

Bancorp, Inc.
Form 10-Q
May 12, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: March 31, 2014

OR

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

For the transition period from: to

Commission file number: 51018

THE BANCORP, INC.

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(Exact name of registrant as specified in its charter)

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

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

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

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

Yes 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

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

(Check one):

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

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

Yes No

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

As of May 6, 2014 there were 37,704,902 outstanding shares of common stock, \$1.00 par value.

THE BANCORP, INC

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

THE BANCORP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS

	March 31, 2014 (in thousands)	December 31, 2013
ASSETS		
Cash and cash equivalents		
Cash and due from banks	\$ 15,298	\$ 33,883
Interest earning deposits at Federal Reserve Bank	796,385	1,196,515
Securities purchased under agreements to resell	24,926	7,544
Total cash and cash equivalents	836,609	1,237,942
Investment securities, available-for-sale, at fair value	1,411,708	1,253,117
Investment securities, held-to-maturity (fair value \$95,077 and \$95,030, respectively)	97,149	97,205
Commercial loans held for sale	222,024	69,904
Loans, net of deferred loan fees and costs	2,044,004	1,958,445
Allowance for loan and lease losses	(46,409)	(38,182)
Loans, net	1,997,595	1,920,263
Federal Home Loan and Atlantic Central Bankers Bank stock	3,209	3,209
Premises and equipment, net	15,692	15,659
Accrued interest receivable	14,715	13,131
Intangible assets, net	7,407	7,612
Other real estate owned	27,763	26,295
Deferred tax asset, net	27,451	30,415
Other assets	38,301	31,313
Total assets	\$ 4,699,623	\$ 4,706,065
LIABILITIES		
Deposits		
Demand and interest checking	\$ 3,842,569	\$ 3,722,602
Savings and money market	393,329	536,162
Time deposits	9,115	9,773
Time deposits, \$100,000 and over	2,195	4,452
Total deposits	4,247,208	4,272,989

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Securities sold under agreements to repurchase	16,491	21,221
Subordinated debenture	13,401	13,401
Other liabilities	56,353	38,850
Total liabilities	4,333,453	4,346,461
SHAREHOLDERS' EQUITY		
Common stock - authorized, 50,000,000 shares of \$1.00 par value; 37,804,902 and 37,720,945 shares issued at at March 31, 2014 and December 31, 2013, respectively		
	37,805	37,721
Treasury stock, at cost (100,000 shares)	(866)	(866)
Additional paid-in capital	295,824	294,576
Retained earnings	27,424	27,615
Accumulated other comprehensive income	5,983	558
Total shareholders' equity	366,170	359,604
Total liabilities and shareholders' equity	\$ 4,699,623	\$ 4,706,065

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

THE BANCORP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the three months ended March 31,	
	2014	2013
	(in thousands, except per share data)	
Interest income		
Loans, including fees	\$ 21,381	\$ 20,322
Interest