans could result in our loan portfolio being adversely affected by economic factors unique to the geographic area and not reflected in other regions of the country;
- the market value of real estate that secures certain of our loans has been, and may continue to be, adversely affected by recent economic and market conditions, and may be affected by other conditions outside of our control such as lack of demand for real estate of the type securing our loans, natural disasters, changes in neighborhood values, competitive overbuilding, weather, casualty losses, occupancy rates and other similar factors;
 - we must satisfy our regulators with respect to Bank Secrecy Act, Anti-Money Laundering and other regulatory mandates to prevent additional restrictions on adding customers and to remove current restrictions on adding certain customers;
 - the loans from our discontinued operations are now held for sale and were marked to fair value by an independent third party; however, the actual sales price could differ from those third party fair values. The reinvestment rate for the proceeds of those sales in investment securities depends on future market interest rates; and

- we may not be able to sustain our historical growth rate in our loan, prepaid card and other lines of business.

We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Except to the extent required by applicable law or regulation, we undertake no obligation to update these forward-looking statements to reflect events or circumstances after the date of this filing or to reflect the occurrence of unanticipated events.

EXPLANATORY NOTE

As reported in our Current Report on Form 8-K, filed April 1, 2015, we analyzed the amount and timing of our recognition of impairment losses with respect to certain loan relationships that we had originally recognized in the quarter ended March 31, 2014. As a result of this analysis, the audit committee of our board of directors determined that such charges should be restated to prior periods and, accordingly, that our financial statements for the years ended December 31, 2012 and 2013, for the quarterly periods within such years, and for the quarters ended March 31, 2014, June 30, 2014 and September 30, 2014 could not be relied upon. In connection with these analyses, we reviewed other, unrelated loan charges and determined that it was necessary to restate certain of these losses, together with previously unreported losses, to prior periods. These determinations affected the financial statements contained in our Annual Reports on Form 10-K for the years ended December 31, 2010, 2011, 2012 and 2013, in our Quarterly Reports on Form 10-Q for the interim periods included within such years, and in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2014, June 30, 2014 and September 30, 2014. Rather than amending each of the affected Annual and Quarterly Reports, we have included the restated financial statements for each of such years and quarterly periods, showing adjustments, in Notes C and T to the financial Statements included in this Annual Report on Form 10-K.

PART I

Item 1. Business.

Overview

We are a Delaware financial holding company and our primary subsidiary, wholly owned, is The Bancorp Bank, which we refer to as the Bank. The vast majority of our revenue and income is currently generated through the Bank. In our continuing operations, we have four primary lines of specialty lending: securities backed lines of credit, or SBLOC, automobile fleet and other equipment leasing, Small Business Administration, or SBA, loans and loans generated for sale into capital markets primarily through commercial mortgage backed securities, or CMBS. SBLOCs are loans which are generated through institutional banking affinity groups and are collateralized by marketable securities. SBLOCs are typically offered in conjunction with brokerage accounts and are offered nationally. Automobile fleet and other equipment leases are generated in a number of Atlantic Coast and other states. SBA loans and loans generated for sale into CMBS capital markets are made nationally. At December 31, 2014, SBLOC, leasing, SBA and CMBS loans totaled \$421.9 million, \$194.5 million, \$211.4 million (including SBA loans held for sale) and \$138.9 million, respectively, and comprised 39%, 18%, 19% and 13% of our loan portfolio and loans held for sale. Additionally, we have been increasing our investment portfolio which amounted to \$1.59 billion at December 31, 2014.

For our institutional banking, including SBLOC and our other deposit generating activities, we focus on providing our services to organizations with a pre-existing customer base who can use one or more selected banking services tailored to support or complement the services provided by these organizations to their customers. These services include private label banking for investment advisory companies; credit and debit card processing for merchants affiliated with independent service organizations; healthcare savings accounts for healthcare providers and third-party plan administrators; and prepaid cards for general purpose card sponsors, insurers, incentive plans, large retail chains, consumer service organizations and others. We typically provide these services under the name and through the facilities of each organization with whom we develop a relationship. We refer to this, generally, as affinity group banking. Our prepaid card, private label banking, card payment processing and healthcare accounts programs are our primary source of deposits. The vast majority of our services are provided in the United States although we have some prepaid card operations in Europe.

Our main office is located at 409 Silverside Road, Wilmington, Delaware 19809 and our telephone number is (302) 385-5000. Our web address is www.thebancorp.com. We make available free of charge on our website our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports and our proxy statements as soon as reasonably practicable after we file them with the SEC. Investors are encouraged to access these reports and other information about our business on our website, www.thebancorp.com. Information found on our website is not part of this Annual Report on Form 10-K. We also will provide copies of our Annual Report on Form 10-K, free of charge, upon written request to our Investor Relations Department at the Company's address for its principal executive offices, 409 Silverside Road, Wilmington, Delaware 19809. Also posted on our website, and available in print upon request by any shareholder to our Investor Relations Department, are the charters of the standing committees of our Board of Directors and standards of conduct governing our directors, officers and employees.

Our Strategies

Our principal strategies are to:

Fund our Loan and Investment Portfolio Growth through Low-cost Deposits and Generate Noninterest Income from Prepaid Cards and Other Areas. Our principal focus is to grow our specialty lending operations and investment portfolio, and fund the loans and investments through a variety of sources that provide low cost and stable deposits. Funding sources include prepaid cards, institutional banking money market accounts, healthcare accounts and card payment processing. The largest component of our deposits is prepaid cards and the largest component of our noninterest income is derived from prepaid cards.

Develop Relationships with Affinity Groups to Gain Sponsored Access to their Membership, Client or Customer Bases to Market our Services. We seek to develop relationships with organizations with established membership, client or customer bases. Through these affinity group relationships, we gain access to an organization's members, clients and customers under the organization's sponsorship. We believe that by marketing targeted products and services to these constituencies through their pre-existing relationships with the organizations, we will continue to generate lower cost deposits, generate fee income and, with respect to private label banking, lower our customer acquisition costs and build close customer relationships.

Use Our Existing Infrastructure as a Platform for Growth. We have made significant investments in our banking infrastructure to support our growth. We believe that this infrastructure can accommodate significant additional growth without proportionate increases in expense. We believe that this infrastructure enables us to maximize efficiencies through economies of scale as we grow without adversely affecting our relationships with our customers.

Deposit Products and Services.

We offer a range of products and services to our affinity groups and their client bases, including:

- checking accounts;
- savings accounts;
- healthcare accounts;
- money market accounts;
- commercial accounts; and
- various types of prepaid and payroll cards.

Lending Activities

In the third quarter of 2014, we discontinued our commercial lending operations following our determination that those operations were inconsistent with our strategic focus on generating low cost deposits and deploying that funding into lower risk, more granular and national lines of business. We have begun the process of selling our portfolio and have sold loans with a book value of approximately \$342.2 million, of the approximately \$1.1 billion in book value of loans in that portfolio as of the September 30, 2014 date of discontinuance of operations. The \$342.2 million of loans sold had a face value of approximately \$417.1 million. These sales were comprised of the following: Loans with an approximate face and book value of \$267.6 million and \$192.7 million, respectively, were sold in the fourth quarter of 2014 to a private securitization entity. The securitization is managed by an independent investor, which contributed \$16 million of equity to that entity. The balance of the sale was financed by the Bank and is reflected on the consolidated balance sheet as investment in unconsolidated subsidiary. After \$74.9 million of loan charges reflected in the difference between the face value and book value of the loans sold to the securitization, we recognized a gain of \$17.0 million. In the second quarter of 2015, an additional \$149.6 million of loans were sold at a gain of approximately \$2.2 million. We currently focus our lending activities upon four specialty lending segments: SBLOC loans, automobile fleet and other equipment leasing, SBA loans and loans originated for sale into CMBS capital markets.

SBLOC. We make loans to individuals, trusts and entities which are secured by a pledge of marketable securities maintained in one or more accounts with respect to which we obtain a securities account control agreement. The securities pledged may be either debt or equity securities or a combination thereof, but all such securities must be listed for trading on a national securities exchange or automated inter-dealer quotation system. SBLOCs are typically

payable on demand. Most of our SBLOCs are drawn to meet a specific need of the borrower (such as for bridge financing of real estate) and are typically drawn for 12 to 18 months at a time. Maximum SBLOC line amounts are calculated by applying a standard 'advance rate' calculation against the eligible security type depending on asset class: typically up to 60% for equity securities and mutual fund securities and 90% for investment grade (Standard & Poor's rating of BBB- or higher or Moody's rating of Baa3 or higher) municipal or corporate debt securities. Borrowers generally must have a credit score of 660 or higher, although we may allow exceptions based upon a review of the borrower's income, assets and other credit information. All SBLOCs are with full recourse to the borrower. The underlying securities that act as collateral for our SBLOC commitments are monitored on a daily basis to confirm the composition of the client portfolio and its daily market value. Although these accounts are closely monitored, severely falling markets or sudden drops in price with respect to individual pledged securities could result in the loan being under-collateralized and consequently in default and, upon sale of the collateral, could result in losses to the Bank.

Leases. We provide lease financing for commercial and government automobile fleets and, to a lesser extent, provide lease financing for other equipment. Our leases are either open end or closed end. An open end lease is one in which, at the end of the lease term, the lessee must pay us the difference between the amount at which we sell the leased asset and the stated "residual value." "Residual value" is a contractual value agreed to by the parties at the inception of a lease as to the value of the leased asset at the end of the lease term. A closed end lease is one in which no such payment is due on lease termination. In a closed end lease, the risk that

the amount received on a sale of the leased asset will be less than the residual value is assumed by us, as lessor. While we do not have specific underwriting criteria for our lease financing, we analyze information we obtain about the lessee, including financial statements and credit reports, to determine the lessee's ability to perform its obligations.

SBA Loans. We participate in two loan programs established by the SBA: the 7(a) Loan Guarantee Program and the 504 Fixed Asset Financing Program. The 7(a) Loan Guarantee Program is designed to help small entrepreneurs start or expand their businesses by providing partial guarantees of loans made by banks and non-bank lending institutions for specific business purposes, including long or short term working capital; funds for the purchase of equipment, machinery, supplies and materials; funds for the purchase, construction or renovation of real estate; and funds to acquire, operate or expand an existing business or refinance existing debt, all under conditions set by the SBA. The terms of the loans must come within parameters set by the SBA, including borrower eligibility, loan maturity, and maximum loan amount. 7(a) loans must be secured by all available assets (both business and personal) until the recovery value equals the loan amount or until all assets of the borrower have been pledged. Personal guarantees are required from all owners of 20% or more of the equity of the business, although lenders may also require personal guarantees of owners of less than 20%. Loan guarantees can range to 85% of loan principal for loans of up to \$150,000 and 75% for loans in excess of that amount.

The SBA loan guaranty is paid to the lender after the liquidation of all collateral, mitigating the losses due to collateral deficiencies up to the percentage of the guarantee. To maintain the guarantee, we must comply with applicable SBA regulations and we risk loss of the guarantee should we fail to comply for any reason. 7(a) loan amounts are not limited to a percentage of estimated collateral value. If the business generates inadequate cash flow to repay principal and interest and borrowers are otherwise unable to repay the loan, losses may result if related collateral is sold for less than the unguaranteed balance of the loan. Because these loans are generally at variable rates, higher rate environments will increase required payments from borrowers, with increased payment default risk. As a result of a wide variety of collateral with very specific uses, markets for resale may negatively impact amounts realized upon sale. The 7(a) program is funded through annual appropriations approved by Congress matching funding requirements for loans approved within the budget year. Should those appropriations be reduced or cease, our ability to make 7(a) loans will be curtailed or terminated.

The 504 Fixed Asset Financing Program is designed to provide small businesses with financing for the purchase of fixed assets, including real estate and buildings; the purchase of improvements to real estate; the construction of new facilities or modernizing, renovating or converting existing facilities; and the purchase of long-term machinery and equipment. A 504 loan may not be used for working capital, debt refinancing or investment in rental real estate. In a 504 financing, the borrower must supply 10% of the financing amount, we provide 50% of the financing amount and a Certified Development Company, or CDC, provides 40% of the financing amount. If the borrower has less than two years of operating history or if the assets being financed are considered "special purpose," the funding percentages are 15%, 50% and 30%, respectively. We receive a first lien on the assets being financed and the CDC receives a second lien. Personal guarantees of the principal owners of the business are required. The funds for the CDC loans are raised through a monthly auction of bonds that are guaranteed by the U.S. government and, accordingly, if the government guarantees are curtailed or terminated, our ability to make 504 loans would be curtailed or terminated. Certain basic loan terms, as with the 7(a) program, are established by the SBA, including borrower eligibility, maximum loan amount, maximum maturity date, interest rates and loan fees. While real estate is appraised and values are established for other collateral, and the loan amount is limited to a percentage of cost of the assets being acquired by the borrower, such amounts may not be realized upon resale if the borrower defaults and the Bank forecloses on the collateral.

SBA 7(a) and 504 loans may include construction advances which are subject to risk inherent to construction projects, including environmental risks, engineering defects, contractor risk, and risk of project completion. Delays in construction may also compromise the owner's business plan and result in additional stresses on cash flow required to service the loan. Higher than expected construction costs may also result, impacting repayment capability and collateral values.

Additionally, the Bank makes SBA loans to franchisees of various business concepts, including loans to multiple franchisees with the same concept. In making loans to franchisees, the Bank considers franchisee failure rates for the specific franchise concept. However, factors adversely affecting a specific type of franchisor or franchise concept, including in particular risks that a franchise concept loses popularity with consumers or encounters negative publicity about its products or services, could harm the value not only of a particular franchisee's business but also of multiple loans to other franchisees with the same concept.

Capital Markets: Loans Originated for Sale into Secondary Securities Markets. We originate loans for sale into secondary securities markets. These loans are typically collateralized by various types of commercial real estate, including retail space, office space, apartments and hotels, and are with recourse only to the properties securing the loans, are not guaranteed by the borrower and,

accordingly, depend on cash reserves and cash generated by the underlying properties for repayment. Some of these loans are variable rate and, as a result, higher market rates will result in higher payments and greater cash flow requirements. Inadequate sales at retail properties and inadequate occupancy rates for office space, apartments and hotels may negatively impact loan repayment. Should cash flow and available cash reserves prove inadequate to cover debt service on these loans, repayment will depend upon the sales price of the property. Because these loans are being originated for resale, the underwriting criteria used are those that buyers in the capital markets indicate are the parameters under which they are willing to buy the loans, including interest rate, loan to value ratio and maturity; however, in the period during which we hold a loan prior to sale, property values may fall below appraised values and below the outstanding balance of the loan which would reduce the price at which we could sell the loan. Inadequate retail sales or occupancy, in addition to impacting repayment, may also result in a lower realizable sales price. While we historically have been successful in selling to these markets, adverse market conditions may delay, or possibly preclude, expected sales into the secondary market or cause losses upon any resale. To mitigate these risks, we establish guidelines for the maximum amounts of such loans we will hold on our balance sheet.

Affinity Banking

Private Label Banking. For our private label banking, we create unique banking websites for each affinity group, enabling the affinity group to provide its members with the banking services and products we offer or just those banking services and products it believes will be of interest to its members. We design each website to carry the brand of the affinity group and carry the “look and feel” of the affinity group’s own website. Each such website, however, indicates that we are the provider of such banking services. To facilitate the creation of these individualized banking websites, we have packaged our products and services into a series of modules, with each module providing a specific service, such as deposit products, electronic payment systems and loans. Each affinity group selects from our menu of service modules those that it wants to offer its members or customers. We and the affinity group also may create products and services, or modify products and services already on our menu, that specifically relate to the needs and interests of the affinity group’s members or customers. We pay fees to certain affinity groups based upon deposits and loans they generate. These fees vary, and certain fees increase as market interest rates increase, while other fee rates are fixed. We include these fees as a component of interest expense in calculating our net interest margin. These fees totaled \$7.2 million, \$5.7 million and \$4.0 million for the years ended December 31, 2014, 2013 and 2012, respectively. These amounts include fees paid related to prepaid cards, healthcare accounts, card payment processing and institutional banking which are described below.

Prepaid Cards. We have developed prepaid card programs for general purpose re-loadable cards, insurance indemnity payments, flexible spending account funds, corporate and incentive rewards, payroll cards, consumer gift cards and others. Our cards are offered to end users through our relationships with insurers, benefits administrators, third-party administrators, corporate incentive companies, rebate fulfillment organizations, payroll administrators, large retail chains and consumer service organizations. Our cards are network-branded through our agreements with Visa, MasterCard, and Discover. The majority of fees we earn result from contractual fees paid by third party sponsors, computed on a per transaction basis, and monthly service fees. Additionally, we earn interchange fees paid through settlement associations such as Visa, which are also determined on a per transaction basis. Prepaid cards also provide us with low cost deposits from the amounts delivered to us to fund the cards. Our prepaid card programs are offered predominantly in the United States. However, we also offer our services in Europe through subsidiaries which offer prepaid card and electronic money issuing services. Our European operations contributed less than 2% of total prepaid card revenue. For information relating to current constraints on our prepaid card programs resulting from a consent order we have entered into with the FDIC, see “Risk Factors-Risks Relating to Our Business-The entry into the 2012 and 2014 consent orders, as amended, and the supervisory letter from the Federal Reserve, have imposed certain restrictions and requirements on us and the Bank. “

Healthcare Accounts. We have developed relationships with healthcare providers and third-party benefit administrators who facilitate the enrollment of both groups and individuals in high deductible health plans and health savings accounts. Our healthcare account program provides these organizations with a turnkey, low-cost benefit for their members. Under these programs, we provide private label interest-bearing healthcare accounts, which enable affinity group members to access account information, conduct transactions and process payments to healthcare providers. The healthcare accounts provide us with a source of interest-bearing checking deposits.

Card Payment Processing. We act as the depository institution for the processing of credit and debit card payments made to various businesses. We also act as the bank sponsor and depository institution for independent service organizations that process such payments. We have designed products that enable those organizations to more easily process electronic payments and to better manage their risk of loss. Our services also enable independent service organizations to provide their members with access to their account balances through the Internet. These relationships are a source of demand deposits and fee income.

Institutional Banking. We have developed strategic relationships with limited-purpose trust companies, registered investment advisers, broker-dealers and other firms offering institutional banking services. We provide customized, private label demand, money market and security backed loan products to the client base of these groups.

Other Operations

Account Services. Account holders may access our products through the website of their affinity group or other organizational affiliate, or through our website, from any personal computer with a secure web browser, regardless of its location. This access allows account holders to apply for loans, review account activity, enter transactions into an online account register, pay bills electronically, receive statements electronically and print bank statements.

Call Centers. We have call center operations that serve as inbound customer support. The call centers provide account holders or potential account holders with assistance accessing the Bank's products and services, and in resolving any problems that may arise in the servicing of accounts or other banking products. Call Center services are operated in three locations: Domestically in Wilmington, Delaware, the Bank's Customer Care center operates from 8:00 a.m. to 8:00 p.m. EST Monday through Friday and handles complex calls and escalations. In addition, two third party servicers provide 'first tier' customer support. Located in Manila, Philippines, TELUS International operates 24 hours a day, seven days a week and Ubiquity Global Services operates from 8:00 a.m. to 10:00 p.m. EST Monday through Friday.

Third-Party Service Providers. To reduce operating costs and capitalize on the technical capabilities of selected vendors, we outsource certain bank operations and systems to third-party service providers, principally the following:

- data processing services, including check processing, check imaging, loan processing, electronic bill payment and statement rendering;
- fulfillment and servicing of prepaid cards;
- call center customer support;
- access to automated teller machine networks;
- bank accounting and general ledger system;
- data warehousing services; and
- certain software development.

Because we outsource these operational functions to experienced third-party service providers that have the capacity to process a high volume of transactions, we believe we can more readily and cost-effectively respond to growth than if we sought to develop these capabilities internally. Should any of our current relationships terminate, we believe we could secure the required services from an alternative source without material interruption of our operations.

European Prepaid Operations. Transact Payments Limited, or TPL, our wholly-owned subsidiary, is a prepaid product issuer (termed electronic money in Europe) organized in Gibraltar and licensed by the Gibraltar Financial Services Commission or the FSC. TPL issues prepaid products throughout the European Union (EU) and European Economic Area (EEA) through three operational service subsidiaries.

Sales and Marketing

Affinity Group Banking. Because of the national scope of our affinity group banking operation, we use a personal sales/targeted media advertising approach to market to existing and potential commercial affinity group

organizations. The affinity group organizations with which we have a relationship perform marketing functions to ultimate individual customers. Our marketing program to affinity group organizations consists of:

- print advertising;
- attending and making presentations at trade shows and other events for targeted affinity organizations;
- direct mail; and

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· direct contact with potential affinity organizations by our marketing staff, with relationship managers focusing on particular regional markets.

Loan Administration Offices. We maintain offices to market and administer our leasing programs in Crofton, Maryland, King of Prussia, Pennsylvania, Kent, Washington and Orlando, Florida. We maintain an SBA loan office in Chicago, Illinois.

Technology

Primary Domestic System Architecture. We provide financial products and services through a highly-secure three-tiered architecture using state of the art commercially available software. We maintain an agile platform of several web technologies, databases, firewalls, and licensed and proprietary financial services software to support our unique client base. User activity is distributed using load-balance technologies and our proprietary design, with internally developed software and third-party equipment. We also use third party data processors. The goal of our systems designs is to service our client requirements efficiently which has been accomplished using data and service replication between multiple data centers. The system's flexible architecture is designed to meet current capacity needs and allow expansion for future demands. In addition to built-in redundancies, we continuously operate automated internal monitoring tools and use independent third parties to continuously monitor our systems.

European Prepaid Card and Electronic Money Operation. European prepaid card infrastructure includes consumer servicing functions and program management. Related software includes risk management, reporting, a dynamic security system and transaction management.

European Prepaid System Architecture. We have a primary data center in Sofia, Bulgaria that supports our European prepaid business with a fully redundant network system that connects to a back-up center in London (UK). Our architecture allows for rapid expansion and flexibility.

Domestic and European Prepaid Security. All our systems are subject to continuous certification for data security standards under multiple certification requirements.

Intellectual Property and Other Proprietary Rights

A significant portion of the core and Internet banking systems and operations we use comes from third-party providers. Our proprietary intellectual property includes the software for creating affinity group bank websites. We rely principally upon trade secret and trademark law to protect our intellectual property. We do not typically enter into intellectual property-related confidentiality agreements with our affinity group customers because we maintain control over the software used to create the sites and their banking functions rather than licensing them for customers to use. Moreover, we believe that factors such as the relationships we develop with our affinity group and banking customers, the quality of our banking products, the level and reliability of the service we provide, and the customization of our products and services to meet the needs of our affinity groups are substantially more significant to our ability to succeed.

Competition

We compete with numerous other banks and other financial institutions such as finance companies, leasing companies, credit unions, insurance companies, money market funds, investment firms and private lenders, as well as on-line lenders and other non-traditional competitors. Our primary competitors in each of our business lines differ significantly from those in our other business lines principally because few financial institutions compete against us in all business segments in which we operate. A number of banks and other financial institutions compete with us in the prepaid card market; however, we do not believe that any single bank or group of banks is a predominant provider.

We believe that our ability to compete successfully depends on a number of factors, including:

- our ability to expand our affinity group banking program;
- competitors' interest rates and service fees;
- the scope of our products and services;

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- the relevance of our products and services to customer needs and the rate at which we and our competitors introduce them;
- satisfaction of our customers with our customer service;
- our perceived safety as a depository institution, including our size, credit rating, capital strength, earnings strength and regulatory posture;
- ease of use of our banking websites and other customer interfaces; and
- the capacity, reliability and security of our network infrastructure.

If we experience difficulty in any of these areas, our competitive position could be materially adversely affected, which would affect our growth, our profitability and, possibly, our ability to continue operations. With respect to our affinity group operations, we believe we can compete effectively as a result of our ability to customize our product offerings to the affinity group's needs. We believe that the costs of entry, especially compliance costs, to offering prepaid cards through affinity groups are relatively high and somewhat prohibitive to new competitors. We have competed successfully with institutions much larger than ourselves; however, many of our competitors have larger customer bases, greater name recognition, greater financial and other resources and longer operating histories which may impact our ability to compete. Our future success will depend on our ability to compete effectively in a highly competitive market.

Regulation Under Banking Law

Overview

We are regulated extensively under both federal and state banking law and related regulations in the United States, and TPL is extensively regulated by the laws and related regulations of Gibraltar and of EU and EEA member countries in which it issues prepaid products. We are a Delaware corporation and a financial holding company registered with the Board of Governors of the Federal Reserve System, or the Federal Reserve. We are subject to supervision and regulation by the Federal Reserve and the Delaware Office of the State Bank Commissioner, or the Commissioner. The Bank, as a state-chartered, nonmember depository institution, is supervised by the Commissioner, as well as the Federal Deposit Insurance Corporation, or FDIC. TPL is a Gibraltar e-money licensee and is supervised by the Gibraltar Financial Services Commission.

The Bank is subject to requirements and restrictions under federal and state law, including requirements to maintain reserves against deposits, restrictions on the types and amount of loans that may be made and the interest that may be charged, and limitations on the types of investments that may be made and the types of services that may be offered. Various consumer laws and regulations also affect the Bank's operations. Any change in the regulatory requirements and policies by the Federal Reserve, the FDIC, the Commissioner or the United States Congress could have a material adverse impact on us, the Bank and our operations. We have entered into consent orders with the FDIC and have received a supervisory letter from the Federal Reserve which have imposed certain restrictions upon us and the Bank. See "Risk Factors-Risks Relating to Our Business-The entry into the 2012 and 2014 Consent Orders, as amended, and a supervisory letter from the Federal Reserve have imposed certain restrictions and requirements on us and the Bank."

Certain regulatory requirements applicable to us and the Bank are referred to below or elsewhere herein. The description of statutes and regulations is not intended to be a complete explanation of such statutes and regulations or their effects on the Bank or us and is qualified in its entirety by reference to the actual statutes and regulations.

Federal Regulation

As a financial holding company, we are subject to regular examination by the Federal Reserve and must file annual reports and provide any additional information that the Federal Reserve may request. Under the Bank Holding Company Act of 1956, as amended, which we refer to as the BHCA, a financial holding company may not directly or indirectly acquire ownership or control of more than 5% of the voting shares or substantially all of the assets of any bank, or merge or consolidate with another financial holding company, without the prior approval of the Federal Reserve.

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Permitted Activities. The BHCA generally limits the activities of a financial holding company and its subsidiaries to that of banking, managing or controlling banks, or any other activity that is determined to be so closely related to banking or to managing or controlling banks that an exception is allowed for those activities. These activities include, among other things, and subject to limitations, operating a mortgage company, finance company, credit card company or factoring company; performing data processing operations; the issuance and sale of consumer-type payment instruments; provide investment and financial advice; acting as an insurance agent for particular types of credit related insurance and providing specified securities brokerage services for customers. In November 2012, we began conducting permissible activities through TPL, an electronic money issuer organized and licensed in Gibraltar.

Change in Control. The BHCA prohibits a company from acquiring control of a financial holding company without prior Federal Reserve approval. Similarly, the Change in Bank Control Act, which we refer to as the CBCA, prohibits a person or group of persons from acquiring “control” of a financial holding company unless the Federal Reserve has been notified and has not objected to the transaction. In general, under a rebuttable presumption established by the Federal Reserve, the acquisition of 10% or more of any class of voting securities of a financial holding company is presumed to be an acquisition of control of the holding company if:

- the financial holding company has a class of securities registered under Section 12 of the Securities Exchange Act of 1934; or
- no other person will own or control a greater percentage of that class of voting securities immediately after the transaction.

An acquisition of 25% or more of the outstanding shares of any class of voting securities of a financial holding company is conclusively deemed to be the acquisition of control. In determining percentage ownership for a person, Federal Reserve policy is to count securities obtainable by that person through the exercise of options or warrants, even if the options or warrants have not then vested.

The Federal Reserve has revised its minority investment policy statement, under which, subject to the filing of certain commitments with the Federal Reserve, an investor can acquire up to one-third of our equity without being deemed to have engaged in a change in control, provided that no more than 15% of the investor’s equity is voting stock. This revised policy statement also permits non-controlling passive investors to engage in interactions with our management without being considered as controlling our operations.

Regulatory Restrictions on Dividends. It is the policy of the Federal Reserve that financial holding companies should pay cash dividends on common stock only out of income available over the past year and only if prospective earnings retention is consistent with the organization’s expected future needs and financial condition. The policy provides that financial holding companies should not maintain a level of cash dividends that undermines the financial holding company’s ability to serve as a source of strength to its banking subsidiaries. See “Holding Company Liability,” below. Federal Reserve policies also affect the ability of a financial holding company to pay in-kind dividends.

Various federal and state statutory provisions limit the amount of dividends that subsidiary banks can pay to their holding companies without regulatory approval. The Bank is also subject to limitations under state law regarding the payment of dividends, including the requirement that dividends may be paid only out of net profits. See “Delaware Regulation” below. In addition to these explicit limitations, federal and state regulatory agencies are authorized to prohibit a banking subsidiary or financial holding company from engaging in unsafe or unsound banking practices. Depending upon the circumstances, the agencies could take the position that paying a dividend would constitute an unsafe or unsound banking practice. In August 2015, we consented to the issuance of a consent order amendment pursuant to which the payment of dividends by the Bank to us would require prior FDIC approval, and received a Federal Reserve supervisory letter pursuant to which any payment of dividends by us would require prior approval

from the Federal Reserve. See “Risk Factors-Risks Relating to Our Business-The entry into the 2012 and 2014 Consent Orders, as amended, and a supervisory letter from the Federal Reserve have imposed certain restrictions and requirements on us and the Bank.”

Because we are a legal entity separate and distinct from the Bank, our right to participate in the distribution of assets of the Bank, or any other subsidiary, upon the Bank’s or the subsidiary’s liquidation or reorganization will be subject to the prior claims of the Bank’s or subsidiary’s creditors. In the event of liquidation or other resolution of an insured depository institution, the claims of depositors and other general or subordinated creditors have priority of payment over the claims of holders of any obligation of the institution’s holding company or any of the holding company’s shareholders or creditors.

Holding Company Liability. Under Federal Reserve policy, a financial holding company is expected to act as a source of financial strength to each of its banking subsidiaries and commit resources to their support. The Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, codified this policy as a statutory requirement. Under this requirement, we are expected to commit resources to support the Bank, including at times when we may not be in a financial position to provide such resources. As discussed below under “Prompt Corrective Action,” a financial holding company in certain circumstances could be required to guarantee the capital plan of an undercapitalized banking subsidiary.

In the event of a financial holding company’s bankruptcy under Chapter 11 of the U.S. Bankruptcy Code, the trustee will be deemed to have assumed, and is required to cure immediately, any deficit under any commitment by the debtor holding company to any of the federal banking agencies to maintain the capital of an insured depository institution, and any claim for breach of such obligation will generally have priority over most other unsecured claims.

Capital Adequacy. The Federal Reserve and the FDIC have issued standards for measuring capital adequacy for financial holding companies and banks. These standards are designed to provide risk-based capital guidelines and to incorporate a consistent framework. The risk-based guidelines are used by the agencies in their examination and supervisory process, as well as in the analysis of any applications. As discussed below under “Prompt Corrective Action,” a failure to meet minimum capital requirements could subject us or the Bank to a variety of enforcement remedies available to federal regulatory authorities, including, in the most severe cases, termination of deposit insurance by the FDIC and placing the Bank into conservatorship or receivership.

In general, these risk-related standards require banks and financial holding companies to maintain capital based on “risk-adjusted” assets so that the categories of assets with potentially higher credit risk will require more capital backing than categories with lower credit risk. In addition, banks and financial holding companies are required to maintain capital to support off-balance sheet activities such as loan commitments.

As a result of the Dodd-Frank Act, our financial holding company status depends upon our maintaining our status as “well capitalized” and “well managed” under applicable Federal Reserve regulations. If a financial holding company ceases to meet these requirements, the Federal Reserve may impose corrective capital and/or managerial requirements on the financial holding company and place limitations on its ability to conduct the broader financial activities permissible for financial holding companies. In addition, the Federal Reserve may require divestiture of the holding company’s depository institution if the deficiencies persist.

The standards classify total capital for this risk-based measure into two tiers, referred to as Tier 1 and Tier 2. Tier 1 capital consists of common shareholders’ equity, certain non-cumulative perpetual preferred stock, and minority interests in equity accounts of consolidated subsidiaries, less certain adjustments. Tier 2 capital consists of the allowance for loan and lease losses (within certain limits), perpetual preferred stock not included in Tier 1, hybrid capital instruments, term subordinate debt, and intermediate-term preferred stock, less certain adjustments. Together, these two categories of capital comprise a bank’s or financial holding company’s “qualifying total capital.” However, capital that qualifies as Tier 2 capital is limited in amount to 100% of Tier 1 capital in testing compliance with the total risk-based capital minimum standards. Banks and financial holding companies must have a minimum ratio of 8% of qualifying total capital to total risk-weighted assets, and a minimum ratio of 4% of qualifying Tier 1 capital to total risk-weighted assets. At December 31, 2014, we and the Bank had total capital to risk-adjusted assets ratios of 11.67% and 10.59%, respectively, and Tier 1 capital to risk-adjusted assets ratios of 11.54% and 10.46%, respectively.

In addition, the Federal Reserve and the FDIC have established minimum leverage ratio guidelines. The principal objective of these guidelines is to constrain the maximum degree to which a financial institution can leverage its equity capital base. It is intended to be used as a supplement to the risk-based capital guidelines. These guidelines provide for a minimum ratio of Tier 1 capital to adjusted average total assets of 3% for financial holding companies that meet certain specified criteria, including those having the highest regulatory rating. Other financial institutions

generally must maintain a leverage ratio of at least 3% plus 100 to 200 basis points. The guidelines also provide that financial institutions experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above minimum supervisory levels, without significant reliance on intangible assets. Furthermore, the banking agencies have indicated that they may consider other indicia of capital strength in evaluating proposals for expansion or new activities. At December 31, 2014 we and the Bank had leverage ratios of 7.07% and 6.46%, respectively.

The federal banking agencies' standards provide that concentration of credit risk and certain risks arising from nontraditional activities, as well as an institution's ability to manage these risks, are important factors to be taken into account by them in assessing a

financial institution's overall capital adequacy. The risk-based capital standards also provide for the consideration of interest rate risk in the agency's determination of a financial institution's capital adequacy. The standards require financial institutions to effectively measure and monitor their interest rate risk and to maintain capital adequate for that risk. These standards can be expected to be amended from time to time.

The Dodd-Frank Act includes certain related provisions which are often referred to as the "Collins Amendment." These provisions are intended to subject bank holding companies to the same capital requirements as their bank subsidiaries and to eliminate or significantly reduce the use of hybrid capital instruments, especially trust preferred securities, as regulatory capital. Under the Collins Amendment, trust preferred securities issued by a company, such as our company, with total consolidated assets of less than \$15 billion before May 19, 2010 and treated as regulatory capital are grandfathered, but any such securities issued later are not eligible as regulatory capital. The federal banking regulators issued final rules setting minimum risk-based and leverage capital requirements for holding companies and banks on a consolidated basis that are no less stringent than the generally applicable requirements in effect for depository institutions under the prompt corrective action regulations discussed below and other components of the Collins Amendment.

Basel III Capital Rules

In July 2013, the Company's primary federal regulator, the Federal Reserve, and the Bank's primary federal regulator, the FDIC, approved final rules, which we refer to as the New Capital Rules, establishing a new comprehensive capital framework for U.S. banking organizations. The New Capital Rules generally implement the Basel Committee on Banking Supervision's December 2010 final capital framework referred to as "Basel III" for strengthening international capital standards. The New Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and their depository institution subsidiaries, including us and the Bank, as compared to the current U.S. general risk-based capital rules. The New Capital Rules revise the definitions and the components of regulatory capital, as well as address other issues affecting the numerator in banking institutions' regulatory capital ratios. The New Capital Rules also address asset risk weights and other matters affecting the denominator in banking institutions' regulatory capital ratios and replace the existing general risk-weighting approach, which was derived from the Basel Committee's 1988 "Basel I" capital accords, with a more risk-sensitive approach based, in part, on the "standardized approach" in the Basel Committee's 2004 "Basel II" capital accords. In addition, the New Capital Rules implement certain provisions of the Dodd-Frank Act, including the requirements of Section 939A to remove references to credit ratings from the federal agencies' rules. The New Capital Rules became effective for us and the Bank on January 1, 2015, subject to phase-in periods for certain of their components and other provisions.

Among other matters, the New Capital Rules: (i) introduce a new capital measure called "Common Equity Tier 1," or CET1 and related regulatory capital ratio of CET1 to risk-weighted assets; (ii) specify that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting certain revised requirements; (iii) mandate that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expand the scope of the deductions from and adjustments to capital as compared to existing regulations. Under the New Capital Rules, for most banking organizations, the most common form of Additional Tier 1 capital is non-cumulative perpetual preferred stock and the most common form of Tier 2 capital is subordinated notes and a portion of the allocation for loan and lease losses, in each case, subject to the New Capital Rules' specific requirements.

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Pursuant to the New Capital Rules, the minimum capital ratios as of January 1, 2015, with the first measurement date as of March 31, 2015, are as follows:

- 4.5% CET1 to risk-weighted assets;
- 6.0% Tier 1 capital (that is, CET1 plus Additional Tier 1 capital) to risk-weighted assets;
 - 8.0% Total capital (that is, Tier 1 capital plus Tier 2 capital) to risk-weighted assets; and
- 4% Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the “leverage ratio”).

The New Capital Rules also introduce a new “capital conservation buffer”, composed entirely of CET1, on top of these minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress.

Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. Thus, when fully phased-in on January 1, 2019, we and the Bank will be required to maintain such additional capital conservation buffer of 2.5% of CET1, effectively resulting in minimum ratios of (i) CET1 to risk-weighted assets of at least 7%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%, and (iii) Total capital to risk-weighted assets of at least 10.5%.

The New Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such items, in the aggregate, exceed 15% of CET1.

In addition, under the current general risk-based capital rules, the effects of accumulated other comprehensive income or loss, or AOCI, items included in shareholders' equity (for example, marks-to-market of securities held in the available for sale portfolio) under U.S. GAAP are reversed for the purposes of determining regulatory capital ratios. Pursuant to the New Capital Rules, the effects of certain AOCI items are not excluded; however, non-advanced approaches banking organizations, including us and the Bank, may make a one-time permanent election to continue to exclude these items. This election must be made concurrently with the first filing of certain of our and the Bank's periodic regulatory reports in the beginning of 2015. We and the Bank made this election in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of our securities portfolio. The New Capital Rules also preclude certain hybrid securities, such as trust preferred securities, from inclusion in bank holding companies' Tier 1 capital, subject to grandfathering in the case of bank holding companies, such as us, that had less than \$15 billion in total consolidated assets as of December 31, 2009.

Implementation of the deductions and other adjustments to CET1 will begin on January 1, 2015 and will be phased-in over a 4-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter). The implementation of the capital conservation buffer will begin on January 1, 2016 at the 0.625% level and increase by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019.

With respect to the Bank, the New Capital Rules revise the "prompt corrective action" or PCA, regulations adopted pursuant to Section 38 of the Federal Deposit Insurance Act, by: (i) introducing a CET1 ratio requirement at each PCA category (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum Tier 1 capital ratio for well-capitalized status being 8% (as compared to the current 6%); and (iii) eliminating the current provision that provides that a bank with a composite supervisory rating of 1 may have a 3% leverage ratio and still be adequately capitalized. The New Capital Rules do not change the total risk-based capital requirement for any PCA category.

The New Capital Rules prescribe a new standardized approach for risk weightings that expand the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50% and 100%) to a larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset classes.

We believe that we and the Bank will continue to be able to meet targeted capital ratios..

Prompt Corrective Action. Federal banking agencies must take prompt supervisory and regulatory actions against undercapitalized depository institutions pursuant to the Prompt Corrective Action provisions of the Federal Deposit Insurance Act. Depository institutions are assigned one of five capital categories—“well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized,” and “critically undercapitalized”—and are subjected to differential regulation corresponding to the capital category within which the institution falls. Under certain circumstances, a well capitalized, adequately capitalized or undercapitalized institution may be treated as if the institution were in the next lower capital category. As we describe in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources,” an institution is deemed to be well capitalized if it has a total risk-based capital ratio of at least 10%, a Tier 1 risk-based capital ratio of at least 6.0% and a leverage ratio of at least 5%. An institution is adequately capitalized if it has a total risk-based capital ratio of at least 8%, a Tier 1 risk-based capital ratio of at least 4% and a leverage ratio of at least 4%. At December 31, 2014, our total risk-based capital ratio was 11.67%, our Tier 1 risk-based capital ratio was 11.54% and our leverage ratio was 7.07% while the Bank’s ratios were 10.59%, 10.46% and 6.46%, respectively and, accordingly, both we and the Bank were “well capitalized” within the meaning of the regulations. A depository institution is generally prohibited from making capital distributions (including paying dividends) or paying management fees to a holding company if the institution would thereafter be undercapitalized. Adequately capitalized institutions cannot accept, renew or roll over brokered deposits except with a waiver from the FDIC, and are subject to restrictions on

the interest rates that can be paid on such deposits. Undercapitalized institutions may not accept, renew, or roll over brokered deposits.

Bank regulatory agencies are permitted or, in certain cases, required to take action with respect to institutions falling within one of the three undercapitalized categories. Depending on the level of an institution's capital, the agency's corrective powers include, among other things:

- prohibiting the payment of principal and interest on subordinated debt;
- prohibiting the holding company from making distributions without prior regulatory approval;
- placing limits on asset growth and restrictions on activities;
- placing additional restrictions on transactions with affiliates;
- restricting the interest rate the institution may pay on deposits;
- prohibiting the institution from accepting deposits from correspondent banks; and
- in the most severe cases, appointing a conservator or receiver for the institution.

A banking institution that is undercapitalized must submit a capital restoration plan. This plan will not be accepted unless, among other things, the banking institution's holding company guarantees the plan up to an agreed-upon amount. Any guarantee by a depository institution's holding company is entitled to a priority of payment in bankruptcy. Failure to implement a capital plan, or failure to have a capital restoration plan accepted, may result in a conservatorship or receivership.

As noted above, the New Capital Rules became effective as of January 1, 2015, with the first measurement date as of March 31, 2015 subject to phased implementation in certain respects, and revise the PCA regulations.

Insurance of Deposit Accounts. The Bank's deposits are insured to the maximum extent permitted by the Deposit Insurance Fund or DIF. Upon enactment of the Emergency Economic Stabilization Act of 2008 on October 3, 2008, federal deposit insurance coverage levels under the DIF temporarily increased from \$100,000 to \$250,000 per deposit category, per depositor, per institution, through December 31, 2009. On May 20, 2009, the Helping Families Save Their Homes Act extended the temporary increase through December 31, 2012. The Dodd-Frank Act permanently increases the maximum amount of deposit insurance to \$250,000 per deposit category, per depositor, per institution retroactive to January 1, 2008. The Dodd-Frank Act provided unlimited deposit insurance coverage on noninterest-bearing transaction accounts through December 31, 2012. Due to the expiration of this unlimited deposit insurance on December 31, 2012 beginning January 1, 2013 deposits held in noninterest-bearing transaction accounts are aggregated with any interest-bearing deposits the owner may hold in the same ownership category, and the combined total is insured up to at least \$250,000.

As the insurer, the FDIC is authorized to conduct examinations of, and to require reporting by, FDIC-insured institutions. The FDIC also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious threat to the DIF. The FDIC also has the authority to initiate enforcement actions against banks.

The FDIC has implemented a risk-based assessment system under which FDIC-insured depository institutions pay annual premiums at rates based on their risk classification. A bank's risk classification is based on its capital levels and the level of supervisory concern the bank poses to the regulators. Institutions assigned to higher risk classifications (that is, institutions that pose a greater risk of loss to the DIF) pay assessments at higher rates than institutions that pose a lower risk. A decrease in the Bank's capital ratios or the occurrence of events that have an adverse effect on a bank's asset quality, management, earnings, liquidity or sensitivity to market risk could result in a substantial increase in deposit insurance premiums paid by the Bank, which would adversely affect earnings. In addition, the FDIC can impose special assessments in certain instances. The range of assessments in the risk-based system is a function of the reserve ratio in the DIF. Each insured institution is assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other factors. An institution's assessment rate depends upon the category to which it is assigned. Unlike the other categories, Risk Category I contains further risk

differentiation based on the FDIC's analysis of financial ratios, examination component ratings and other information. Assessment rates are determined by the FDIC and, including potential adjustments to reflect an institution's risk profile, currently range from five to nine basis points for the healthiest institutions (Risk Category I) to 35 basis points of assessable liabilities for the riskiest (Risk Category IV). Rates may be increased an additional ten basis points depending on the amount of brokered deposits utilized. The above rates apply to institutions with assets

under \$10 billion. Other rates apply for larger or “highly complex” institutions. The FDIC may adjust rates uniformly from one quarter to the next, except that no single adjustment can exceed three basis points. At December 31, 2014, the Bank’s DIF assessment rate was 24 basis points. A reduction in the assessment rate will depend on future FDIC evaluations of the Bank.

On November 12, 2009, in order to strengthen the cash position of the FDIC’s DIF immediately, the FDIC required banks to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. In addition, the FDIC adopted a three-basis point increase in assessment rates effective on January 1, 2011. Under the rule each institution’s deposit assessment base would be calculated using its third quarter 2009 deposit assessment base, adjusted quarterly for an estimated 5 percent annual growth rate in the deposit assessment base through the end of 2012. The prepaid assessment was collected on December 30, 2009 and was mandatory for all institutions (subject to the exercise of the FDIC’s discretion to exempt an institution if the FDIC determined that the prepayment would affect the safety and soundness of the institution). We recorded a prepaid assessment of approximately \$10.0 million which, according to the rule, was recorded as a prepaid expense (asset) as of December 30, 2009 and was amortized over a three year period; as of December 31, 2012 we had fully amortized the prepaid assessment.

On February 9, 2011, the FDIC adopted a final rule which redefined the deposit insurance assessment base as required by the Dodd-Frank Act. The final rule set the deposit insurance assessment base as average consolidated total assets minus average tangible equity. It also set a new assessment rate schedule which reflects assessment rate adjustments including potentially reduced rates tied to unsecured debt and potentially increased rates for brokered deposits. The final rule generally became effective on April 1, 2011.

Loans-to-One Borrower. Generally, a bank may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of its unimpaired capital and surplus. An additional amount may be lent, equal to 10% of unimpaired capital and surplus, if such loan is secured by specified collateral, generally readily marketable collateral (which is defined to include certain financial instruments and bullion) and real estate. At December 31, 2014, the Bank’s limit on loans-to-one borrower was \$41.4 million (\$69.0 million for secured loans).

Transactions with Affiliates and other Related Parties. There are various legal restrictions on the extent to which a financial holding company and its nonbank subsidiaries can borrow or otherwise obtain credit from banking subsidiaries or engage in other transactions with or involving those banking subsidiaries. The Bank’s authority to engage in transactions with related parties or “affiliates” (that is, any entity that controls, controlled by or is under common control with an institution, including us and our non-bank subsidiaries) is limited by Sections 23A and 23B of the Federal Reserve Act and Regulation W promulgated thereunder. Section 23A restricts the aggregate amount of covered transactions with any individual affiliate to 10% of the Bank’s capital and surplus. At December 31, 2014, we were not indebted to the Bank. The aggregate amount of covered transactions with all affiliates is limited to 20% of the Bank’s capital and surplus. Certain transactions with affiliates are required to be secured by collateral in an amount and of a type described in Section 23A and the purchase of low quality assets from affiliates is generally prohibited. Section 23B generally provides that certain transactions with affiliates, including loans and asset purchases, must be on terms and under circumstances, including credit standards, that are substantially the same or at least as favorable to the institution as those prevailing at the time for comparable transactions with non-affiliated companies.

The Dodd-Frank Act generally enhances the restrictions on transactions with affiliates under Section 23A and 23B of the Federal Reserve Act, including an expansion of the definition of “covered transactions” and an increase in the amount of time for which collateral requirements regarding covered credit transactions must be satisfied. Insider transaction limitations are expanded through the strengthening of loan restrictions to insiders and the expansion of the

types of transactions subject to the various limits, including derivatives transactions, repurchase agreements, reverse repurchase agreements and securities lending or borrowing transactions. Restrictions are also placed on certain assets sales to and from an insider to an institution including requirements that such sales be on market terms and, in certain circumstances, approved by the institution's board of directors.

The Bank's authority to extend credit to its directors, executive officers and 10% shareholders, as well as to entities controlled by such persons, is governed by the requirements of Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O of the Federal Reserve. Among other things, these provisions require that extensions of credit to insiders (i) be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features; and (ii) not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the Bank's capital. In addition, extensions of credit in excess of certain limits must be approved by the Bank's board of directors. At December 31, 2014, loans to related parties amounted to \$30.9 million and at December 31, 2013 such loans amounted to \$28.5 million.

Standards for Safety and Soundness. The Federal Deposit Insurance Act requires each federal banking agency to prescribe for all insured depository institutions standards relating to, among other things, internal controls, information and audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, compensation, fees, benefits and such other operational and managerial standards as the agency deems appropriate. The federal banking agencies have adopted final regulations and Interagency Guidelines Prescribing Standards for Safety and Soundness to implement these safety and soundness standards. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard.

Privacy. Financial institutions are required to disclose their policies for collecting and protecting confidential information. Customers generally may prevent financial institutions from sharing nonpublic personal financial information with nonaffiliated third parties except under narrow circumstances, such as the processing of transactions requested by the consumer or when the financial institution is jointly sponsoring a product or service with a nonaffiliated third party. Additionally, financial institutions generally may not disclose consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing to consumers. The Bank has adopted privacy standards that we believe will satisfy regulatory scrutiny, and communicates its privacy practices to its customers through privacy disclosures designed in a manner consistent with recommended model forms.

The Fair and Accurate Credit Transactions Act of 2003, known as the FACT Act, provides consumers with the ability to restrict companies from using certain information obtained from affiliates to make marketing solicitations. In general, a person is prohibited from using information received from an affiliate to make a solicitation for marketing purposes to a consumer, unless the consumer is given notice and had a reasonable opportunity to opt out of such solicitations. The rule permits opt-out notices to be given by any affiliate that has a pre-existing business relationship with the consumer and permits a joint notice from two or more affiliates. Moreover, such notice would not be applicable if the company using the information has a pre-existing business relationship with the consumer. This notice may be combined with other required disclosures, including notices required under other applicable privacy provisions.

Section 315 of the FACT Act requires each financial institution or creditor to develop and implement a written Identity Theft Prevention Program to detect, prevent and mitigate identity theft in connection with the opening of certain accounts or certain existing accounts. In accordance with this rule, the Bank was required to adopt “reasonable policies and procedures” to:

- identify relevant red flags for covered accounts and incorporate those red flags into the program;
- detect red flags that have been incorporated into the program;
- respond appropriately to any red flags that are detected to prevent and mitigate identity theft; and
- ensure the program is updated periodically, to reflect changes in risks to customers or to the safety and soundness of the financial institution or creditor from identity theft.

Bank Secrecy Act- Anti-Money Laundering and Related Regulations. The Bank Secrecy Act, which we refer to as BSA, requires the Bank to implement a risk-based compliance program in order to protect the Bank from being used as a conduit for financial or other illicit crimes including but not limited to money laundering and terrorist financing. These rules are administered by the Financial Crimes Enforcement Network, a bureau of the U.S. Treasury Department, which we refer to as FinCEN. Under the law, the Bank must have a board-approved written BSA-Anti-Money Laundering, which we refer to as AML, program which must contain the following key

requirements: (1) appointing responsible persons to manage the program, including a BSA Officer; (2) ongoing training of all appropriate Bank staff and management on BSA-AML compliance; (3) developing a system of internal controls (including appropriate policies, procedures and processes); and (4) requiring independent testing to ensure effective implementation of the program and appropriate compliance. Under BSA regulations, the Bank is subject to various reporting requirements such as currency transaction reporting (CTR) for all cash transactions initiated by or on behalf of a customer which, when aggregated, exceed \$10,000 per day. The Bank is also required to monitor customer activity and transactions and file a suspicious activity report, or SAR, when suspicious activity is observed and the applicable dollar threshold for the observed suspicious activity is met. The BSA also contains numerous recordkeeping requirements. For a description of a consent order with the FDIC under the BSA that imposes certain requirements on the Bank, see Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Recent Developments” and “Risk Factors-Risks Relating to Our Business-The entry into the 2012 and 2014 Consent Orders, as amended, and a supervisory letter from the Federal Reserve have imposed certain restrictions and requirements on us and the Bank.”

On June 21, 2010, FinCEN proposed new rules as directed by the Credit Card Accountability Responsibility and Disclosure Act of 2009 to expand the reach of BSA-AML related compliance responsibilities to certain defined “prepaid access providers and sellers, a class of money services businesses formerly either outside or lightly regulated under the BSA.” On July 26, 2011, FinCEN issued its final rule imposing these affirmative BSA-AML compliance obligations. The Bank has evaluated the impact of these rules on its operations and its third-party relationships, and has established internal processes accordingly.

USA PATRIOT Act. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, which we refer to as the USA PATRIOT Act, amended, in part, the BSA, by, in pertinent part, criminalizing the financing of terrorism and augmenting the existing BSA framework by strengthening customer identification procedures, requiring financial institutions to have due diligence procedures, including enhanced due diligence procedures and, most significantly, improving information sharing between financial institutions and the U.S. government.

Under the USA PATRIOT Act, FinCEN can send bank regulatory agencies lists of the names of persons suspected of involvement in terrorist activities or money laundering. The Bank must search its records for any relationships or transactions with persons on those lists. If the Bank finds any relationships or transactions, it must report specific information to FinCEN and implement other internal compliance procedures in accordance with the Bank’s BSA-AML compliance procedures.

The Office of Foreign Assets Control, which we refer to as OFAC, is a division of the U.S. Treasury Department, and administers and enforces economic and trade sanctions based on U.S. foreign policy and national security goals against targeted foreign countries, terrorists, international narcotics traffickers, and those engaged in activities related to the proliferation of weapons of mass destruction. OFAC functions under the President’s wartime and national emergency powers, as well as under authority granted by specific legislation, to impose controls on transactions and freeze assets under U.S. jurisdiction. In addition, many of the sanctions are based on United Nations and other international mandates, and typically involve close cooperation with allied governments. OFAC maintains lists of names of persons and organizations suspected of aiding, harboring or engaging in terrorist acts, as well as sanctions programs for certain countries. If the Bank finds a name on any transaction, account or wire transfer that is on an OFAC list, the Bank must freeze or block such account, and perform additional procedures as required by OFAC regulations. The Bank filters its customer base and transactional activity against OFAC-issued lists. The Bank performs these checks utilizing purpose directed software, which is updated each time a modification is made to the lists provided by OFAC and other agencies.

Other Consumer Protection Regulations. The Bank is subject to a wide range of consumer protection regulations which may have an enterprise-wide impact or may principally govern its lending or deposit operations. To the extent the Bank engages third party service providers in any aspect of its products and services, these third parties may also be subject to compliance with applicable law, and must therefore be subject to Bank oversight.

Unfair or Deceptive or Abusive Acts or Practices. Section 5 of the Federal Trade Commission Act prohibits all persons, including financial institutions, from engaging in any unfair or deceptive acts or practices in or affecting commerce. The Dodd-Frank Act codifies this prohibition, and expands it even further by prohibiting “abusive” practices as well. These prohibitions, which we refer to as UDAAP, apply in all areas of the Bank, including marketing and advertising practices, product features, terms and conditions, operational practices, and the conduct of third parties with whom the Bank may partner or on whom the Bank may rely in bringing Bank products and services to consumers.

The Bank’s loan operations are also subject to federal consumer protection laws applicable to credit transactions, including:

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- the federal “Truth-In-Lending Act,” governing disclosures of credit terms to consumer borrowers;
- the “Home Mortgage Disclosure Act of 1975,” requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- the “Equal Credit Opportunity Act,” prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;

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- the “Fair Credit Reporting Act of 1978,” as amended by the “Fair and Accurate Credit Transactions Act,” governing the use and provision of information to credit reporting agencies, certain identity theft protections and certain credit and other disclosures;
- the “Fair Debt Collection Practices Act,” governing the manner in which consumer debts may be collected by collection agencies;
- the “Home Ownership and Equity Protection Act” prohibiting unfair, abusive or deceptive home mortgage lending practices, restricting mortgage lending activities and providing advertising and mortgage disclosure standards.
- the “Service Members Civil Relief Act;” postponing or suspending some civil obligations of service members during periods of transition, deployment and other times; and
- the rules and regulations of the various federal agencies charged with the responsibility of implementing these federal laws;

In addition, interest and other charges collected or contracted for by the Bank will be subject to state usury laws and federal laws concerning interest rates.

The deposit operations of the Bank are subject to various consumer protection laws including but not limited to:

- the “Truth in Savings Act,” which imposes disclosure obligations to enable consumers to make informed decisions about accounts at depository institutions;
- the “Right to Financial Privacy Act,” which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- the “Expedited Funds Availability Act” which establishes standards related to when financial institutions must make various deposit items available for withdrawal, and requires depository institutions to disclose their availability policies to their depositors;
- the “Electronic Fund Transfer Act” and which governs electronic fund transfers to and withdrawals from deposit accounts and customers’ rights and liabilities arising from the use of automated teller machines and other electronic banking services; and
- the rules and regulations of various federal agencies charged with the responsibility of implementing these federal laws.

Community Reinvestment Act. Under the Community Reinvestment Act of 1977, which we refer to as the CRA, a federally-insured institution has a continuing and affirmative obligation to help meet the credit needs of its community, including low-and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. The CRA requires the board of directors of federally-insured institutions, such as the Bank, to adopt a CRA statement for its assessment area that, among other things, describes its efforts to help meet community credit needs and the specific types of credit that the institution is willing to extend. The CRA further requires that a record be kept of whether a financial institution meets its community’s credit needs, which record will be taken into account when evaluating applications for, among other things, domestic branches and mergers and acquisitions. The regulations promulgated pursuant to the CRA contain three evaluation tests:

- a lending test which compares the institution’s market share of loans in low-and moderate-income areas to its market share of loans in its entire service area and the percentage of the institution’s outstanding loans to low-and moderate-income areas or individuals;
- a service test, which evaluates the provision of services that promote the availability of credit to low-and moderate-income areas; and
- an investment test, which evaluates an institution’s record of investments in organizations designed to foster community development, small-and- minority-owned businesses and affordable housing lending, including state and

local government housing or revenue bonds.

The Bank was examined for CRA compliance in 2012 and received a “satisfactory” rating for the 2012 examination. The regularly scheduled CRA examination is being performed in the second and third quarters of 2015. However, results of the examination have not yet been issued.

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Enforcement. Under the Federal Deposit Insurance Act, the FDIC has the authority to bring actions against a bank and all affiliated parties, including stockholders, attorneys, appraisers and accountants, who knowingly or recklessly participate in wrongful actions likely to have an adverse effect on the bank. Formal enforcement action may range from the issuance of a capital directive or cease and desist order to removal of officers and/or directors to institution of receivership or conservatorship proceedings, or termination of deposit insurance. Civil penalties cover a wide range of violations and can amount to \$25,000 per day, or even \$1 million per day in especially egregious cases. Federal law also establishes criminal penalties for certain violations.

Federal Reserve System. Federal Reserve regulations require banks to maintain non-interest bearing reserves against their transaction accounts (primarily negotiated order of withdrawal, or NOW, and regular checking accounts). For 2014, Federal Reserve regulations generally required that reserves be maintained against aggregate transaction accounts as follows: for accounts aggregating \$79.5 million or less (subject to adjustment by the Federal Reserve), the reserve requirement is 3%; and, for accounts aggregating greater than \$79.5 million, the reserve requirement is 10% (subject to adjustment by the Federal Reserve to between 8% and 14%). The first \$13.3 million of otherwise reservable balances (subject to adjustments by the Federal Reserve) are exempt from the reserve requirements. At December 31, 2014, the Bank met these requirements by maintaining \$280.4 million in cash and balances at the Federal Reserve Bank.

Regulatory Reform

On July 21, 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank Act (as amended) implements far-reaching changes across the financial regulatory landscape, including provisions that, among other things, will or have already:

- Centralize responsibility for consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau, or the CFPB, with broad rulemaking, supervision and enforcement authority for a wide range of consumer protection laws that would apply to all banks and certain others, including the examination and enforcement powers with respect to any bank with more than \$10 billion in assets. The CFPB has been officially established and has begun issuing rules, taking consumer complaints and performing its other core functions.
- Restrict the preemption of state consumer financial protection law by federal law and disallow subsidiaries and affiliates of national banks, from availing themselves of such preemption.
- Require new capital rules and apply the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies.
- Require publicly-traded bank holding companies with assets of \$10 billion or more to establish a risk committee responsible for enterprise-wide risk management practices.
- Change the assessment base for federal deposit insurance from the amount of insured deposits to consolidated average assets less tangible capital.
- Increase the minimum ratio of net worth to insured deposits of the DIF from 1.15% to 1.35% and require the FDIC, in setting assessments, to offset the effect of the increase on institutions with assets of less than \$10 billion.

- Provide for new disclosure and other requirements relating to executive compensation and corporate governance, including guidelines or regulations on incentive-based compensation and a prohibition on compensation arrangements that encourage inappropriate risks or that could provide excessive compensation.
- Make permanent the \$250,000 limit for federal deposit insurance and provide unlimited federal deposit insurance until January 1, 2013 for non-interest bearing demand transaction accounts and IOLTA accounts at all insured depository institutions.
- Repeal the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts.
- Allow de novo interstate branching by banks.
- Give the Federal Reserve the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over \$10 billion and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer. The Federal Reserve has issued final rules under this provision that limit the swipe fees that a debit card issuer can charge merchants to 21 cents per transaction plus 5 basis points of the transaction value, subject to an adjustment for fraud prevention costs.

- Increase the authority of the Federal Reserve to examine the holding companies and their non-bank subsidiaries.
- Require all bank holding companies to serve as a source of financial strength to their depository institution subsidiaries in the event such subsidiaries suffer from financial distress.
- Restrict proprietary trading by banks, bank holding companies and others, and their acquisition and retention of ownership interests in and sponsorship of hedge funds and private equity funds. This restriction is commonly referred to as the “Volcker Rule.” There is an exception in the Volcker Rule to allow a bank to organize and offer hedge funds and private equity funds to customers if certain conditions are met. These conditions include, among others, requirements that the bank provides bona fide investment advisory services; the funds are organized only in connection with such services and to customers of such services; the bank does not have more than a de minimis interest in the funds, limited to a 3% ownership interest in any single fund and an aggregated investment in all funds of 3% of Tier 1 capital; the bank does not guarantee the obligations or performance of the funds; and no director or employee of the bank has an ownership interest in the fund unless he or she provides services directly to the funds.

Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years. Specific rulemaking intended to implement provisions of the Dodd-Frank Act is underway and is addressed elsewhere in this section as applicable. It is difficult to predict the extent to which the Dodd-Frank Act or the resulting regulations may impact us. However, compliance with these new laws and regulations may increase our costs, limit our ability to pursue attractive business opportunities, cause us to modify our strategies and business operations and increase our capital requirements and constraints, any of which may have a material adverse impact on our business, financial condition, liquidity or results of operations. We cannot predict whether, or in what form any proposed regulation or statute will be adopted or the extent to which our business may be affected by any new regulation or statute.

Volcker Rule Adoption. On December 10, 2013, five financial regulatory agencies, including our primary federal regulators the Federal Reserve and the FDIC, adopted final rules (the “Final Volcker Rules”) implementing the Volcker Rule embodied in Section 13 of the Bank Holding Company Act, which was added by Section 619 of the Dodd-Frank Act. The Final Volcker Rules prohibit banking entities from (1) engaging in short-term proprietary trading for their own accounts, and (2) having certain ownership interests in and relationships with hedge funds or private equity funds (“covered funds”). The Final Volcker Rules also require each regulated entity to establish an internal compliance program that is consistent with the extent to which it engages in activities covered by the Final Volcker Rules, which must include (for the largest entities) making regular reports about those activities to regulators. Smaller banks and community banks, including the Bank, are afforded some relief under the Final Volcker Rules. Smaller banks, including the Bank, that are engaged only in exempted proprietary trading, such as trading in U.S. government, agency, state and municipal obligations, are exempt from compliance program requirements. Moreover, even if a community or small bank engages in proprietary trading or covered fund activities under the Final Volcker Rules, they need only incorporate references to the Volcker Rule into their existing policies and procedures. The Final Rules became effective April 1, 2014, but the conformance period was extended from its statutory end date of July 21, 2014 until July 21, 2015. We do not at this time expect the Final Volcker Rules to have a material impact on our operations.

Prepaid Rules Proposed by the CFPB. On December 23, 2014, the CFPB published a proposed rule that would regulate prepaid products, including physical cards as well as codes and other devices. The proposed rule would, among other things, cause prepaid products to be fully-covered by Regulation E, which implements the Electronic Fund Transfer Act, and to be covered by Regulation Z, which implements the Truth in Lending Act, to the extent the prepaid product accesses a “credit” feature.

The proposed rule and related commentary is over 230 pages in length and provides significant discussion, materials and commentary that we are currently assessing. The proposed rule includes a significant number of changes to the regulatory framework for prepaid products, some of which include: (a) establishing a definition of “prepaid account” within Regulation E that includes reloadable and non-reloadable physical cards, as well as codes or other devices, and focuses on how the product is issued and used; (b) modifying Regulation E to require that short form and long form disclosures be provided to a consumer prior to a consumer agreeing to acquire a prepaid account with certain exceptions and with specified forms that, if used, would provide a safe harbor for financial institutions; (c) extending to prepaid accounts the periodic transaction history and statement requirements of Regulation E currently applicable to payroll and Federal government benefit accounts; (d) extending the error resolution and limited liability provisions of Regulation E currently applicable to payroll cards to registered network branded prepaid cards; (e) requiring financial institutions to post prepaid account agreements to the issuers’ websites and to submit them to the CFPB; (f) extending Regulation Z’s credit card rules and disclosure requirements to prepaid accounts that provide overdraft protection and other credit features; (g) requiring an issuer to obtain a prepaid account holder’s consent prior to adding overdraft services or other credit features and prohibiting the issuer from adding overdraft services or other credit features for at least 30 calendar days after a consumer registers the

prepaid account; (h) prohibiting the application of different terms and conditions, such as charging different fees, to a prepaid account depending on whether the consumer elects to link the prepaid account to overdraft services or other credit features.

As of the date of this filing, it is not clear if the CFPB will adopt the proposed rule in whole or in part, or with modifications, and there is no known timeframe for the CFPB taking further action on the proposed rule.

Consumer Protections for Remittance Transfers. On February 7, 2012, the CFPB published a final rule to implement Section 1073 of the Dodd-Frank Act. The final rule creates a comprehensive set of consumer protections for remittance transfers sent by consumers in the United States to parties in foreign countries. The final rule, among other things, mandates certain disclosures and consumer cancellation rights for foreign remittances covered by the rule.

Federal Regulatory Guidance on Incentive Compensation. On June 21, 2010, federal banking regulators released final guidance on sound incentive compensation policies for banking organizations. This guidance, which covers all employees that have the ability to materially affect the risk profile of an organization either individually or as part of a group, is based upon key principles including: (1) incentive compensation arrangements at a banking organization should provide employees incentives that appropriately balance risk and financial results in a manner that does not encourage employees to expose their organizations to imprudent risk; (2) these arrangements should be compatible with effective controls and risk-management; and (3) these arrangements should be supported by strong corporate governance, including active and effective oversight by the organization's board of directors. The final guidance seeks to address the safety and soundness risks of incentive compensation practices to ultimately be sure that compensation practices are not structured in a manner to give employees incentives to take imprudent risks. Federal regulators intend to actively monitor the actions being taken by banking organizations with respect to incentive compensation arrangements and will review and update their guidance as appropriate to incorporate best practices that emerge.

The Federal Reserve will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations such as ours that are not considered "large, complex banking organizations." These reviews will be tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management controls or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

In February 2011, the Federal Reserve, the Office of Comptroller of the Currency and the FDIC approved a joint proposed rulemaking to implement Section 956 of the Dodd-Frank Act, which prohibits incentive-based compensation arrangements that encourage inappropriate risk taking by covered financial institutions and that are deemed to be excessive, or that may lead to material losses.

Effect of Governmental Monetary Policies. The commercial banking business is affected not only by general economic conditions but also by both U.S. fiscal policy and the monetary policies of the Federal Reserve. Some of the instruments of fiscal and monetary policy available to the Federal Reserve include changes in the discount rate on member bank borrowings, the fluctuating availability of borrowings at the “discount window,” open market operations, the imposition of and changes in reserve requirements against member banks’ deposits and assets of foreign branches, the imposition of and changes in reserve requirements against certain borrowings by banks and their affiliates, and the placing of limits on interest rates that member banks may pay on time and savings deposits. Such policies influence to a significant extent the overall growth of bank loans, investments, and deposits and the interest rates charged on loans or paid on time and savings deposits (see “Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operations”). We cannot predict the nature of future fiscal and monetary policies and the effect of such policies on the future business and our earnings.

Delaware Regulation

General. As a Delaware financial holding company, we are subject to the supervision of and periodic examination by the Delaware Office of the State Bank Commissioner and must comply with the reporting requirements of the Delaware Office of the State Bank Commissioner. The Bank, as a banking corporation chartered under Delaware law, is subject to comprehensive regulation by the Delaware Office of the State Bank Commissioner, including regulation of the conduct of its internal affairs, the extent and exercise of its banking powers, the issuance of capital notes or debentures, any mergers, consolidations or conversions, its lending and

investment practices and its revolving and closed-end credit practices. The Bank also is subject to periodic examination by the Delaware Office of the State Bank Commissioner and must comply with the reporting requirements of the Delaware Office of the State Bank Commissioner. The Delaware Office of the State Bank Commissioner has the power to issue cease and desist orders prohibiting unsafe and unsound practices in the conduct of a banking business.

Limitation on Dividends. Under Delaware banking law, the Bank's directors may declare dividends on common or preferred stock of so much of its net profits as they judge expedient; but the Bank must, before the declaration of a dividend on common stock from net profits, carry 50% of its net profits of the preceding period for which the dividend is paid to its surplus fund until its surplus fund amounts to 50% of its capital stock and thereafter must carry 25% of its net profits for the preceding period for which the dividend is paid to its surplus fund until its surplus fund amounts to 100% of its capital stock. The Bank's payment of dividends is also governed by federal banking laws and regulations promulgated by the FDIC, and by an amendment to the 2014 Consent Order with the FDIC which provides that any payment of dividends by the Bank must receive prior approval from the FDIC.

Gibraltar and European Union Regulation

TPL, our wholly-owned subsidiary, is an electronic money issuer organized in Gibraltar and licensed by the Gibraltar Financial Services Commission or the FSC. As a licensed e-money issuer operating in Gibraltar and in other countries in the EU and EEA, TPL is subject to the laws and regulations of Gibraltar and any EU or EEA countries in which it does or may operate. TPL is subject to supervision and regulation by the FSC. As TPL's primary regulator, the FSC conducts regular examinations of TPL and TPL must file annual and other periodic reports.

Laws applicable to TPL include, without limitation, the Financial Services (Electronic Money) Regulations of 2011, which we refer to as the E-Money Regulations, promulgated by the FSC and the Data Protection Directive (Directive 95/46/EC). In January 2012, the European Commission proposed a comprehensive reform of the Data Protection Directive. As of December 31, 2014, the proposed rules had not been passed by the European Parliament. The E-Money Regulations impose upon TPL substantive rules governing TPL's operation of e-money services, including rules requiring TPL to maintain certain minimum capital levels, governing the safeguarding of cardholder funds, and penalties for any violations. Any change in the laws, regulations and policies of the Gibraltar Parliament, the European Union, its member countries, or any other country in which TPL operates, could have a material adverse impact on TPL and its operations.

Employees

As of December 31, 2014, we had 684 full-time employees and believe our relationships with our employees to be good. Our employees are not employed under a collective bargaining agreement.

Item 1A. Risk Factors

Risks Relating to Our Business

Our business may be affected materially by various risks and uncertainties. Any of the risks described below or elsewhere in this Annual Report on Form 10-K or our other SEC filings, as well as other risks we have not identified, may have a material negative impact on our financial condition and operating results.

The Bank's allowance for loan losses may not be adequate to cover actual losses.

Like all financial institutions, the Bank maintains an allowance for loan losses to provide for probable losses inherent in its loan portfolio. At December 31, 2014, the ratio of the allowance for loan losses to loans was 0.42%. The Bank's allowance for loan losses may not be adequate to cover actual loan losses and future provisions for loan losses could materially and adversely affect the Bank's operating results. The Bank's allowance for loan losses is determined by management after analyzing historical loan losses, current trends in delinquencies and charge-offs, plans for problem loan resolution, changes in the size and composition of the loan portfolio and industry information. Also included in management's estimates for loan losses are considerations with respect to the impact of economic events, the outcome of which are uncertain. The determination by management of the allowance for loan losses involves a high degree of subjectivity and requires management to estimate current and future credit risk based on both qualitative and quantitative facts, each of which is subject to significant change. The amount of future loan losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates that may be beyond the Bank's control, and these loan

losses may exceed current estimates. Bank regulatory agencies, as an integral part of their examination process, review the Bank's loans and allowance for loan losses. Although we believe that the Bank's allowance for loan losses is adequate to provide for probable losses and that the methodology used by the Bank to determine the amount of both the allowance and provision is effective, we cannot assure you that we will not need to increase the Bank's allowance for loan losses, change our methodology for determining our allowance and provision for loan losses or that our regulators will not require us to increase this allowance. Any of these occurrences could materially reduce our earnings and profitability and could result in our sustaining losses. For risks which are specific to the different types of loans we make and which could impact the allowance for loan losses, see Item 1," Business –Lending Activities."

The Bank may suffer losses in its loan portfolio despite its underwriting practices.

The Bank seeks to mitigate the risks inherent in its loan portfolio by adhering to specific underwriting practices. These practices vary depending on the facts and circumstances of each loan, but generally include analysis of a borrower's prior credit history, financial statements, tax returns and cash flow projections, valuation of certain types of collateral based on reports of independent appraisers and verification of liquid assets. Although the Bank believes that its underwriting criteria are appropriate for the various kinds of loans it makes, the Bank may incur losses on loans that meet its underwriting criteria, and these losses may exceed the amounts set aside as reserves in the Bank's allowance for loan losses. If the level of non-performing assets increases, interest income will be reduced. If we experience loan defaults in excess of amounts that we have included in our allowance for loan losses, we will have to increase the provision for loan losses which will reduce our income and might cause us to incur losses.

Weak conditions in the U.S. economy and the credit markets have had, and may continue to have, significant adverse effects on our assets and operating results.

For a multi-year period, the financial system in the United States, including credit markets and markets for real estate and real-estate related assets, has been subject to weakness although there have been some recent improvements.

These weaknesses have resulted in declines in the availability of credit, reduction in the values of real estate and real estate-related assets, the reduction of markets for those assets and impairment of the ability of certain borrowers to repay their obligations. As a result of these conditions, we increased our provision for loan losses, and experienced an increase in the amount of loans charged off and non-performing assets in our commercial loan portfolio which are now reflected in discontinued operations. Rated investment securities, generally considered to be less risky than loans have in recent economic periods, in certain instances, experienced greater than expected losses, which could recur. The Federal Reserve has continued to maintain interest rates at historically low levels to foster a more rapid and full recovery. However, a continuation of weak economic conditions could further harm our financial condition and results of operations.

We are subject to extensive government regulation and supervision.

The Bancorp, Inc. and its subsidiary The Bancorp Bank, are subject to extensive federal and state regulation and supervision. Our subsidiary in the European Union, TPL, is also subject to the laws of Gibraltar and all other European Union and European Economic Areas countries in which it operates. Banking regulations are primarily intended to protect customers, depositors' funds, the federal deposit insurance funds and the banking system as a whole, not stockholders. These regulations affect the Bank's lending practices, capital structure and requirements, investment activities, dividend policy, product offerings, expansionary strategies and growth, among other things. The legal and regulatory landscape is frequently changing as Congress and the regulatory agencies having jurisdiction over our operations adopt or amend laws, or change interpretation of existing statutes, regulations or policies. These changes could affect the Company, the Bank and TPL in substantial and unpredictable ways. Additionally, while we have policies and procedures designed to prevent violations of the extensive federal and state regulations that we are subject to, there can be no assurance that such violations will not occur. Failure to comply with these statutes, regulations or policies could result in sanctions against the Company or the Bank by regulatory agencies, civil money penalties, reputational damage, and a downgrade in the Bank's ratings for capital adequacy, asset quality, management, earnings, liquidity and market sensitivity, any of which alone or in combination could have a material adverse effect on our financial condition and results of operations

The entry into the 2012 and 2014 Consent Orders, as amended, and a supervisory Letter from the Federal Reserve, have imposed certain restrictions and requirements upon us and the Bank.

The Bank entered into a Stipulation and Consent to the Issuance of a Consent Order effective August 7, 2012, which we refer to as the 2012 Consent Order. The Bank took this action without admitting or denying any charges of unsafe or unsound banking practices or violations of law or regulation. Under the 2012 Consent Order, the Bank agreed to increase its supervision of third party

relationships, develop new written compliance and related internal audit compliance programs, develop a new third-party risk management program, and screen new third party relationships as provided in the Consent Order. The Consent Order also requires the Bank to provide certain materials and reports to the FDIC within allotted timeframes. Additionally, as part of the Consent Order, the Bank agreed to pay a civil money penalty in the amount of \$172,000, which was paid in 2012.

On June 5, 2014, the Bank entered into a Stipulation and Consent to the Issuance of a Consent Order with the FDIC, which we refer to as the 2014 Consent Order. The Bank took this action without admitting or denying any charges of unsafe or unsound banking practices or violations of law or regulation relating to the Bank's Bank Secrecy Act, or BSA, compliance program. The 2014 Consent Order requires the Bank to take certain affirmative actions to comply with its BSA obligations. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations – Recent Developments." Satisfaction of the requirements of the 2014 Consent Order is subject to the review of the FDIC and the Delaware State Bank Commissioner. The Bank has and expects to continue to expend significant management and financial resources to address the Bank's BSA compliance program which will reduce our net income.

Until the Bank submits to the FDIC a BSA report summarizing the completion of certain corrective action, the 2014 Consent Order restricts the Bank from signing and boarding new independent sales organizations, establishing new non-benefit reloadable prepaid card programs and originating Automated Clearing House transactions for new merchant-related payments. Until the BSA Report is submitted to and approved by the FDIC and Delaware State Bank Commissioner, those aspects of the growth of our card payment processing and prepaid card operations will be affected, which, unless offset by growth from existing customers and new customers in other areas of our prepaid card operations, could reduce growth of our deposits and non-interest income and, possibly, limit our ability to raise additional capital on acceptable terms.

On August 27, 2015, the Bank entered into an Amendment to Consent Order, or the Amendment, with the FDIC, amending the 2014 Consent Order. The Bank took this action without admitting or denying any additional charges of unsafe or unsound banking practices or violations of law or regulation relating to continued weaknesses in the Bank's BSA compliance program. The Amendment provides that the Bank shall not declare or pay any dividend without the prior written consent of the FDIC and for certain assurances regarding management.

On May 11, 2015, the Federal Reserve issued a letter, or the Supervisory Letter, to us as a result of the 2014 Consent Order and the Amendment, (which, at the time of the Supervisory Letter, was in proposed form), which provides that we shall not pay any dividends on our common stock or make any distributions to TPL or its subsidiaries, or make any interest payments on our trust preferred securities, without the prior written approval of the Federal Reserve. It further provides that we may not incur any debt (excluding payables in the ordinary course of business) or redeem any shares of our stock, without the prior written approval of the Federal Reserve.

We cannot assure you that that our regulators will ultimately determine that we have met all of the requirements of the 2012 Consent Order, 2014 Consent Order, the Amendment or the Supervisory Letter to their satisfaction. If our regulators believe that we have not made sufficient progress in complying with these Consent Orders, they could seek to impose additional regulatory requirements, operational restrictions, enhanced supervision and/or civil money penalties. If any of these measures is imposed in the future, it could have a material adverse effect on our financial condition and results of operations and on our ability to raise additional capital on acceptable terms.

Our reputation and business could be damaged by our entry into the consent orders with the FDIC and other negative publicity.

Reputational risk, or the risk to our business, earnings and capital from negative publicity, is inherent in our business. Negative publicity can result from actual or alleged conduct in a number of areas, including legal and regulatory compliance, lending practices, corporate governance, litigation, inadequate protection of customer data, ethical behavior of our employees, and from actions taken by regulators and others as a result of that conduct. Damage to our reputation, including as a result of negative publicity associated with the FDIC consent orders, or the Federal Reserve supervisory letter and the class action filed in July 2014, now or in the future could impact our ability to attract new and maintain existing loan and deposit customers, employees and business relationships, and could result in the imposition of additional regulatory requirements, operational restrictions, enhanced supervision and/or civil money penalties. Such damage could also adversely affect our ability to raise additional capital on acceptable terms.

The provisions contained in the Consent Orders present interpretive challenges that may give rise to a difference of interpretation by us and our regulators.

The provisions of the 2012 Consent Order, 2014 Consent Order and the Amendment are subject to interpretation and may give rise to differing views between us and our regulators with respect to their scope and application. Accordingly, management, employees at all levels, and legal counsel of the Bank face significant challenges in applying the terms of the Consent Orders to the myriad factual scenarios that arise in the ordinary course of business. While we have sought, and will continue to seek, guidance from our regulators as to the application of the Consent Orders on our business, there can be no assurance that our regulators will provide such guidance or that we and our regulators will interpret the terms of Consent Orders and the Amendment uniformly in every instance.

If the FDIC interprets either Consent Order or the Amendment in a manner contrary to our interpretation despite our good faith efforts to comply, the FDIC may conclude a violation has occurred, which may result in the imposition of additional regulatory requirements, operational restrictions, enhanced supervision and/or civil money penalties.

We may have difficulty managing our growth which may divert resources and limit our ability to expand our operations successfully.

We expect to continue to experience significant growth in the amount of our assets, the level of our deposits and the scale of our operations. Our future profitability will depend in part on our continued ability to grow; however, we may not be able to sustain our historical growth rate or be able to grow. Our future success will depend on the ability of our officers and key employees to continue to implement and improve our operational, financial and management controls, reporting systems and procedures and manage a growing number of customer relationships. We may not implement improvements to our management information and control systems in an efficient or timely manner and may discover deficiencies in existing systems and controls. Consequently, our continued growth may place a strain on our administrative and operational infrastructure. Any such strain could increase our costs, reduce or eliminate our profitability and reduce the price at which our common shares trade.

New lines of business, and new products and services may result in exposure to new risks.

The Bank has introduced, and in the future may introduce, new products and services to differing markets either alone or in conjunction with third parties. New lines of business, products or services could have a significant impact on the effectiveness of our system of internal controls or the controls of third parties and could reduce our revenues and potentially generate losses. There are material inherent risks and uncertainties associated with offering new products and services, especially when new markets are not fully developed or when the laws and regulations regarding a new

product are not mature. New products and services, or entrance into new markets, may require substantial time, resources and capital, and profitability targets may not be achieved. Factors outside of our control, such as developing laws and regulations, regulatory orders, competitive product offerings and changes in commercial and consumer demand for products or services may also materially impact the successful launch and implementation of new products or services. Failure to manage these risks, or failure of any product or service offerings to be successful and profitable, could have a material adverse effect on our financial condition and results of operations.

Changes in interest rates could reduce our income, cash flows and asset values.

Our income and cash flows depend to a great extent on the difference between the interest rates we earn on interest earning assets, such as loans and investment securities, and the interest rates we pay on interest-bearing liabilities such as deposits and borrowings. The value of our assets, and particularly loans with fixed or capped rates of interest, may also vary with interest rate changes. We discuss the effects of interest rate changes on the market value of our portfolio and net interest income in “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Asset and Liability Management.” Interest rates are highly sensitive to many factors which are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Federal Reserve. Changes in monetary policy, including changes in interest rates, will influence not only the interest we receive on our loans and investment securities and the amount of interest we pay on deposits, but also our ability to originate loans and obtain deposits and our costs in doing so. If the rate of interest we pay on our deposits and other borrowings increases more than the rate of interest we earn on our loans and other investments, our net interest income, and therefore our earnings, could decline or we could sustain losses. Our earnings could also decline or we could sustain losses if the rates on our loans and other investments fall more quickly than those on our deposits and other borrowings. While the

Bank is generally asset sensitive, which implies that significant increases in market rates would generally increase margins, while decreases in interest rates would generally decrease margins, we cannot assure you that increases or decreases in margins will follow such a pattern in the future.

We are subject to lending risks.

There are risks inherent in making all loans. These risks include interest rate changes over the time period in which loans may be repaid and changes in the national economy or the economy that impact the ability of our borrowers to repay their loans or the value of the collateral securing those loans. Although we have discontinued our Philadelphia based commercial lending operations, we still hold a significant number of commercial, construction and commercial mortgage loans with relatively large balances. The deterioration of one or a few of these loans would cause a significant increase in non-performing loans, notwithstanding that such loans are now held for sale. Weak economic conditions have caused increases in our delinquent and defaulted loans in recent years. We cannot assure you that we will not experience further increases in delinquencies and defaults or that any such increases will not be material. On a consolidated basis, an increase in non-performing loans could result in an increase in our provision for loan losses or in loan charge-offs and consequent reductions in our earnings. Our specialty lending operations are subject to additional risks including, with respect to our SBA loans, the risk that the U.S. government's partial guaranty on SBA loans is withdrawn due to noncompliance with regulations. For other risks which are specific to the different types of loans we make and which could impact our allowance for loan losses, see Item 1," Business –Lending Activities."

There is a significant concentration in prepaid card fee income which is subject to various risks.

We realize a significant portion of our revenues from prepaid card and other prepaid products and services offered by our Payment Solutions Group. Actions by government agencies relating to service charges, or increased regulatory compliance costs, could result in reductions in income which may not be offset by reductions in expense. Prepaid card deposits comprise a significant portion of the Bank's deposits.

Regulatory and legal requirements applicable to the prepaid card industry are unique and frequently changing.

Achieving and maintaining compliance with frequently changing legal and regulatory requirements requires a significant investment in qualified personnel, hardware, software and other technology platforms, external legal counsel and consultants and other infrastructure components both in the United States and the European Union. These investments may not ensure compliance or otherwise mitigate risks involved in this business. Our failure to satisfy regulatory mandates applicable to prepaid financial products could result in actions against us by our regulators, legal proceedings being instituted against us by consumers, or other losses, each of which could have a material adverse effect on financial condition and operating results. Other risks related to prepaid cards include competition for prepaid and other payment mediums, possible changes in the rules of networks, such as Visa and MasterCard and others, in which the Bank operates and state regulations related to prepaid cards including escheatment.

The potential for fraud in the card payment industry is significant.

Issuers of prepaid cards and other companies have suffered significant losses in recent years with respect to the theft of cardholder data that has been illegally exploited for personal gain. The theft of such information is regularly reported and affects individuals and businesses. Losses from various types of fraud have been substantial for certain card industry participants. The Bank in many cases has indemnification agreements with third parties; however, such indemnifications may not fully cover losses. Although fraud has not had a material impact on the profitability of the Bank, it is possible that such activity could impact this division at some time in the future.

Risk management processes and strategies must be effective, and concentration of risk increases the potential for losses.

Our risk management processes and strategies must be effective, otherwise losses may result. We manage asset quality, liquidity, market sensitivity, operational, regulatory, third-party vendor and partner relationship risks and other risks through various processes and strategies throughout the organization. If our risk management judgments and strategies are not effective, or unanticipated risks arise, our income could be reduced or we could sustain losses.

We may depend in part upon wholesale and brokered certificates of deposit to satisfy funding needs.

In the future we may rely in part on funds provided by wholesale deposits and brokered certificates of deposit to support the growth of our loan portfolio. Wholesale and brokered certificates of deposit are highly sensitive to changes in interest and, accordingly, can be a more volatile source of funding.

Use of wholesale and brokered deposits involves the risk that growth supported by such deposits would be halted, or the Bank's total assets could contract, if the rates offered by the Bank were less than offered by other institutions seeking such deposits, or if the depositors were to perceive a decline in the Bank's safety and soundness, or both. In addition, if we were unable to match the maturities of the interest rates we pay for wholesale and brokered certificates of deposit to the maturities of the loans we make using those funds, increases in the interest rates we pay for such funds could decrease our consolidated net interest income. Moreover, if the Bank ceases to be categorized as "well capitalized" under banking regulations, it will be prohibited from accepting, renewing or rolling over brokered deposits without the consent of the FDIC.

Our prepaid card and other deposits obtained with the assistance of third parties have been classified as brokered.

In December 2014 the FDIC issued new guidance classifying prepaid deposits and other deposits obtained in cooperation with third parties as brokered deposits, resulting in the vast majority of the Bank's deposits being classified as brokered. We do not believe that these deposits are subject to the volatility risks associated with brokered wholesale deposits or brokered certificates of deposit. However, if the Bank ceases to be categorized as "well capitalized" under banking regulations, it will be prohibited from accepting, renewing or rolling over brokered deposits without the consent of the FDIC.

We operate in highly competitive markets.

We face substantial competition in all phases of our operations from a variety of different competitors, including commercial banks and their holding companies, savings and loan associations, mutual savings banks, credit unions, leasing companies, consumer finance companies, factoring companies, insurance companies and money market mutual funds and card issuers.

We face national and even global competition with respect to our other products and services, including payment acceptance products and services, healthcare payment solutions, private label banking, fleet leasing, government guaranteed lending and prepaid payment solutions. Our commercial partners and banking customers for these products and services are located throughout the United States and, with respect to prepaid and electronic money payment solutions, the United States and the European Union, and the competition is strong in each category. We encounter competition from some of the largest financial institutions in the world as well as smaller specialized regional banks and financial service companies. Increased competition with any of these product or service offerings could result in the reduced pricing and resultant profit margins, fragmented market share and a failure to enjoy economies of scale, loss of customer and depositor base, and other risks that individually, or in the aggregate, could have a material adverse effect on our financial condition and results of operations.

Some of the financial services organizations with which we compete are not subject to the same degree of regulation as federally-insured and regulated financial institutions such as ours. As a result, those competitors may be able to access funding and provide various services more easily or at less cost than we can.

We derive a significant percentage of our deposits, total assets and income from deposit accounts we generate through affinity groups.

We derive a significant percentage of our deposits, total assets and income from deposit accounts we generate through affinity groups. Deposits related to our top twenty affinity groups totaled \$2.64 billion at December 31, 2014. We provide oversight over our affinity groups which must meet all internal and regulatory requirements. We may exit relationships where such requirements are not met or be required by our regulators to exit such relationships. If an affinity group relationship were to be terminated, it could materially reduce our deposits, assets and income. We cannot assure you that we could replace such relationship. If we cannot replace such relationship, we may be required to seek higher rate funding sources as compared to the exiting affinity group and interest expense might increase. We may also be required to sell securities or other assets to meet funding needs which would reduce revenues or potentially generate losses.

Our affinity group marketing strategy has been adopted by other institutions with which we compete.

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Several online banking operations as well as the online banking programs of conventional banks have instituted affinity group marketing strategies similar to ours. As a consequence, we have encountered competition in this area and anticipate that we will continue to do so in the future. This competition may increase our costs, reduce our revenues or revenue growth or, because we are a relatively small banking operation without the name recognition of other, more established banking operations, make it difficult for us to compete effectively in obtaining affinity group relationships.

Our lending limit may adversely affect our competitiveness.

Our regulatory lending limit as of December 31, 2014 to any one customer or related group of customers was \$41.4 million for unsecured loans and \$69.0 million for secured loans. Our lending limit is substantially smaller than that of many financial institutions with which we compete. While we believe that our lending limit is sufficient for our targeted market of small to mid-size businesses, individuals and affinity group members, it may in the future affect our ability to attract or maintain customers or to compete with other financial institutions. Moreover, to the extent that we incur losses and do not obtain additional capital, our lending limit, which depends upon the amount of our capital, will decrease.

Environmental liability associated with lending activities could result in losses.

In the course of our business, we may foreclose on and take title to properties securing our loans. If hazardous substances were discovered on any of these properties, we may be liable to governmental entities or third parties for the costs of remediation of the hazard, as well as for personal injury and property damage. Many environmental laws can impose liability regardless of whether we knew of, or were responsible for, the contamination. In addition, if we arrange for the disposal of hazardous or toxic substances at another site, we may be liable for the costs of cleaning up and removing those substances from the site, even if we neither own nor operate the disposal site. Environmental laws may require us to incur substantial expenses and may materially limit use of properties we acquired through foreclosure, reduce their value or limit our ability to sell them in the event of a default on the loans they secure. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability.

As a financial institution whose principal medium for delivery of banking services is the Internet, we are subject to risks particular to that medium and other technological risks and costs.

We utilize the Internet and other automated electronic processing in our banking services without physical locations, as distinguished from the Internet banking service of an established conventional bank. Independent Internet banks often have found it difficult to achieve profitability and revenue growth. Several factors contribute to the unique problems that Internet banks face. These include concerns for the security of personal information, the absence of personal relationships between bankers and customers, the absence of loyalty to a conventional hometown bank, the customer's difficulty in understanding and assessing the substance and financial strength of an Internet bank, a lack of confidence in the likelihood of success and permanence of Internet banks and many individuals' unwillingness to trust their personal assets to a relatively new technological medium such as the Internet. As a result, many potential customers may be unwilling to establish a relationship with us.

Many conventional financial institutions offer the option of Internet banking and financial services to their existing and prospective customers. The public may perceive conventional financial institutions as being safer, more responsive, more comfortable to deal with and more accountable as providers of their banking and financial services, including their Internet banking services. We may not be able to offer Internet banking and financial services and personal relationship characteristics that have sufficient advantages over the Internet banking and financial services and other characteristics of established conventional financial institutions to enable us to compete successfully.

Moreover, both the Internet and the financial services industry are undergoing rapid technological changes, with frequent introductions of new technology-driven products and services. In addition to improving the ability to serve customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our ability to compete will depend, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to implement effectively new technology-driven products and services or be successful in marketing these products and services to our customers. Such products may also prove costly to develop or acquire.

Our operations may be interrupted if our network or computer systems, or those of our providers, fail.

Because we deliver our products and services over the Internet and outsource several critical functions to third parties, our operations depend on our ability, as well as that of our service providers, to protect computer systems and network infrastructure against interruptions in service due to damage from fire, power loss, telecommunications failure, physical break-ins and computer hacking or similar catastrophic events. Our operations also depend upon our ability to replace a third-party provider if it experiences difficulties that interrupt our operations or if an operationally essential third-party service terminates. Service interruptions to customers may adversely affect our ability to obtain or retain customers and could result in regulatory sanctions. Moreover, if a customer were unable to access his or her account or complete a financial transaction due to a service interruption, we could be subject to a claim by the customer for his or her loss. While our accounts and other agreements contain disclaimers of liability for these kinds of losses, we cannot predict the outcome of litigation if a customer were to make a claim against us.

A failure of cyber security may result in a loss of customers and our being liable for damages for such failure.

A significant barrier to online and other financial transactions is the secure transmission of confidential information over public networks and other mediums. The systems we use rely on encryption and authentication technology to provide secure transmission of confidential information. Advances in computer capabilities, new discoveries in the field of cryptography or other developments could result in a compromise or breach of the algorithms used to protect customer transaction data. If we, or another provider of financial services through the Internet, were to suffer damage from a security breach, public acceptance and use of the Internet as a medium for financial transactions could suffer. Any security breach could deter potential customers or cause existing customers to leave, thereby impairing our ability to grow and maintain profitability and, possibly, our ability to continue delivering our products and services through the Internet. We could also be liable for any customer damages arising from such a breach. Other cyber threats involving theft of confidential information could also result in liability. Although we, with the help of third-party service providers, intend to continue to implement security technology and establish operational procedures to prevent security breaches, these measures may not be successful.

We outsource many essential services to third-party providers who may terminate their agreements with us, resulting in interruptions to our banking operations.

We obtain essential technological and customer services support for the systems we use from third-party providers. We outsource our check processing, check imaging, transaction processing, electronic bill payment, statement rendering, and other services to third-party vendors. For a description of these services, you should read Item 1, "Business—Other Operations—Third-Party Service Providers." Our agreements with each service provider are generally cancelable without cause by either party upon specified notice periods. If one of our third-party service providers terminates its agreement with us and we are unable to replace it with another service provider, our operations may be interrupted. Even a temporary disruption in services could result in our losing customers, incurring liability for any damages our customers may sustain, or losing revenues. Moreover, there can be no assurance that a replacement service provider will provide its services at the same or a lower cost than the service provider it replaces.

We may be affected by government regulation including those mandating capital levels.

We are subject to extensive federal and state banking regulation and supervision, which has increased in the past several years as a result of stresses the financial system has undergone for an extended period of years. The regulations are intended primarily to protect our depositors' funds, the federal deposit insurance funds and the safety and soundness of the Bank, not our shareholders. Regulatory requirements affect lending practices, product offerings, capital structure, investment practices, dividend policy and growth. A failure by either the Bank or us to meet regulatory capital requirements will result in the imposition of limitations on our operations and could, if capital levels drop significantly, result in our being required to cease operations. Regulatory capital requirements must also be satisfied such that mandated capital ratios are maintained as the Bank grows, or growth may be required to be

curtailed. Moreover, a failure by either the Bank or us to comply with regulatory requirements regarding lending practices, investment practices, customer relationships, anti-money laundering detection and prevention, and other operational practices (see "Business--Regulation Under Banking Law") could result in regulatory sanctions and possibly third-party liabilities. Changes in governing law, regulations or regulatory practices could impose additional costs on us or impair our ability to obtain deposits or make loans and, as a consequence, our consolidated revenues and profitability.

As a Delaware-chartered bank whose depositors and financial services customers are located in several states, the Bank may be subject to additional licensure requirements or other regulation of its activities by state regulatory authorities and laws outside of Delaware. If the Bank's compliance with licensure requirements or other regulation becomes overly burdensome, we may seek to convert its state charter to a federal charter in order to gain the benefits of federal preemption of some of those laws and regulations. Conversion of the Bank to a federal charter will require the prior approval of the relevant federal bank regulatory authorities, which we may not be able to obtain. Moreover, even if we obtain approval, there could be a significant period of time between our application and receipt of the approval, and/or any approval we do obtain may be subject to burdensome conditions or restrictions.

Implemented, proposed and future regulatory and legislative financial reforms may result in new laws and regulations that we expect will increase our compliance burdens and operating costs.

The passage of new laws and the adoption of new rules and regulations cannot be fully or accurately predicted. Any such proposed laws and regulations may limit our operations, require higher levels of capital and liquidity, create additional compliance burdens, or otherwise impact our operations. Most recently, passage of the Dodd-Frank Act in 2010, and the rules and regulations emanating therefrom, have significantly changed, and will continue to, change, the bank regulatory structure, and affect the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. While a significant number of regulations have already been promulgated to implement the Dodd-Frank Act, many of the details and much of the impact of the Dodd-Frank Act may not be known for lengthy periods, which could have a material adverse effect on the financial services industry, generally and our company in particular.

We expect that the Dodd-Frank Act's "Durbin Amendment," which applies to all banks, regardless of asset size, will continue to affect us. The Durbin Amendment required the Federal Reserve to adopt a rule establishing debit card interchange fee standards and limits and prohibiting network exclusivity and routing requirements. The Dodd-Frank Act exempts from the debit card interchange fee standards any issuing bank that, together with its affiliates, have assets of less than \$10 billion. Because of our asset size, we are exempt from the debit card interchange fee standards and will continue to be exempt unless the exemption is amended or we, together with our subsidiaries, surpass \$10 billion in assets.

On June 29, 2011, the Federal Reserve implemented final routing regulatory requirements to prohibit network exclusivity arrangements on debit card transactions and ensure merchants will have choices in debit card routing, which apply to us. The regulations require issuers to make at least two unaffiliated networks available to the merchant, without regard to the method of authentication (PIN or signature), for both debit cards and prepaid cards. As currently applied, a card issuer can guarantee compliance with the network exclusivity regulations by enabling the debit card to process transactions through one signature network and one unaffiliated PIN network. Cards usable only with PINs must be enabled with two unaffiliated PIN networks.

On March 21, 2014, the United States Court of Appeals for the District of Columbia Circuit upheld the Federal Reserve's rules on network exclusivity and interchange fees as written and thereby rejected a challenge brought by a group of merchant trade associations. On January 21, 2015, the Supreme Court of the United States declined to take an appeal filed by the plaintiff merchant trade associations, effectively ending the litigation and upholding the Federal Reserve's final rules regarding network exclusivity and interchange fees as written.

It is difficult to predict at this time what specific impact many aspects of the Dodd-Frank Act and the yet to be written implementing rules and regulations will have on regional banks; however, we expect that at a minimum they will

increase our operating and compliance costs and obligations, which could have a material adverse effect on our financial condition and results of operations.

A further downgrade of the U.S. government credit rating could negatively impact our investment portfolio and other operations.

A significant amount of our investment portfolio is rated by outside ratings agencies as explicitly or implicitly backed by the United States government. In 2011, the credit rating of the United States government was lowered, and it is possible it may be downgraded further, based upon rating agencies' evaluations of the effect of increasing levels of government debt and related Congressional actions. A lowering of the United States government credit ratings may reduce the market value or liquidity of our investment portfolio.

Potential acquisitions may disrupt our business and dilute stockholder value.

Acquiring other banks or businesses involves various risks commonly associated with acquisitions, including, among other things:

- potential exposure to unknown or contingent liabilities of the target entity;
- exposure to potential asset quality issues of the target entity;
- difficulty and expense of integrating the operations and personnel of the target entity;
- potential disruption to our business;
- potential diversion of our management's time and attention;
- the possible loss of key employees and customers of the target entity;
- difficulty in estimating the value of the target entity;
- potential changes in banking or tax laws or regulations that may affect the target entity; and
- difficulty navigating and integrating legal, operating cultural differences between the United States and the countries of the target entity's operations.

From time to time we evaluate merger and acquisition opportunities and conduct due diligence activities related to possible transactions with other financial institutions and financial services companies. As a result, merger or acquisition discussions and, in some cases, negotiations may take place and future mergers or acquisitions involving cash, debt or equity securities may occur at any time. Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some dilution of our tangible book value and net income per common share may occur in connection with any future transaction. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on our financial condition and results of operations.

We may be subject to potential liability and business risk from actions by our regulators related to supervision of third parties.

Oversight management by us of third parties by which we acquire deposit accounts and offer products and services, may be required to be expanded by our auditors or regulators. Although we have added significant compliance staff and have used outside consultants, our internal and external compliance examiners must be satisfied with the results of such augmentation and enhancement. We cannot assure you that we will satisfy all related requirements. Not achieving a compliance management system which is deemed adequate could result in sanctions against the Bank. Our ongoing review and analysis of our compliance management system and implementation of any changes resulting from that review and analysis will likely result in increased noninterest expense.

We are named as a defendant in a class action securities lawsuit, the adverse resolution of which could have a material adverse effect on our financial condition and results of operations.

We were named as a defendant in a class action securities lawsuit filed in July 2014 in the United States District Court for the District of Delaware. See Part I, Item 3, "Legal Proceedings." An adverse resolution of this matter could result in substantial damages, which could materially adversely affect our financial condition and results of operations.

The Bank may be subject to civil money penalties in connection with examination findings.

Like all regulated banking institutions, we are at risk of the imposition of civil money penalties by our regulators, based on, among other things, apparent violations of law, repeat violations, or supervisory determinations of non-compliance with any consent order. Depending on the circumstances, the imposition and size of any such penalty is at the discretion of the regulator. The FDIC has informed us that certain actions of third parties through which we issue prepaid cards are being scrutinized by the FDIC. The FDIC has further informed us that it may take the position that certain operational aspects related to these card programs may implicate non-compliance with unfair or deceptive acts or practices laws or other regulations. While the Bank is contractually indemnified for related losses, civil money penalties, if assessed against the Bank, are not indemnified.

The appraised fair value of the assets in our discontinued commercial loan operations may be more than the amounts received upon sale.

In connection with the discontinuance of our commercial loan portfolio and the resulting charge to earnings, an independent third party expert has provided a fair value analysis of the commercial loan portfolio for purposes of reflecting discontinued assets on our consolidated balance sheet. This valuation is an estimate only, based on current circumstances, and the actual sales price could be significantly less than the estimate, which could materially affect results of operations in future quarters.

We cannot predict whether income resulting from the reinvestment of proceeds from the loans we hold will match or exceed the income from the sold loans.

We are seeking to sell the loans in our discontinued commercial loan operations and expect that we will obtain a significant amount of cash from the sale. Although we believe, based upon current market conditions, that we will be able to invest such proceeds profitably, reinvestment income is difficult to predict and depends upon a number of economic and market conditions beyond our control, including interest rates and the availability of suitable investments. We cannot assure you that we will be able to generate the same level of income from the reinvested proceeds as we generated from the loan portfolio being sold, or that suitable investments will be available to us. If not, our revenues and net income could be reduced materially.

Any future FDIC insurance premium increases will adversely affect our earnings.

Any further assessments or special assessments that the FDIC levies will be recorded as an expense during the appropriate period and will decrease our earnings. On February 9, 2011, the FDIC adopted a final rule which redefines the deposit insurance assessment base as required by the Dodd-Frank Act. The final rule sets the deposit insurance assessment base as average consolidated total assets minus average tangible equity. It also sets a new assessment rate schedule which reflects assessment rate adjustments based upon regulatory examination classification with increased rates for brokered deposits. The final rule became effective on April 1, 2011. If the Bank's rating is changed, insurance premiums will be increased which will adversely affect our earnings. In the fourth quarter of 2014, the Bank's FDIC premium was increased to 24 basis points as a result of new guidance by the FDIC which reclassified the vast majority of the Bank's deposits as brokered. A reduction in the assessment rate will depend on future FDIC evaluations of the Bank.

We have had material weaknesses in internal control over financial reporting in the past and cannot assure you that additional material weaknesses will not be identified in the future. Our failure to implement and maintain effective internal control over financial reporting could result in material misstatements in our financial statements which could require us to restate financial statements, cause investors to lose confidence in our reported financial information and have a negative effect on our stock price.

As previously reported, our management has identified material weaknesses in our internal control over financial reporting that affected our financial statements for the fiscal years ended December 31, 2012, 2013 and 2014 and prior periods. See Item 9A, "Controls and Procedures." These weaknesses related to the timing of the recognition of loan losses and the recognition of other loan losses and have resulted in a restatement of our financial statements for such periods. We cannot assure you that additional significant deficiencies or material weaknesses in our internal control over financial reporting will not be identified in the future. Any failure to maintain or implement required new or improved controls, or any difficulties we encounter in their implementation, could result in additional material weaknesses, cause us to fail to meet our periodic reporting obligations or result in material misstatements in our financial statements. Any such failure could also adversely affect the results of periodic management evaluations and annual auditor attestation reports regarding the effectiveness of our internal control over financial reporting required under Section 404 of the Sarbanes-Oxley Act of 2002 and the rules promulgated under Section 404. The existence of a material weakness could result in errors in our financial statements that could result in a restatement of financial statements, cause us to fail to meet our reporting obligations and cause investors or customers to lose confidence in our reported financial information, leading to a decline in our stock price or a loss of business.

Risks related to ownership of our common stock.

The trading volume in our common stock is less than that of many financial services companies, which may reduce the price at which our common stock would otherwise trade.

Although our common stock is traded on The NASDAQ Global Select Market, the trading volume is less than that of many financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of our common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the lower trading volume of our common stock, significant sales of our common stock, or the expectation of these sales, could cause our stock price to fall.

An investment in our common stock is not an insured deposit.

Our common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in our common stock is inherently risky for the reasons described in this “Risk Factors” section and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire our common stock, you may lose some or all of your investment.

Our ability to issue additional shares of our common stock, or the issuance of such additional shares, may reduce the price at which our common stock trades.

We cannot predict whether future issuances of shares of our common stock or the availability of shares for resale in the open market will decrease the market price per share of our common stock. We are not restricted from issuing additional shares of common stock, including any securities that are convertible into or exchangeable for, or that represent the right to receive shares of common stock. Sales of a substantial number of shares of our common stock in the public market or the perception that such sales might occur could materially adversely affect the market price of the shares of our common stock. The exercise of any options granted to directors, executive officers and other employees under our stock compensation plans, the vesting of restricted stock grants, the issuance of shares of common stock in acquisitions and other issuances of our common stock also could have an adverse effect on the market price of the shares of our common stock. The existence of options, or shares of our common stock reserved for issuance as restricted shares of our common stock may materially adversely affect the terms upon which we may be able to obtain additional capital in the future through the sale of equity securities.

Future offerings of debt, which would be senior to our common stock upon liquidation, and/or preferred equity securities which may be senior to our common stock for purposes of dividend distributions or upon liquidation, may reduce the market price at which our common stock trades.

In the future, we may attempt to increase our capital resources or, if the Bank’s capital ratios fall below the required minimums, we could be forced to raise additional capital by making additional offerings of debt or preferred equity securities, including medium-term notes senior or subordinated notes or preferred stock. Upon liquidation, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings will receive distributions of our available assets prior to the holders of our common stock. Holders of our common stock are not entitled to preemptive rights or other protections against dilution.

The Bank's ability to pay dividends is subject to regulatory limitations which, to the extent we require such dividends in the future, may affect our ability to pay our obligations and pay dividends.

We are a separate legal entity from the Bank and our other subsidiaries, and we do not have significant operations of our own. We have historically depended on the Bank's cash and liquidity as well as dividends to pay our operating expenses. Various federal and state statutory provisions limit the amount of dividends that subsidiary banks can pay to their holding companies without regulatory approval. The Bank is also subject to limitations under state law regarding the payment of dividends, including the requirement that dividends may be paid only out of net profits. In addition to these explicit limitations, it is possible, depending upon the financial condition of the Bank and other factors, that federal and state regulatory agencies could take the position that payment of dividends by the Bank would constitute an unsafe or unsound banking practice and may therefore seek to prevent the Bank from paying such dividends. Moreover, under the Amendment to the 2014 Consent Order, the Bank may not pay dividends without the approval of the FDIC. See "Risk Factors-Risks Relating to Our Business-The entry into the 2012 and 2014 Consent Orders, as amended, and a supervisory letter from the Federal Reserve, have imposed certain restrictions and requirements upon us and the Bank." Although we believe we have sufficient existing liquidity for our needs for the foreseeable future, there is risk that, if the Amendment remains undischarged for a lengthy period and the Bank is unable to obtain FDIC approval for one or more dividends, we may not be able to service our obligations as they become due or to pay dividends on our common stock or preferred stock. Even if, absent the Amendment, the Bank has the capacity to pay dividends, it is not obligated to pay the dividends. Its Board of Directors may determine, as it did in the past, to retain some or all of its earnings to support or increase its capital base.

Anti-takeover provisions of our certificate of incorporation, bylaws and Delaware law may make it more difficult for holders of our common stock to receive a change in control premium.

Certain provisions of our certificate of incorporation and bylaws could make a merger, tender offer or proxy contest more difficult, even if such events were perceived by many of our stockholders as beneficial to their interests. These provisions include in particular our ability to issue shares of our common stock and preferred stock with such provisions as our board of directors may approve without further shareholder approval. In addition, as a Delaware corporation, we are subject to Section 203 of the Delaware General Corporation Law which, in general, prevents an interested stockholder, defined generally as a person owning 15% or more of a corporation's outstanding voting stock, from engaging in a business combination with our company for three years following the date that person became an interested stockholder unless certain specified conditions are satisfied.

Item 1B. Unresolved Staff Comments.

The staff of the SEC has commented on three of our loan relationships, now included in discontinued operations, requesting detailed information concerning the amount and timing of our recognition of impairment losses originally reported in the first quarter of 2014, with respect to those relationships. As a result of these comments, we analyzed the relationships and on March 29, 2015 our audit committee, as reported in a Form 8-K filed April 1, 2015, determined that certain of our financial statements could not be relied upon as noted in the "Explanatory Note" which precedes Part I above and that such charges should be restated to prior periods. Upon resulting analysis of other unrelated loan charges, losses on other loans were also restated to prior periods including previously unreported losses. The restatement of such losses is presented in Note C and Note T to the financial statements in this Form 10-K. We cannot assure you that the staff of the SEC will not have further comments related to the foregoing.

Item 2. Properties.

Our executive office and banking facility are located at 409 Silverside Rd. Wilmington, Delaware. We maintain loan production offices in Philadelphia, Pennsylvania, New York, New York, King of Prussia, Pennsylvania and Chicago Illinois, leasing offices in Crofton, Maryland, Orlando, Florida and Kent, Washington, prepaid card offices in Sioux Falls, South Dakota and Minneapolis, Minnesota, BSA/AML offices in Tampa, Florida and our European prepaid card offices in Lozenetaz, Sofia Bulgaria and Ocean Village, Gibraltar. Locations and certain additional information regarding our offices and other material properties at December 31, 2014 are listed below.

Location	Expiration	Square Feet	Monthly Rent
United States			
Chicago, Illinois	2020	6,864	\$ 10,608
Crofton, Maryland	2015	3,243	5,160
King of Prussia, Pennsylvania	2017	2,728	4,461
King, Washington	2016	4,500	4,500

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Minneapolis, Minnesota	2017	3,181	2,585
New York, New York	2015 - 2025	13,479	72,961
Orlando, Florida	2015	12,400	6,433
Philadelphia, Pennsylvania	2025	14,839	24,983
Sioux Falls, South Dakota	2022	38,611	54,674
Tampa, Florida	2020	10,303	15,621
Wilmington, Delaware	2025	62,136	121,301

Europe(1)			
Lozenetaz, Sofia Bulgaria	2016	4,413	5,182

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Ocean Village, Gibraltar

2022 4,585 15,603

(1) Office space in Europe is expressed in square feet and U.S. dollars. We believe that our offices are suitable and adequate for our operations.

Item 3. Legal Proceedings.

On July 17, 2014, a class action securities complaint, captioned Fletcher v. The Bancorp Inc., et al., was filed in the United States District Court for the District of Delaware. A consolidated version of that class action complaint was filed before the same court on January 23, 2015 on behalf of Lead Plaintiffs Arkansas Public Employees Retirement System and Arkansas Teacher Retirement System. Filed under the caption of In re The Bancorp Inc. Securities Litigation, the consolidated complaint asserts claims against Bancorp, Betsy Z. Cohen, Paul Frenkiel, Frank M. Mastrangelo and Jeremy Kuiper, and alleges that during a class period beginning April 24, 2013 through July 23, 2014, the defendants made materially false and/or misleading statements and/or failed to disclose that (i) Bancorp had wrongfully extended and modified problem loans and under-reserved for loan losses due to adverse loans, (ii) Bancorp's operations and credit practices were in violation of the BSA, and (iii) as a result, Bancorp's financial statements, press releases and public statements were materially false and misleading during the relevant period. The consolidated complaint further alleges that, as a result, the price of Bancorp's common stock was artificially inflated and fell once the defendants' misstatements and omissions were revealed, causing damage to the plaintiffs and the other members of the class. The complaint asks for an unspecified amount of damages, prejudgment and post-judgment interest and attorneys' fees. The defendants filed a motion to dismiss the consolidated complaint on March 24, 2015. Following Bancorp's April 1, 2015 announcement that it would be restating its financial statements, the parties entered into a stipulation dated April 10, 2015 allowing the plaintiffs to file an amended complaint within 28 days of Bancorp filing its restated financial statements, and giving the defendants 28 days to respond to the amended complaint. The court approved the parties' stipulation on April 14, 2015. This litigation is in its preliminary stages. We have been advised by our counsel in the matter that reasonably possible losses cannot be estimated. We believe that the complaint is without merit and we intend to defend vigorously.

In addition, we are a party to various routine legal proceedings arising out of the ordinary course of our business. Management believes that none of these actions, individually or in the aggregate, will have a material adverse effect on our financial condition or operations.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

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

Our common stock trades on the NASDAQ National Market under the symbol "TBBK." The following table sets forth the range of high and low sales prices for the indicated periods for our common stock.

Quarter Ended	Price Range	
	High	Low
2014		
March 31, 2014	\$ 20.14	\$ 17.66
June 30, 2014	\$ 19.69	\$ 11.60
September 30, 2014	\$ 11.94	\$ 8.75
December 31, 2014	\$ 10.96	\$ 8.29

2013

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March 31, 2013	\$	14.24	\$	7.14
June 30, 2013	\$	15.14	\$	12.10
September 30, 2013	\$	18.61	\$	14.75
December 31, 2013	\$	19.14	\$	15.78

As of June 29, 2015, there were 37,758,237 shares of common stock outstanding held of record by 3,494 persons.

We have not paid cash dividends on our common stock since our inception, and do not plan to pay cash dividends on our common stock for the foreseeable future. We intend to retain earnings, if any, to increase our capital and fund the development and growth of our operations. Our board of directors will determine any changes in our dividend policy based upon its analysis of factors it deems relevant. We expect that these factors will include our earnings, financial condition, cash requirements, regulatory capital levels and available investment opportunities. Our payment of dividends is subject to restrictions discussed in Item 1, “Business—Regulation under Banking Law,” and to a Supervisory Letter issued by the Federal Reserve discussed in Item 1A, “Risk Factors-Risks Relating to Our Business-The entry into the 2012 and 2014 Consent Orders, as amended, and a supervisory letter from the Federal Reserve, have imposed certain restrictions and requirements upon us and the Bank.”

Performance graph

The following graph compares the performance of our common stock to the NASDAQ Composite Index and the NASDAQ Bank Stock Index. The graph shows the value of \$100 invested in our common stock and both indices on December 31, 2009 for a five year period and the change in the value of our common stock compared to the indices as of the end of each year. The graph assumes the reinvestment of all dividends. Historical stock price performance is not necessarily indicative of future stock price performance.

Index	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
The Bancorp, Inc.	100.00	148.25	105.39	159.91	261.08	158.75
NASDAQ Bank Stock Index	100.00	111.89	97.98	113.45	157.59	162.07
NASDAQ Composite Stock Index	100.00	116.91	114.81	133.07	184.06	208.71

The following graph reflects stock performance since 2008, compared to the KBW bank index, which is an industry recognized peer group of regional and money center banks.

Index	As of						
	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
The Bancorp, Inc.	100.00	182.93	271.20	192.80	292.53	477.60	290.40
KBW Bank Index	100.00	99.46	121.59	91.71	119.42	161.29	172.94

Item 6. Selected Financial Data.

The following table sets forth selected financial data as of and for the years ended December 31, 2014, 2013, 2012, 2011 and 2010. We derived the selected financial data from our consolidated financial statements for those periods included in this annual report on Form 10-K or our prior annual reports on Form 10-K. Our historical financial information for the four years ended December 31, 2013 has been adjusted to reflect our discontinued operations of our commercial lending operations. As a result, our results of operations for those years ended December 31, 2013 may not be comparative to our results of operations reported for the prior periods. In addition, we have reclassified certain amounts in our historical audited consolidated financial statements, including amounts related to certain assets and liabilities reclassified as held for sale during these periods. These reclassifications had no effect on our reported net income (loss). Separate from discontinued operations, the historical financial information has also been restated as described in Notes C and T to the financial statements. The financial statements and the tables below reflect applicable restatement adjustments for periods from 2010 through September 30, 2014, the last date through which financial statements previously had been issued and as noted. The restatement reflected the recognition of provisions for loan losses and loan charge-offs for discontinued operations in periods earlier than those in which those charges were initially recognized. The majority of these loan charges were originally recognized in 2014, primarily in the third quarter. Approximately \$28.5 million of losses that were not previously reported were restated. Also, \$12.7 million of losses related to loans made before December 31, 2014 that were resolved after that date but before the issuance date of these financial statements, were recognized in the 2014 financial statements.

You should read the selected financial data in this table together with, and such selected financial data is qualified by reference to, our consolidated financial statements and the notes to those restated consolidated financial statements in Item 8 of this report and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 of this report.

	As of and for the years ended				
	December 31,				
	2014	2013	2012	2011	2010
		(restated)	(restated)	(restated)	(restated)
Income Statement Data:	(in thousands, except per share data)				
Interest income	\$ 70,720	\$ 51,150	\$ 39,479	\$ 31,087	\$ 24,368
Interest expense	11,295	10,768	11,411	12,036	14,539
Net interest income	59,425	40,382	28,068	19,051	9,829
Provision for loan and lease losses	1,202	355	6,642	1,638	1,377

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Net interest income after provision for loan and lease losses	58,223	40,027	21,426	17,413	8,452
Non-interest income	85,049	82,073	49,501	30,424	20,566
Non-interest expense	135,980	101,817	80,188	69,080	58,158
Income (loss) before income tax benefit	7,292	20,283	(9,261)	(21,243)	(29,140)
Income tax provision (benefit)	(14,523)	6,767	(3,492)	(7,878)	(10,164)
Net income (loss) from continuing operations	21,815	13,516	(5,769)	(13,365)	(18,976)
Less preferred stock dividends and accretion -	-	-	-	-	(6,242)
Net income (loss) before discontinued operations	21,815	13,516	(5,769)	(13,365)	(25,218)
Net income (loss) discontinued operations net of tax	35,294	(27,938)	(37,384)	18,183	15,131
Net income (loss) available to common shareholders	\$ 57,109	\$ (14,422)	\$ (43,153)	\$ 4,818	\$ (10,087)
Net income (loss) per share from continuing operations - basic	\$ 0.58	\$ 0.36	\$ (0.17)	\$ (0.42)	\$ (0.97)
Net income (loss) per share from discontinued	\$ 0.94	\$ (0.75)	\$ (1.13)	\$ 0.57	\$ 0.58

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operations - basic							
Net income (loss) per share - basic \$	1.52	\$	(0.39)	\$	(1.30)	\$	0.15 \$ (0.39)
Net income (loss) per share from continuing operations - diluted \$	0.57	\$	0.35	\$	(0.17)	\$	(0.42) \$ (0.97)
Net income (loss) per share from discontinued operations - diluted \$	0.92	\$	(0.75)	\$	(1.13)	\$	0.57 \$ 0.58

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Net income (loss) per share - diluted \$	1.49	\$	(0.40)	\$	(1.30)	\$	0.15	\$	(0.39)
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Balance Sheet

Data:

Total assets	\$	4,986,317	\$	4,593,588	\$	3,626,712	\$	2,997,513	\$	2,386,656
Total loans, net of unearned costs	874,593		636,001		535,141		365,395		292,861	
Allowance for loan and lease losses	3,638		3,881		3,985		1,707		1,382	
Total cash and cash equivalents	1,114,235		1,235,949		966,588		748,068		470,353	
Deposits	4,621,784		4,272,989		3,313,221		2,682,551		2,024,097	
Federal Home Loan Bank advances	-		-		-		-		87,000	
Shareholders' equity	319,023		247,127		263,733		258,311		189,700	

Selected

Ratios:

Return on average assets	1.28%		nm		nm		0.17%		nm	
Return on average common equity	20.17%		nm		nm		2.15%		nm	
Net interest margin	2.60%		2.44%		2.58%		2.96%		3.28%	
Book value per common share	\$	8.46	\$	6.57	\$	7.10	\$	7.80	\$	7.25

Selected
Capital and
Asset Quality

Ratios:

Equity/assets	6.40%		5.38%		7.27%		8.62%		7.95%	
Tier I capital to average assets	7.07%		6.09%		8.89%		8.26%		7.99%	
Tier 1 capital to total risk-weighted assets	11.54%		10.55%		14.57%		13.91%		11.44%	
	11.67%		11.87%		15.82%		15.16%		12.69%	

Total capital
to total
risk-weighted
assets

Allowance for
loan and lease
losses to total
loans

0.42%

0.61%

0.74%

0.47%

0.47%

nm = not
meaningful

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

The following discussion provides information to assist in understanding our financial condition and results of operations. This discussion should be read in conjunction with our consolidated financial statements and related notes appearing in Item 8 of this report.

Critical Accounting Policies and Estimates

Our accounting and reporting policies conform with accounting principles generally accepted in the United States and general practices within the financial services industry. The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. Actual results could differ from those estimates. We believe that the determination of our allowance for loan and lease losses and our determination of the fair value of financial instruments involve a higher degree of judgment and complexity than our other significant accounting policies.

We determine our allowance for loan and lease losses with the objective of maintaining a reserve level we believe to be sufficient to absorb our estimated probable credit losses. We base our determination of the adequacy of the allowance on periodic evaluations of our loan portfolio and other relevant factors. However, this evaluation is inherently subjective as it requires material estimates, including, among others, expected default probabilities, the amount of loss we may incur on a defaulted loan, expected commitment usage, the amounts and timing of expected future cash flows on impaired loans, value of collateral, estimated losses on consumer loans and residential mortgages, and general amounts for historical loss experience. We also evaluate economic conditions and uncertainties in estimating losses and inherent risks in our loan portfolio. To the extent actual outcomes differ from our estimates, we may need additional provisions for loan losses. Any such additional provisions for loan losses will be a direct charge to our earnings. See "Allowance for Loan and Lease Losses".

The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. We estimate the fair value of a financial instrument using a variety of valuation methods. Where financial instruments are actively traded and have quoted market prices, quoted market prices are used for fair value. When the financial instruments are not actively traded, other observable market inputs, such as quoted prices of securities with similar characteristics, may be used, if available, to determine fair value. When observable market prices do not exist, we estimate fair value. Our valuation methods and inputs consider factors such as types of underlying assets or liabilities, rates of estimated credit losses, interest rate or discount rate and collateral. Our best estimate of fair value involves assumptions including, but not limited to, various performance indicators, such as historical and projected default and recovery rates, credit ratings, current delinquency rates, loan-to value ratios and the possibility of obligor refinancing.

At the end of each quarter, we assess the valuation hierarchy for each asset or liability measured. From time to time, assets or liabilities may be transferred within hierarchy levels due to changes in availability of observable market inputs to measure fair value at the measurement date. Transfers into or out of hierarchy levels are based upon the fair value at the beginning of the reporting period.

We periodically review our investment portfolio to determine whether unrealized losses on securities are temporary, based on evaluations of the creditworthiness of the issuers or guarantors, and underlying collateral, as applicable. In addition, we consider the continuing performance of the securities. We recognize credit losses through the consolidated statement of operations. If management believes market value losses are temporary and that we have

the ability and intention to hold those securities to maturity, we recognize the reduction in other comprehensive income, through equity. We evaluate whether an other than temporary 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. If other than temporary impairment is determined, we estimate expected future cash flows to determine the credit loss amount with 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.

We account for our stock-based compensation plans based on the fair value of the awards made, which include stock options, restricted stock, and performance based shares. To assess the fair value of the awards made, management makes assumptions as to

expected stock price volatility, option terms, forfeiture rates and dividend rates. All of these estimates and assumptions may be susceptible to significant change that may impact earnings in future periods.

We account for income taxes under the liability method whereby we determine deferred tax assets and liabilities based on the difference between the carrying values on our consolidated financial statements and the tax basis of assets and liabilities as measured by the enacted tax rates which will be in effect when these differences reverse. Deferred tax expense (benefit) is the result of changes in deferred tax assets and liabilities.

Overview

In the third quarter of 2014, we discontinued our Philadelphia commercial lending operations as discussed in “Recent Developments,” below, following our determination that those operations were inconsistent with our strategic focus on generating low cost deposits and deploying that funding into lower risk, more granular and national lines of business and investment securities. We currently focus our lending activities upon four specialty lending segments: SBLOC loans, automobile fleet and other equipment leasing, SBA loans and loans originated for sale into CMBS capital markets. We have sold a portion of our discontinued loans and are pursuing additional sales. As described in Note C and Note T to the financial statements, and separate from discontinued operations, the financial statements reflect applicable restatement adjustments for periods from 2010 through September 30, 2014, the last date through which financial statements previously had been issued. The restatement reflected the recognition of provisions for loan losses and loan charge-offs for discontinued operations in periods earlier than those in which those charges were initially recognized. The majority of these loan charges were originally recognized in 2014, primarily in the third quarter. Approximately \$28.5 million of losses that were not previously reported were restated. Also, \$12.7 million of losses related to loans made before December 31, 2014 that were resolved after that date but before the issuance date of our financial statements, were recognized in our 2014 financial statements. Substantially all of the losses and corresponding restatement adjustments resulted from the discontinued commercial loan operations. To manage high cash balances resulting from deposit growth, we have become more selective in our focus on more profitable overall relationships. In certain instances we have and may in the future, exit less profitable relationships to manage cash balances. We are working with our regulators to satisfy BSA requirements and believe we are progressing. Our BSA efforts include the use of BSA consultants in 2014 and 2015 at significant expense and hiring additional BSA staff.

Recent Developments

In the third quarter of 2014, we decided to discontinue our Philadelphia-based commercial lending operations. The loans which constitute that portfolio are in the process of disposition. This represents a strategic shift to a focus on our national specialty lending programs including small fleet leasing, SBLOC, CMBS origination and SBA lending. As a result of the discontinuation, we expect to dispose of approximately \$867 million of commercial loans. We anticipate using the proceeds from disposition to acquire investment securities and to provide liquidity to fund growth in our continuing specialty lending lines. Yields we obtain from reinvestment of the proceeds will be subject to economic and other conditions at the time of reinvestment, including market interest rates, many of which will be beyond our control. See Part II, Item IA, “Risk Factors—Risks Relating to Our Business We cannot predict whether income resulting from the reinvestment of loans we hold for sale resulting from discontinued operations will match or exceed the amount from the sold loans.” To dispose of our commercial loan portfolio, we have engaged several intermediaries which are in the business of selling loans, primarily to other financial institutions, to assist in completing loan sales. As of June 30, 2015 had sold loans with a book value of approximately \$342.2 million, of the approximately \$1.1 billion in book value of loans in that portfolio as of the September 30, 2014 date of discontinuance of operations. The \$342.2 million of loans sold had a face value of approximately \$417.1 million. These sales were comprised of the following: Loans with an approximate face and book value of \$267.6 million and \$192.7 million, respectively, were sold in the fourth quarter of 2014 to a private securitization entity. The securitization is managed by an independent investor, which contributed \$16 million of equity to that entity. The balance of the sale was financed by the Bank and is reflected on the consolidated balance sheet as investment in unconsolidated subsidiary.

See “ Financial Condition-Investment in Unconsolidated Subsidiary” later in this Item 7. After \$74.9 million of loan charges reflected in the difference between the face value and book value of the loans sold to the securitization, we recognized a gain of \$17.0 million. In the second quarter of 2015, an additional \$149.6 million of loans were sold at a gain of approximately \$2.2 million. We continue to pursue additional loan sales. (See Note W to the financial statements.)

We have adjusted our financial statement presentation for items related to discontinued operations. Separately, we have restated our financial statements for periods from 2010 through September 30, 2014, the last date through which financial statements previously had been filed prior to this Form 10-K. The restatement reflected the recognition of provisions for loan losses and loan charge-offs for discontinued operations in periods earlier than those in which those charges were initially recognized. The majority of

these loan charges were originally recognized in 2014, primarily in the third quarter, when commercial lending operations were discontinued. Approximately \$28.5 million of discontinued operations losses that were not previously reported were included during these periods. Also, \$12.7 million of losses incurred in 2015 related to loans that were resolved before the issuance date of our financial statements and were reflected in our 2014 financial statements. Significant losses incurred related to the loan portfolio prior to the filing of the Form 10-K, are generally required to be included in the financial statements of that 10-K. In Note C and Note T to the financial statements, we restated the annual and quarterly financial statements which are shown with applicable restatement adjustments.

Substantially all of the losses and corresponding restatement adjustments resulted from the discontinued commercial loan operations.

The Bank entered into a Stipulation and Consent to the Issuance of a Consent Order, or the 2014 Consent Order, with the FDIC which became effective on June 5, 2014. The Bank took this action without admitting or denying any charges of unsafe or unsound banking practices or violations of law or regulation relating to the Bank's Bank Secrecy Act, or BSA, Compliance Program.

The 2014 Consent Order requires the Bank to take certain affirmative actions to comply with its BSA obligations, among them: appoint a qualified BSA/OFAC (Office of Foreign Assets Control) officer; revise the written BSA Compliance Program; develop and implement additional policies and procedures for suspicious activity monitoring and reporting; review and enhance customer due diligence and risk assessment processes; review past account activity to determine whether suspicious activity was properly identified and reported; strengthen internal controls, including augmenting oversight by the Bank's Board of Directors of BSA activities; establish an independent testing program; and develop policies and procedures to govern staffing and training for BSA compliance. The Bank has and expects to continue to expend significant management and financial resources to address the Bank's BSA compliance program which will reduce our net income.

To date, the Bank has implemented multiple upgrades that address the requirements of the 2014 Consent Order, such as appointing a qualified BSA/OFAC officer, increasing oversight and staffing of the BSA compliance function, improving practices and procedures to monitor and report transactions, and increasing training, as well as adopting an independent testing program to ensure adherence to more effective BSA standards. Although these measures have increased and will continue to add to non-interest expense, including significant initial consulting fees, we expect that the growth in our continuing lines of business should, over time, offset these expenses. (See "Non- Interest Expense")

Until the Bank submits to the FDIC a BSA report summarizing the completion of certain corrective action, the 2014 Consent Order places some restrictions on certain activities: the Bank is restricted from signing and boarding new independent sales organizations, issuing new non-benefit related reloadable prepaid card programs, establishing new distribution channels for existing non-benefit reloadable prepaid card programs and originating Automated Clearing House transactions for new merchant-related payments. Until such time as we receive the FDIC's approval, restrictions in these specific areas may potentially impact their growth. We do not believe that these restrictions will have a material impact on current revenue levels. The Bank has utilized one primary consultant related to its BSA-AML program refinement and one primary consultant related to conducting a lookback review of historical transactions to confirm that suspicious activity was properly identified and reported in accordance with applicable law. Subsequent to December 31, 2014 the primary BSA-AML consultant performed services resulting in \$638,000 in billings reflected as expense in 2015, with no additional billings expected. The primary consultant for the lookback performed services resulting in \$5.2 million in billings and expense in the first quarter of 2015. In the second quarter of 2015 the lookback consultant exceeded the estimates in the related contract for both the time and cost required, resulting in an

additional \$9.1 million in billings. We cannot now estimate expenses for remaining lookback services; however, we expect that the lookback will be completed in the second quarter of 2016.

On August 27, 2015, the Bank entered into an Amendment to Consent Order, or the Amendment, with the FDIC, amending the 2014 Consent Order. The Bank took this action without admitting or denying any additional charges of unsafe or unsound banking practices or violations of law or regulation relating to continued weaknesses in the Bank's BSA compliance program. The Amendment provides that the Bank shall not declare or pay any dividend without the prior written consent of the FDIC and for certain assurances regarding management.

On May 11, 2015, the Federal Reserve issued a letter, or the Supervisory Letter, to us as a result of the 2014 Consent Order and the Amendment, (which, at the time of the Supervisory Letter, was in proposed form), which provides that we shall not pay any dividends on our common stock or make any distributions to TPL or its subsidiaries, or make any interest payments on our trust preferred securities, without the prior written approval of the Federal Reserve. It further provides that we may not incur any debt (excluding payables in the ordinary course of business) or redeem any shares of our stock, without the prior written approval of the Federal Reserve. The Federal

Reserve approved the payment of the interest on the Company's trust preferred securities due September 15, 2015. Future payments are subject to future approval by the Federal Reserve.

We learned through a compliance examination that certain actions of third parties through which we issue cards are being scrutinized by the FDIC. The FDIC has informed us that it is analyzing certain operational aspects related to these card programs which may constitute unfair or deceptive acts or practices regulations under Section 5 of the Federal Trade Commission Act. The operational practices of the third parties identified by the FDIC were the following: practices related to the termination of a third-party rewards program tied to deposit accounts, including the timing of the notice of termination, and the disclosure of the effects of such termination on the consumer's ability to obtain unredeemed rewards; practices performed by third parties related to the time frames within which we must respond to a consumer's notice of error with respect to electronic transactions in various types of deposit accounts; and practices related to the timing and frequency of disclosed account fees and the manner by which the account holder is notified of these fees in periodic statements generated by third parties. While the Bank is contractually indemnified for related losses, civil money penalties, if assessed against the Bank, are not indemnified.

In December, 2014, the FDIC issued new guidance which reclassified the Bank's prepaid card deposits and most other deposits as brokered deposits because such deposits are obtained with the assistance of third parties. The reclassification resulted in a 10 basis point increase in our fourth quarter assessment, or approximately a \$1.0 million increase in FDIC expense for that quarter. A reduction in the assessment rate will depend on future FDIC evaluations of the Bank. The Bank's deposits do not exhibit the volatility normally associated with brokered deposits obtained through deposit brokers, and are considered to be stable and low cost.

We are a defendant in a class action filed in July 2014 which, if resolved adversely to us, could materially adversely affect our financial condition and results of operations. See Part II, Item 1A, "Risk Factors- We are named as a defendant in a class action securities lawsuit and the adverse resolution of this matter could have a material adverse effect on our financial condition and results of operations." This litigation is in its preliminary stages. We believe that the complaint is without merit and intend to defend vigorously.

Results of Operations

Overview: Net interest income continued its upward trend in 2014 and 2013 as a result of higher loan and securities balances, notwithstanding historically low market interest rates resulting from continuing Federal Reserve actions to maintain low rates for extended periods. As a result of continued low rates, loan and securities yields declined to a greater degree than deposit rates which are now minimally in excess of 0%. Net interest income grew primarily because of loan growth in targeted specialty lending segments and a strategy to significantly expand the investment securities portfolio. Non-interest income increased in 2014, reflecting increased numbers of accounts and transactions in our prepaid card and card payments businesses. Additional personnel for BSA and other regulatory compliance, especially for prepaid cards, and additional staffing expense for the CMBS division were, with other infrastructure costs, reflected in higher non-interest expense. In 2014, the Bank discontinued its regional Philadelphia commercial loan division to focus on its national specialty lending lines of business. We anticipate selling the approximate \$867 million of related loans and using the proceeds to acquire investment securities and to provide liquidity to fund growth in our continuing specialty lending lines. We have begun the process of selling our portfolio and have sold loans with a book value of approximately \$342.2 million, of the approximately \$1.1 billion in book value of loans in that portfolio as of the September 30, 2014 date of discontinuance of operations. The \$342.2 million of loans sold had a face value of approximately \$417.1 million. These sales were comprised of the following: Loans with an approximate face and book value of \$267.6 million and \$192.7 million, respectively, were sold in the fourth quarter of 2014 to a private securitization entity. The securitization is managed by an independent investor, which contributed \$16 million

of equity to that entity. The balance of the sale was financed by the Bank and is reflected on the balance sheet as investment in unconsolidated subsidiary. After \$74.9 million of loan charges reflected in the difference between the face value and book value of the loans sold to the securitization, we recognized a gain on sale of \$17.0 million. In the second quarter of 2015, an additional \$149.6 million of loans were sold at a gain of approximately \$2.2 million. At December 31, 2014 our continuing specialty lending total loans amounted to \$874.6 million, an increase of \$238.6 million over the \$636.0 balance at December 31, 2013. Our investment securities available for sale increased \$240.5 million to \$1.49 billion from \$1.25 billion between those respective dates.

Net Income: 2014 compared to 2013. Income from continuing operations before income taxes was \$7.3 million in 2014 compared to \$20.3 million in 2013. While in 2014 there was a \$4.4 million increase in non-interest income (excluding securities gains and other-than-temporary impairment (OTTI) charges), and a \$19.0 million increase in net interest income, these increases were more than offset by an \$847,000 increase in the provision for loan and lease losses, \$8.8 million of BSA related consulting expenses and a \$25.4 million increase in other non-interest expense. Of that \$25.4 million increase, \$8.3 million resulted from higher salary and

employee benefits expense primarily as a result of staff additions, with the balance of the increase resulting from other expenses including higher FDIC insurance and data processing expense. The staff additions were made to our BSA and regulatory compliance functions due to increased regulatory requirements and for prepaid card and commercial loan sales departments to accommodate their growth. Data processing and software expense categories increased \$3.7 million as a result of an increased number of accounts and transaction volume and for prepaid card and other software to improve efficiency and scalability. FDIC insurance expense increased \$3.1 million, reflecting deposit growth and the reclassification of the majority of the Bank's deposits as brokered, with reductions in future assessment rates dependent on future FDIC evaluations of the Bank. Depreciation, rent and other occupancy costs increased \$1.7 million reflecting additional main office operations and compliance space and new Florida office space for BSA staff. The \$4.4 million increase in non-interest income (excluding securities gains and OTTI charges) reflected: a \$5.9 million increase in prepaid card fees which reflected higher volumes of transactions and accounts; a \$4.7 million decrease in gain on sale of loans resulting from lower spreads; a \$1.4 million increase in both service fees on deposits and card payment income and increases in other non-interest income categories. Higher net interest income resulted primarily from higher securities and loan balances. Reflecting a tax benefit resulting from the reversal of valuation allowances, income tax benefit for continuing operations increased to \$14.5 million in 2014 compared to expense of \$6.8 million in 2013. Reflecting the tax benefit, net income from continuing operations amounted to \$21.8 million in 2014, compared to \$13.5 million in 2013, or a continuing operations income per diluted share of \$.57 compared to continuing operations income per diluted share of \$.35 in 2013. Net income from discontinued operations was \$35.3 million for 2014 compared to net loss of \$27.9 million for 2013. Net income in 2014 reflected the reversal of loan charges restated back to prior periods including 2013, which resulted in a loss in that year (See Notes C and T to the financial statements). Including discontinued operations, diluted income per share was \$1.49 for 2014 compared to diluted loss per share of \$0.40 for 2013 on net income of \$57.1 million and net loss of \$14.4 million, respectively.

Net Income: 2013 compared to 2012. Net income from continuing operations for 2013 was \$13.5 million, or \$0.35 diluted earnings per share, compared to net loss from continuing operations of \$5.8 million, or \$0.17 diluted loss per share for 2012. The \$19.3 million increase reflected a \$31.2 million increase in non-interest income (excluding securities gains and other-than-temporary impairment (OTTI) charges), and a \$12.3 million increase in net interest income which were partially offset by a \$21.6 million increase in non-interest expense. The increase in non-interest income reflected a \$12.0 million increase in prepaid card fees which reflected higher volumes of transactions and accounts. The increase also reflected a \$15.3 million increase in gain on sale of loans as 2013 was the first full year of operations for a new department which originates and sells CMBS loans. Higher net interest income resulted primarily from higher securities and loan balances. Deposits grew between the periods; however, interest expense was lower as a result of lower rates. Of the \$21.6 million increase in non-interest expense, \$12.3 million resulted from higher salaries and employee benefits primarily as a result of staff additions to our prepaid card, regulatory compliance and commercial loan sales departments to accommodate their growth, with the balance of the increase resulting from other expenses including higher software and data processing expenses. Net loss from discontinued operations amounted to \$27.9 million in 2013, compared to net loss of \$37.4 million in 2012. The losses resulted from the restatement of loan charges originally recognized in 2014 and restated to those years. Including discontinued operations, diluted loss per share of \$0.40 for 2013 compared to diluted loss per share of \$1.30 for 2012, on net loss of \$14.4 million and \$43.2 million respectively.

Net Interest Income: 2014 compared to 2013. Our net interest income for 2014 increased to \$59.4 million, an increase of \$19.0 million or 47.2%, from \$40.4 million for 2013, reflecting a \$19.6 million or 38.3% increase in interest income to \$70.7 million from \$51.2 million for 2013. The increase in net interest income resulted primarily from higher balances of securities and loans. Our average loans and leases increased 43.4% to \$921.1 million in 2014 from \$642.4 million for 2013, while related interest income increased \$8.8 million on a tax equivalent basis. Our average investment securities increased 42.6% to \$1.51 billion for 2014 from \$1.06 billion for 2013, while related interest income increased \$14.8 million on a tax equivalent basis. We increased our investment portfolio in 2014 to increase yields earned on funds which would otherwise be invested in lower yielding overnight investments. The impact of the reductions in rates by the Federal Reserve which began in the second half of 2007 continued as rates remained at

historic lows in 2014. Interest expense increased by \$527,000 in 2014 compared to 2013, reflecting higher deposit balances.

Our net interest margin (calculated by dividing net interest income by average interest-earning assets) for 2014 increased 16 basis points to 2.60% from 2.44% for 2013. The increase in net interest margin resulted primarily from deploying balances at the Federal Reserve into higher yielding loans and investments. Deposits invested at the Federal Reserve bore interest at only 25 basis points. For 2014, the average yield on our interest-earning assets increased to 2.42% from 2.03% for 2013, an increase of 39 basis points. The cost of total deposits decreased to 0.26% for 2014 from 0.27% for 2013, a decrease of 1 basis point. The cost of total deposits and interest bearing liabilities decreased to 0.27% in 2014 compared to 0.29% in 2013, a decrease of 2 basis points. In 2014, average demand and interest checking deposits amounted to \$3.75 billion, compared to \$3.19 billion in 2013, an increase of 17.6%. The increase primarily reflected increased balances in prepaid card and card payment processing deposits. In 2014, average total

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deposits increased 11.3% to \$4.12 billion, compared to \$3.70 billion in 2013. Average savings and money market balances were lower in 2014 reflecting the exit of higher cost deposits.

Net Interest Income: 2013 compared to 2012. Our net interest income for 2013 increased to \$40.4 million, an increase of \$12.3 million or 43.9%, from \$28.1 million for 2012, reflecting an \$11.7 million or 29.6% increase in interest income to \$51.2 million from \$39.5 million for 2012. The increase in net interest income resulted primarily from higher balances of securities and loans while interest expense was reduced. Our average loans and leases increased 35.3% to \$642.4 million in 2013 from \$474.9 million for 2012, while related interest income increased \$6.8 million on a tax equivalent basis. Our average investment securities increased 80.4% to \$1.06 billion for 2013 from \$586.4 million for 2012, while related interest income increased \$5.6 million on a tax equivalent basis. We increased our investment portfolio in 2013 to increase yields earned on funds which would otherwise be invested in lower yielding overnight investments. The impact of the reductions in rates by the Federal Reserve which began in the second half of 2007 continued as rates remained at historic lows. Interest expense decreased by \$644,000 in 2013 compared to 2012, reflecting lower deposit rates.

Our net interest margin (calculated by dividing net interest income by average interest-earning assets) for 2013 decreased 14 basis points to 2.44% from 2.58% for 2012. The decrease in net interest margin reflected continuing disproportionately high balances at the Federal Reserve Bank, resulting from continuing high deposit growth, and continued downward pressure on loan and security yields. Deposits invested at the Federal Reserve Bank bore interest at only 25 basis points. For 2013 the average yield on our interest-earning assets remained at 2.03%, the same as in 2012. The cost of total deposits decreased to 0.27% for 2013 from 0.33% for 2012, a decrease of 6 basis points. The cost of total deposits and interest bearing liabilities decreased to 0.29% in 2013 compared to 0.36% in 2012, a decrease of 7 basis points. This decrease reflected our continuing decreases in deposit rates and changes in the mix of our deposits, in particular a significant increase in demand and interest checking deposits. In 2013, average demand and interest checking deposits amounted to \$3.18 billion, compared to \$2.67 billion in 2012, an increase of 19.5%. The increase primarily reflected increased balances in prepaid card and institutional banking deposits. In 2013, average total deposits increased 17.6% to \$3.70 billion, compared to \$3.15 billion in 2012. The growth reflected increases in balances associated with our prepaid card, institutional banking, card payment processing and healthcare categories.

Average Daily Balances. The following table presents the average daily balances of assets, liabilities and shareholders' equity and the respective interest earned or paid on interest-earning assets and interest-bearing liabilities, as well as average rates for the periods indicated:

	Year ended December 31, 2014			2013 (restated)		
	Average balance (dollars in thousands)	Interest	Average rate	Average balance	Interest	Average rate
Assets:						
Interest-earning assets:						
Loans net of unearned fees and costs **	\$ 903,681	\$ 35,849	3.97%	\$ 626,158	\$ 27,048	4.32%

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Leases - bank qualified*	17,400	938	5.39%	16,209	910	5.61%
Investment securities-taxable	1,031,584	20,662	2.00%	811,440	15,999	1.97%
Investment securities-nontaxable*	477,384	17,454	3.66%	246,490	7,320	2.97%
Interest earning deposits at Federal Reserve Bank	720,240	1,792	0.25%	931,468	2,328	0.25%
Federal funds sold and securities sold under agreements to resell	33,814	462	1.37%	34,589	425	1.23%
Net interest earning assets	3,184,103	77,157	2.42%	2,666,354	54,030	2.03%
Allowance for loan and lease losses	(3,521)			(2,320)		
Assets held for sale	1,162,319	49,891	4.29%	1,271,576	55,400	4.36%
Other assets	115,003			95,629		
	\$ 4,457,904			\$ 4,031,239		
Liabilities and Shareholders' Equity:						
Deposits:						
Demand and interest checking	\$ 3,746,958	\$ 9,097	0.24%	\$ 3,185,919	\$ 7,851	0.25%

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Savings and money market	366,160	1,574	0.43%	500,113	2,133	0.43%
Time	7,974	96	1.20%	17,443	182	1.04%
Total deposits	4,121,092	10,767	0.26%	3,703,475	10,166	0.27%
Short-term borrowings	5	-	0.00%	-	-	0.00%
Repurchase agreements	17,496	50	0.29%	18,442	54	0.29%
Subordinated debt	13,401	478	3.57%	13,401	548	4.09%
Total deposits and interest bearing liabilities	4,151,994	11,295	0.27%	3,735,318	10,768	0.29%
Other liabilities	17,721			25,277		
Total liabilities	4,169,715			3,760,595		
Shareholders' equity	283,074			255,430		
	\$ 4,452,789			\$ 4,016,025		
Net interest income on tax equivalent basis *		\$ 115,753			\$ 98,662	
Tax equivalent adjustment		6,437			2,880	
Net interest income		\$ 109,316			\$ 95,782	
Net interest margin *			2.60%			2.44%

* Full taxable equivalent basis, using a 35% statutory tax rate.

** Includes loans held for sale.

Year ended December 31,
2012
(restated)

Average balance	Interest	Average rate
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(dollars in thousands)

Assets:

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Interest-earning assets:

Loans net of unearned fees and costs **	\$ 461,308	\$ 20,309	4.40%
Leases - bank qualified*	13,571	826	6.09%
Investment securities-taxable	482,463	13,378	2.77%
Investment securities-nontaxable*	103,900	4,331	4.17%
Interest earning deposits at Federal Reserve Bank	974,762	2,433	0.25%
Federal funds sold and securities sold under agreements to resell	425	7	1.65%
Net interest earning assets	2,036,429	41,284	2.03%
Allowance for loan and lease losses	(1,971)		
Assets held for sale	1,307,517	57,376	4.39%
Other assets	116,283		
	\$ 3,458,258		

Liabilities and Shareholders' Equity:

Deposits:

Demand and interest checking	\$ 2,666,493	\$ 7,691	0.29%
Savings and money market	455,860	2,401	0.53%
Time	26,624	356	1.34%

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Total deposits	3,148,977	10,448	0.33%
Repurchase agreements	22,508	95	0.42%
Subordinated debt	13,401	869	6.48%
Total deposits and interest bearing liabilities	3,184,886	11,412	0.36%
Other liabilities	9,438		
Total liabilities	3,194,324		
Shareholders' equity	261,022		
	\$ 3,455,346		
Net interest income on tax equivalent basis *		\$ 87,248	
Tax equivalent adjustment		1,804	
Net interest income		\$ 85,444	
Net interest margin *			2.58%

* Full taxable equivalent basis, using a 35% statutory tax rate.

** Includes loans held for sale.

In 2014, average interest-earning assets increased to \$3.18 billion, an increase of \$517.7 million, or 19.4%, from 2013. The increase reflected increased average balances of loans and leases of \$278.7 million, or a 43.4% increase, and increased average balances of investment securities of \$451.0 million, or a 42.6% increase. Average demand and interest checking deposits increased \$561.0 million, or a 17.6% increase as the prepaid card and card payment processing deposits grew as a result of clients added through marketing efforts. Average savings and money market deposits decreased \$134.0 million, or 26.8%.

Volume and Rate Analysis. The following table sets forth the changes in net interest income attributable to either changes in volume (average balances) or to changes in average rates from 2012 through 2014 on a tax equivalent basis. The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

	2014 versus 2013			2013 versus 2012 (restated)		
	Due to change in: Volume (in thousands)	Rate	Total	Due to change in: Volume	Rate	Total
Interest income:						
Taxable loans net of unearned discount	\$ 10,788	\$ (1,987)	\$ 8,801	\$ 7,113	\$ (374)	\$ 6,739

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Bank qualified tax free leases net of unearned discount	61	(33)	28	140	(56)	84
Investment securities-taxable	4,406	257	4,663	4,548	(1,927)	2,621
Investment securities-nontaxable	8,128	2,006	10,134	3,781	(792)	2,989
Interest earning deposits	(526)	(10)	(536)	(108)	3	(105)
Federal funds sold	(9)	46	37	419	(1)	418
Assets held for sale	(4,700)	(809)	(5,509)	(1,568)	(408)	(1,976)
Total interest earning assets	18,148	(530)	17,618	14,325	(3,555)	10,770

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Interest expense:								
Demand and interest checking	\$ 1,383	\$ (137)	\$ 1,246	\$ 1,498	\$ (1,338)	\$ 160		
Savings and money market	(576)	17	(559)	279	(547)	(268)		
Time	(120)	34	(86)	(106)	(68)	(174)		
Total deposit interest expense	687	(86)	601	1,671	(1,953)	(282)		
Subordinated debt	-	(70)	(70)	-	(321)	(321)		
Other borrowed funds	(3)	(1)	(4)	(15)	(26)	(41)		
Total interest expense	684	(157)	527	1,656	(2,300)	(644)		
Net interest income:	\$ 17,464	\$ (373)	\$ 17,091	\$ 12,669	\$ (1,255)	\$ 11,414		

Provision for Loan and Lease Losses. Our provision for loan and lease losses was \$1.2 million for 2014, \$355,000 for 2013, and \$6.6 million for 2012. Provisions are based on our evaluation of the adequacy of our allowance for loan and lease losses, particularly in light of current economic conditions. That evaluation reflected the impact of the levels of charge-offs which totaled \$1.5 million, \$520,000 and \$4.4 million respectively, in 2014, 2013 and 2012. At December 31, 2014, our allowance for loan and lease losses amounted to \$3.6 million or 0.42% of total loans. We believe that our allowance is adequate to cover expected losses. For more information about our provision and allowance for loan and lease losses and our loss experience see “Financial Condition —Allowance for Loan and Lease Losses” and “—Summary of Loan and Lease Loss Experience,” below.

Non-Interest Income. Non-interest income was \$85.0 million for 2014, compared to \$82.1 million for 2013 and \$49.7 million for 2012 before other than temporary impairment on securities of \$0, \$20,000 and \$202,000 in those respective years. The \$3.0 million, or 3.6%, increase in non-interest income in 2014 compared to 2013 reflected the \$5.9 million impact of net increases in transaction volumes and accounts on prepaid card fees. Prepaid card fees increased 13.1%, to \$51.3 million from \$45.3 million in 2013. Commercial loan sales income decreased \$4.7 million to \$12.5 million. While the volume of loans sold increased significantly, spreads narrowed, resulting in the decrease. In 2014, service fees on deposit accounts increased \$1.4 million, or 27.4%, reflecting increased service charges on retirement accounts, and card payment processing fees increased \$1.4 million, or 33.5% as a result of higher volumes of card payment processing and clearing house payments, or ACH, transactions. The \$32.6 million, or 65.2%, increase in non-interest income in 2013 compared to 2012 primarily reflected the \$12.0 million impact of increases in transaction volume and accounts on prepaid card fees. Prepaid card fees increased 36.1% to \$45.3 million from \$33.3 million in 2012. Increases in commercial loan sales income of \$15.3 million reflected the full year operation of the CMBS department which originates and sells loans into secondary securities markets; increases in service fees on deposit accounts of \$1.4 million, or 40.3%, reflected an increased number of healthcare accounts; and increases in card payment processing fees of \$1.1 million, or 35.9%, reflected higher volumes of card payment processing and ACH transactions.

Non-Interest Expense. Total non-interest expense in 2014 was \$136.0 million, an increase of \$34.2 million or 33.6% over the \$101.8 million in 2013. The increase reflected \$8.8 million of BSA and lookback consulting

expenses. Lookback expenses are being incurred to analyze historical transactions for potential BSA exceptions as required by the 2014 Consent Order. Salaries and employee benefits amounted to \$60.5 million in 2014, an increase of \$8.3 million or 15.8% over the \$52.2 million in 2013. The increase reflected staff additions and related expense for BSA compliance, commercial loan sales and infrastructure. The increase included \$1.2 million of supplemental executive retirement expense reflecting the release of new actuarial assumptions in October, 2014 and the former Chief Executive Officer's retirement on December 31, 2014. The former Chief Executive Officer was the sole executive covered by a retirement plan of any type. Depreciation and amortization increased \$829,000 to \$4.5 million, or 22.4%, from \$3.7 million in 2013, which reflected additional leasehold improvements and equipment for staff additions and information technology upgrades to existing equipment. Rent and occupancy increased \$836,000 to \$4.7 million, or 21.7%, from \$3.9 million in 2013, which reflected additional main office operations and compliance space and new Florida office space for BSA staff. Data processing expense increased to \$13.2 million, an increase of approximately \$2.3 million or 21.3% from \$10.9 million in 2013, reflecting increased account and transaction volume. Printing and supplies increased \$631,000 or 39.5% to \$2.2 million from \$1.6 million in 2013. Professional fees, primarily audit related, decreased \$14,000 or 1.0% to \$1.4 million from \$1.4 million in 2013. Legal expense increased \$54,000, or 2.6%, to \$2.1 million from \$2.0 million in 2013. FDIC insurance increased \$3.1 million or 84.8% to \$6.8 million from \$3.7 million for 2013. The increase resulted primarily from a higher assessment rate and increased average deposits. In December, 2014, the FDIC issued new guidance which reclassified the Bank's prepaid card deposits and most of its other deposits as brokered, which resulted in a 10 basis point increase in the fourth quarter assessment, or approximately a \$1.0 million increase in FDIC expense for that quarter. A reduction in the assessment rate will depend on future FDIC evaluations of the Bank. Software expense increased \$1.4 million or 38.1% to \$4.9 million from \$3.5 million in 2013. The increase included software for prepaid cards

and for information technology to improve efficiency and scalability. Insurance expense increased \$389,000 or 29.7% to \$1.7 million from \$1.3 million in 2013. The increase reflected the impact of additional coverage for prepaid cards. Telecom and information technology network communications increased \$1.0 million or 70.7% to \$2.5 million from \$1.5 million in 2013 reflecting costs associated with the new Florida location for BSA staff and increased costs for European IT operations. Securitization and servicing expense increased \$1.1 million or 140.3% to \$1.8 million from \$767,000 in 2013. The increase primarily reflects an increased volume of loans sold in 2014 compared to the prior year. Consulting increased \$1.8 million or 103.1% to \$3.5 million from \$1.7 million in 2013. The increase reflected increased information technology costs and CMBS consulting fees. Other non-interest expense increased \$3.6 million or 29.3% to \$16.0 million from \$12.4 million in 2013. The \$3.6 million increase primarily reflected increases as follows: \$500,000 for a legal settlement, \$400,000 in lodging, \$495,000 in prepaid card losses, \$185,000 in association fees, \$176,000 in postage, \$167,000 in recruitment fees and \$135,000 in correspondent bank fees.

Total non-interest expense in 2013 was \$101.8 million, an increase of \$21.6 million or 27.0% over the \$80.2 million in 2012. Salaries and employee benefits amounted to \$52.2 million in 2013, an increase of \$12.3 million or 30.9% over the \$39.9 million in 2012. The increase reflected staff additions to our prepaid card, regulatory compliance, commercial loan sales departments and other infrastructure. The prepaid card staff additions reflected staff acquired in December 2012 in connection with European operations and regulatory compliance staff additions reflected personnel for third party risk management and staff for compliance with various regulations including BSA. Commercial loan sales staff increases reflected additional originators. Depreciation and amortization increased \$932,000 to \$3.7 million, or 33.7%, from \$2.8 million in 2012, which reflected additional leasehold improvements and equipment for staff additions and information technology upgrades to existing equipment. Rent and occupancy increased \$833,000 to \$3.9 million, or 27.5%, from \$3.0 million in 2012, which reflected additional space to accommodate growth in our prepaid card and compliance staff. Data processing expense increased to \$10.9 million, an increase of approximately \$950,000 or 9.6% from \$9.9 million in 2012, reflecting increases in the number of deposit accounts and related transaction volume. Printing and supplies decreased \$39,000 or 2.4% to \$1.6 million from \$1.6 million in 2012. Professional fees, primarily audit related, increased \$296,000 or 25.9% to \$1.4 million from \$1.1 million in 2012. The increase reflected additional audit expense for data security. Legal expense increased \$337,000, or 19.7%, to \$2.0 million from \$1.7 million in 2012. Legal expense continued to reflect additional expense for European operations, which included obtaining licenses in various countries in the European Union. FDIC insurance increased \$510,000 or 16.1% to \$3.7 million from \$3.2 million for 2012. The increase resulted primarily from growth in average assets against which the assessment rate is applied. Software expense increased \$1.2 million or 51.1% to \$3.6 million from \$2.4 million in 2012. The increase included software for prepaid cards, SBA loan processing, increased security, storage capacity and software used for deposit products and increased amortization costs for internally developed software related to our affinity programs. Insurance increased \$335,000 or 34.3% to \$1.3 million from \$976,000. The increase reflected additional coverages for prepaid cards. Telecom and information technology network communications increased \$302,000 or 25.6% to \$1.5 million from \$1.2 million reflecting costs associated with additional infrastructure. Securitization and servicing increased \$669,000 to \$767,000 from \$98,000. The increase reflected the full year operations of the commercial loan sales department and the resulting increased volume of loans sold. Consulting increased \$577,000 or 51.4% to \$1.7 million from \$1.1 million. The increase reflected consulting expenses in connection with the commercial loan sales department. Other non-interest expense increased \$2.2 million or 22.1% to \$12.4 million from \$10.2 million in 2012. The \$2.2 million increase primarily reflected increases as follows: \$697,000 in travel, which includes business development, \$349,000 in marketing, \$255,000 in check card losses, \$263,000 related to our European operations and \$203,000 in correspondent bank fees.

Income Tax Benefit and Expense

Income tax benefit for continuing operations was \$14.5 million for 2014 versus \$6.8 million of expense for 2013 and a benefit of \$3.5 million for 2012. The tax benefit in 2014 primarily resulted from the reversal of the valuation

allowances. The effective tax rate for 2013 was 33.3% compared to a 37.7% benefit rate in 2012. The effective tax rate in 2013 reflected the impact of higher amounts of tax exempt municipal securities income.

Liquidity and Capital Resources

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Liquidity defines our ability to generate funds to support asset growth, meet deposit withdrawals, satisfy borrowing needs and otherwise operate on an ongoing basis. We invest the funds we do not need for daily operations primarily in overnight federal funds or in our interest-bearing account at the Federal Reserve.

Our primary source of funds has been cash inflows from net increases in deposits, which were \$348.8 million in 2014 and \$959.8 million in 2013. Our deposit growth in these years has exceeded our ability to deploy the funds in prudent loans, resulting in relatively high levels of cash and cash equivalents which we discuss below. Loan repayments, also a source of funds, were exceeded by new loan disbursements during 2014. While we do not have a traditional branch system, we believe that our core deposits, which include our demand, interest checking, savings and money market accounts, have similar characteristics to those of a bank with a branch system. We seek to set rates on our deposits at levels competitive with the rates offered in our market; however we do not seek to compete principally on rate. The focus of our business model is to identify affinity groups that control significant amounts of deposits as part of their business. A key component to the model is that the affinity group deposits are both stable and “sticky,” in the sense that they do not react to fluctuations in the market. However, certain components of the deposits do experience seasonality, creating greater excess liquidity at certain times in 2014. We have been reducing excess liquidity as a result of low overnight rates. Accordingly, excess liquidity maintained as interest earning deposits at the Federal Reserve has decreased. These reductions resulted from deployment of overnight funds into investments and loans and exiting less profitable relationships.

Historically, we have also used sources outside of our deposit products to fund our loan growth, including Federal Home Loan Bank (FHLB) advances, repurchase agreements, and institutional (brokered) certificates of deposit as a significant funding source. We have shifted to primarily using deposits for our funding as a result of our deposit growth. While the FDIC now classifies prepaid and other deposits obtained with the cooperation of third parties as brokered, they continue to acknowledge that such deposits are stable and low cost. We still maintain our secured borrowing lines with the Federal Home Loan Bank of Pittsburgh and other unsecured lines from our correspondent banks, which include Atlantic Central Bankers Bank and PNC Bank. We have a \$355.8 million line of credit with the Federal Home Loan Bank and \$34.0 million in additional lines of credit with correspondent banks. As of December 31, 2014, we had no amounts outstanding on our borrowing lines. We expect to continue to maintain our facility with the Federal Home Loan Bank and our correspondent banks. At no time during the year did we experience any difficulties accessing these lines. We actively monitor our positions and contingent funding sources on a daily basis.

In 2011, we adopted a common stock repurchase program. Shares repurchased will reduce the amount of shares outstanding. Repurchased shares may be reissued for various corporate purposes. As of December 31, 2014, we had repurchased 100,000 shares of a total 750,000 maximum number of shares authorized by the Board of Directors. The 100,000 shares were repurchased in 2011 at an average cost of \$8.66. We did not repurchase any shares in 2014, 2013 and 2012.

As a result of the discontinuance of our commercial loan operations we have received and expect to continue to receive during 2015, substantial cash proceeds. We currently anticipate that these proceeds will be deployed into investment securities. We have begun the process of selling our portfolio and have sold loans with a book value of approximately \$342.2 million, of the approximately \$1.1 billion in book value of loans in that portfolio as of the September 30, 2014 date of discontinuance of operations. The \$342.2 million of loans sold had a face value of approximately \$417.1 million. These sales were comprised of the following: Loans with an approximate face and

book value of \$267.6 million and \$192.7 million, respectively, were sold in the fourth quarter of 2014 to a private securitization entity. The securitization is managed by an independent investor, which contributed \$16 million of equity to that entity. The balance of the sale was financed by the Bank and is reflected on the consolidated balance sheet as investment in unconsolidated subsidiary. After \$74.9 million of loan charges reflected in the difference between the face value and book value of the loans sold to the securitization, we recognized a gain on sale of \$17.0 million. In the second quarter of 2015, an additional \$149.6 million of loans were sold at a gain of approximately \$2.2 million.

Included in our cash and cash-equivalents at December 31, 2014, were \$1.06 billion of interest-earning deposits which primarily consisted of deposits with the Federal Reserve Bank. Traditionally, we sell our excess funds overnight to other financial institutions, with which we have correspondent relationships, to obtain better returns. As federal funds rates became comparable to the 25 basis point level offered by the Federal Reserve Bank, we adjusted our strategy to retain our excess funds at the Federal Reserve, which also offers the full guarantee of the federal government. In addition, we deployed a portion of our excess funds to various securities investments to generate better returns.

Funding was directed primarily at cash outflows required for purchases of investment securities (net of repayments), which were \$232.6 million in 2014, \$596.5 million in 2013 and \$291.3 million in 2012 and net loans of \$240.0 million in 2014, \$134.1

million in 2013 and \$174.1 million in 2012. At December 31, 2014, we had outstanding commitments to fund loans, including unused lines of credit, of \$709.1 million.

To manage excess cash balances maintained at the Federal Reserve, the Bank has exited and will likely continue to exit less profitable deposit relationships. We have historically down streamed the majority of the capital funding we have generated from common stock offerings to the Bank. The holding company has, as of August 2015 in excess of \$10 million in available cash. We have historically not paid dividends and have no plans to do so in the foreseeable future. In addition, as a result of a supervisory letter, Federal Reserve approval is required for any dividend from us, and FDIC approval is required for any dividend from the Bank. See Item 1, “Business—Regulation under Banking Law,” and Item 1A, “Risk Factors-Risks Relating to Our Business-The entry into the 2012 and 2014 Consent Orders, as amended, and a supervisory letter from the Federal Reserve, have imposed certain restrictions and requirements upon us and the Bank”. The Federal Reserve approved the payment of the interest on the Company’s trust preferred securities due September 15, 2015. Future payments are subject to future approval by the Federal Reserve.

As a holding company conducting substantially all of our business through our subsidiaries, our need for liquidity consists principally of cash needed to make required interest payments on our trust preferred securities. As of August, 2015, we had approximate cash reserves of \$10 million at the holding company. Current quarterly interest payments on the \$13.4 million of trust preferred securities are approximately \$125,000 based on a floating rate of 3.25% over LIBOR. We expect that the conditions under which the Amendment to the 2014 Consent Order was issued will have been remediated and the FDIC will permit the Bank to resume paying dividends to us to fund holding company operations. There can, however, be no assurance that the FDIC will, in fact allow the resumption of Bank dividends to us at the end of that period or at all and, accordingly, there is risk that we will need to obtain alternate sources of funding. There can be no assurance that such sources would be available to us on acceptable terms or at all.

We must comply with capital adequacy guidelines issued by the FDIC. A bank must, in general, have a Tier 1 leverage ratio of 5.0%, a ratio of Tier I capital to risk-weighted assets of 6.0% and a ratio of total capital to risk-weighted assets of 10.0% in order to be considered “well capitalized.” The Tier I leverage ratio is the ratio of Tier 1 capital to average assets for the period. “Tier I capital” includes common shareholders’ equity, certain qualifying perpetual preferred stock and minority interests in equity accounts of consolidated subsidiaries, less intangibles. At December 31, 2014, we were “well capitalized” under banking regulations.

The following table sets forth our regulatory capital amounts and ratios for the periods indicated:

Tier 1 capital to average assets ratio	Tier 1 capital to risk-weighted assets ratio	Total capital to risk-weighted assets ratio
----------------------------------------------	----------------------------------------------------	---------------------------------------------------

As of December 31, 2014

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The Bancorp	7.07%	11.54%	11.67%
The Bancorp Bank	6.46%	10.46%	10.59%
"Well capitalized" institution (under FDIC regulations)	5.00%	6.00%	10.00%
As of December 31, 2013 (restated)			
The Bancorp	6.09%	10.55%	11.87%
The Bancorp Bank	4.17%	7.22%	8.53%
The Bancorp Bank pro forma (1)	5.58%	9.62%	10.92%
"Well capitalized" institution (under FDIC regulations)	5.00%	6.00%	10.00%

(1) The Company downstreamed \$58.0 million in capital to the Bank in 2014. If charges related to the restatement had occurred in 2013 the Company would have made the capital injection at that time. Based on the pro forma calculations the Bank would have maintained its well capitalized status at December 31, 2013.

The liquidity of the Bancorp, Inc. considered as an entity apart from the Bank, depends almost entirely upon the ability of the Bank to pay dividends to The Bancorp, Inc., which is subject to regulatory constraints. For a discussion of these constraints, see Item

1, “Business – Federal Regulation Regulatory Restrictions on Dividends” and “Delaware Regulation: Limitation on Dividends.” During 2014, 2013 and 2012, no dividends were paid and these regulatory constraints had no material effect on The Bancorp, Inc.

Asset and Liability Management

The management of rate sensitive assets and liabilities is essential to controlling interest rate risk and optimizing interest margins. An interest rate sensitive asset or liability is one that, within a defined time period, either matures or experiences an interest rate change in line with general market rates. Interest rate sensitivity measures the relative volatility of an institution’s interest margin resulting from changes in market interest rates.

As a financial institution, potential interest rate volatility is a primary component of our market risk. Fluctuations in interest rates will ultimately impact the level of our earnings and the market value of all of our interest-earning assets, other than those with short-term maturities. We do not own any trading assets. We use hedging transactions only for commercial loans originated for sale into secondary securities markets.

We have adopted policies designed to stabilize net interest income and preserve capital over a broad range of interest rate movements. To effectively administer the policies and to monitor our exposure to fluctuations in interest rates, we maintain an asset/liability committee, consisting of the Bank’s Chief Executive Officer, Chief Accounting Officer, Chief Financial Officer and Chief Credit Officer. This committee meets quarterly to review our financial results, develop strategies to implement the policies and to respond to market conditions. The primary goal of our policies is to optimize margin and manage interest rate risk, subject to overall policy constraints for prudent management of interest rate risk.

We monitor, manage and control interest rate risk through a variety of techniques, including use of traditional interest rate sensitivity analysis (also known as “gap analysis”) and an interest rate risk management model. With the interest rate risk management model, we project future net interest income and then estimate the effect of various changes in interest rates and balance sheet growth rates on that projected net interest income. We also use the interest rate risk management model to calculate the change in net portfolio value over a range of interest rate change scenarios. Traditional gap analysis involves arranging our interest-earning assets and interest-bearing liabilities by repricing periods and then computing the difference (or “interest rate sensitivity gap”) between the assets and liabilities that we estimate will reprice during each time period and cumulatively through the end of each time period.

Both interest rate sensitivity modeling and gap analysis are done at a specific point in time and involve a variety of significant estimates and assumptions. Interest rate sensitivity modeling requires, among other things, estimates of how much and when yields and costs on individual categories of interest-earning assets and interest-bearing liabilities will respond to general changes in market rates, future cash flows and discount rates. Gap analysis requires estimates as to when individual categories of interest-sensitive assets and liabilities will reprice, and assumes that assets and liabilities assigned to the same repricing period will reprice at the same time and in the same amount. Gap analysis

does not account for the fact that repricing of assets and liabilities is discretionary and subject to competitive and other pressures. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds interest rate sensitive assets. During a period of falling interest rates, a positive gap would tend to adversely affect net interest income, while a negative gap would tend to result in an increase in net interest income, all else equal. During a period of rising interest rates, a positive gap would tend to result in an increase in net interest income while a negative gap would tend to affect net interest income adversely.

The following table sets forth the estimated maturity or repricing structure of our interest-earning assets and interest-bearing liabilities at December 31, 2014. Except as stated below, the amounts of assets or liabilities shown which reprice or mature during a particular period were determined in accordance with the contractual terms of each asset or liability. Loans currently at their interest rate floors are classified at their maturity date, though they are tied to variable interest rates. The majority of demand and interest-bearing demand deposits and savings deposits are assumed to be “core” deposits, or deposits that will generally remain with us regardless of market interest rates. We estimate the repricing characteristics of these deposits based on historical performance, past experience, judgmental predictions and other deposit behavior assumptions. However, we may choose not to reprice liabilities proportionally to changes in market interest rates for competitive or other reasons. Additionally, although non-interest bearing demand accounts are not paid interest we estimate certain of the balances will reprice as a result of the fees that are paid to the affinity groups which are based upon a rate index and therefore included in interest expense. The table does not assume any prepayment of fixed-rate loans and mortgage-backed securities are scheduled based on their anticipated cash flow, including prepayments based on historical data and current market trends. The table does not necessarily indicate the impact of general interest rate movements on our

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net interest income because the repricing and related behavior of certain categories of assets and liabilities is beyond our control as, for example, prepayments of loans and withdrawal of deposits. As a result, certain assets and liabilities indicated as repricing within a stated period may in fact reprice at different times and at different rate levels.

	1-90 Days (dollars in thousands)	91-364 Days	1-3 Years	3-5 Years	Over 5 Years
Interest earning assets:					
Commercial loans held for sale	\$ 41,736	\$ -	\$ 30,933	\$ 4,743	\$ 139,668
Loans net of deferred loan costs	575,039	52,144	124,445	118,216	4,749
Investment securities	282,014	212,546	346,743	230,939	515,162
Interest earning deposits	1,059,320	-	-	-	-
Securities purchased under agreements to resell	46,250	-	-	-	-
Total interest earning assets	2,004,359	264,690	502,121	353,898	659,579
Interest bearing liabilities:					
Demand and interest checking	2,705,016	197,047	197,047	-	-
Savings and money market	82,700	165,398	82,700	-	-
Time deposits	-	1,400	-	-	-
Securities sold under agreements to repurchase	19,414	-	-	-	-
Subordinated debenture	13,401	-	-	-	-
Total interest bearing liabilities	2,820,531	363,845	279,747	-	-
Gap	\$ (816,172)	\$ (99,155)	\$ 222,374	\$ 353,898	\$ 659,579
Cumulative gap	\$ (816,172)	\$ (915,327)	\$ (692,953)	\$ (339,055)	\$ 320,524
Gap to assets ratio	-16%	-2%	4%	7%	13%
Cumulative gap to assets ratio	-16%	-18%	-14%	-7%	6%

The method used to analyze interest rate sensitivity in this table has a number of limitations. Certain assets and liabilities may react differently to changes in interest rates even though they reprice or mature in the same or similar time periods. The interest rates on certain assets and liabilities may change at different times than changes in market interest rates, with some changing in advance of changes in market rates and some lagging behind changes in market rates. Additionally, the actual prepayments and withdrawals we experience when interest rates change may deviate significantly from those assumed in calculating the data shown in the table.

Because of the limitations in the gap analysis discussed above, we believe that interest sensitivity modeling may more accurately reflect the effects of our exposure to changes in interest rates, notwithstanding its own limitations. Net interest income simulation considers the relative sensitivities of the consolidated balance sheet including the effects of interest rate caps on adjustable rate mortgages and the relatively stable aspects of core deposits. As such, net interest income simulation is designed to address the probability of interest rate changes and the behavioral response of the consolidated balance sheet to those changes. Market Value of Portfolio Equity, or MVPE, represents the fair value of the net present value of assets, liabilities and off-balance sheet items.

We believe that the assumptions utilized in evaluating our estimated net interest income are reasonable; however, the interest rate sensitivity of our assets, liabilities and off-balance sheet financial instruments as well as the estimated effect of changes in interest rates on estimated net interest income could vary substantially if different assumptions are used or actual experience differs from presumed behavior of various deposit and loan categories. The following table shows the effects of interest rate shocks on our MVPE and net interest income. Rate shocks assume that current interest rates change immediately and sustain parallel shifts. For interest rate increases or decreases of 100 and 200 basis points, our policy includes a guideline that our MVPE ratio should not decrease more than 10% and 15%, respectively, and that net interest income should not decrease more than 10% and 15%, respectively. While the percentage change of 17.87% in the down 200 basis point scenario, exceeds the 15% guideline, the fact that short term rates are approximately .25% implies that a 200 basis point decrease is not currently realistic. As illustrated in the following table, we complied with our asset/liability policy at December 31, 2014. While our modeling suggests an increase in market rates will have a

positive impact on margin (as shown in the table below), the amount of such increase cannot be determined, and there can be no assurance any increase will be realized.

Rate scenario	Net portfolio value at December 31, 2014		Net interest income	
	Amount (dollars in thousands)	Percentage change	Amount	Percentage change
+200 basis points	\$ 623,422	-0.75%	\$ 90,853	1.76%
+100 basis points	626,028	-0.34%	89,955	0.75%
Flat rate	628,154	0.00%	89,282	0.00%
-100 basis points	584,317	-6.98%	91,712	2.72%
-200 basis points	515,896	-17.87%	83,679	-6.28%

If we should experience a mismatch in our desired gap ranges or an excessive decline in our MVPE subsequent to an immediate and sustained change in interest rate, we have a number of options available to remedy such a mismatch.

We could restructure our investment portfolio through the sale or purchase of securities with more favorable repricing attributes. We could also emphasize loan products with appropriate maturities or repricing attributes, or we could emphasize deposits or obtain borrowings with desired maturities.

Historically, we have used variable rate commercial loans as the principal means of limiting interest rate risk. Both the Bank's SBLOC and SBA loans are primarily variable rate. We continue to evaluate market conditions and may change our current gap strategy in response to changes in those conditions.

Financial Condition

General. Our total assets at December 31, 2014 were \$4.99 billion, of which our total loans and loans held for sale from continuing operations were \$1.09 billion and our assets held for sale (from discontinued operations) were \$887.9 million, \$867.4 million of which were loans. At December 31, 2013 our total assets were \$4.60 billion, of which our total loans and loans held for sale from continuing operations were \$705.9 million and our assets held for sale (from discontinued operations) were \$1.18 billion, \$1.18 billion of which were loans. Investment securities available for sale increased to \$1.49 billion at December 31, 2014 from \$1.25 billion at December 31, 2013. Most of the increase in total assets at December 31, 2014 reflected increases in both loans from continuing operations and investment securities.

Interest earning deposits and federal funds sold. At December 31, 2014, we had a total of \$1.06 billion of interest earning deposits, comprised primarily of balances at the Federal Reserve Bank, which pays interest on such balances.

Investment portfolio. The Financial Accounting Standards Board Accounting Standards Codification (ASC) 320, Investments—Debt and Equity Securities, requires that debt and equity securities classified as available-for-sale be reported at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Accordingly, marking an available-for-sale portfolio to market results in fluctuations in the level of

shareholders' equity and equity-related financial ratios as market interest rates and market demand for such securities cause the fair value of fixed-rate securities to fluctuate. Debt securities which we have the positive intent and ability to hold to maturity are classified as held-to-maturity and are carried at amortized cost.

For detailed information on the composition and maturity distribution of our investment portfolio, see Note E to the Consolidated Financial Statements. Total investment securities increased to \$1.59 billion on December 31, 2014, an increase of \$237.1 million or 17.6% from a year earlier. The increase in investment securities was primarily a result of increased purchases of municipal and residential mortgage-backed securities.

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Other securities, included in the held-to-maturity classification at December 31, 2014, consisted of three securities secured by diversified portfolios of corporate securities, one bank senior note, two single issuer trust preferred securities and one pooled trust preferred security.

A total of \$17.8 million of other debt securities - single issuers is comprised of the following: (i) amortized cost of the two single issuer trust preferred securities of \$10.8 million, of which one security for \$1.9 million was issued by a bank and one security totaling \$8.9 million was issued by an insurance company; and (ii) book value of a bank senior note of \$7.0 million.

A total of \$75.9 million of other debt securities – pooled is comprised of the following: (i) one pooled trust preferred security for \$174,000, which was collateralized by bank trust preferred securities; and (ii) book value of three securities consisting of diversified portfolios of corporate securities of \$75.7 million.

The following table provides additional information related to our single issuer trust preferred securities as of December 31, 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	8,964	5,144	(3,820)	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 December 31, 2014:

Pooled issue	Class	Book value	Fair value	Unrealized gain/(loss)	Credit rating	Excess subordination
Pool A (7 performing issuers)	Mezzanine	\$ 174	\$ 260	\$ 86	CAA3	*

* There is no excess subordination for these securities.

Under the accounting guidance related to the recognition of other-than-temporary impairment charges on debt securities, an impairment on a debt security is deemed to be other-than-temporary if it meets either of the following conditions: i) we intend to sell or it is more likely than not we will be required to sell the security before a recovery in value, or ii) we do not expect to recover the entire amortized cost basis of the security. If we intend to sell or it is

more likely than not we will be required to sell the security before a recovery in value, a charge is recorded in net realized losses in the consolidated statement of operations equal to the difference between the fair value and amortized cost basis of the security. For those other-than-temporarily impaired debt securities which do not meet the first condition and for which we do not expect to recover the entire amortized cost basis, the difference between the security's amortized cost basis and the fair value is separated into the portion representing a credit impairment, which is recorded in net realized losses in the consolidated statement of operations, and the remaining impairment, which is recorded in other comprehensive income. Generally, a security's credit impairment is the difference between its amortized cost basis and the best estimate of its expected future cash flows discounted at the security's effective yield prior to impairment. The previous amortized cost basis less the impairment recognized in net realized losses on the consolidated income statement becomes the security's new cost basis. As prescribed by accounting standards, for 2014, 2013 and 2012, respectively, we recognized other-than-temporary impairment charges of \$0, \$20,000 and \$202,000 related to trust preferred securities classified in our held-to-maturity portfolio.

The following table presents the book value and the approximate fair value for each major category of our investment securities portfolio. At December 31, 2014 and 2013, our investments were categorized as either available-for-sale or held-to-maturity (in thousands).

Available-for-sale		Held-to-maturity	
December 31, 2014		December 31, 2014	
Amortized cost	Fair value	Amortized cost	Fair value

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U.S. Government agency securities	\$ 16,519	\$ 16,561	\$ -	\$ -
Federally insured student loan securities	125,789	126,012	-	-
Tax-exempt obligations of states and political subdivisions	535,622	551,269	-	-
Taxable obligations of states and political subdivisions	58,868	61,379	-	-
Residential mortgage-backed securities	419,503	422,129	-	-
Commercial mortgage-backed securities	123,519	123,239	-	-
Foreign debt securities	67,094	66,878	-	-
Corporate and other debt securities	126,610	126,172	93,765	91,914
	\$ 1,473,524	\$ 1,493,639	\$ 93,765	\$ 91,914

	Available-for-sale December 31, 2013		Held-to-maturity December 31, 2013	
	Amortized cost	Fair value	Amortized cost	Fair value
U.S. Government agency securities	\$ 10,680	\$ 10,726	\$ -	\$ -
Federally insured student loan securities	147,717	147,573	-	-
Tax-exempt obligations of states and political subdivisions	378,180	378,950	-	-
Taxable obligations of states and political subdivisions	78,638	79,168	-	-
Residential mortgage-backed securities	323,199	322,774	-	-
Commercial mortgage-backed securities	118,838	120,347	-	-
Foreign debt securities	72,729	72,202	-	-
Corporate and other debt securities	121,281	121,377	97,205	95,030
	\$ 1,251,262	\$ 1,253,117	\$ 97,205	\$ 95,030

Investments in Federal Home Loan and Atlantic Central Bankers Bank stock are recorded at cost and amounted to \$1.0 million at December 31, 2014 and \$3.2 million at December 31, 2013.

Investment securities with a carrying value of \$25.7 million at December 31, 2014 and \$29.1 million at December 31, 2013, were pledged as collateral to secure securities sold under repurchase agreements as required or permitted by law.

The following tables show the contractual maturity distribution and the weighted average yields of our investment securities portfolio as of December 31, 2014 (in thousands):

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	Zero to one year	Average yield	After one to five years	Average yield	After five to ten years	Average yield	Over ten years	Average yield	Total
Available-for-sale U.S. Government agency securities	\$	- -	\$	- -					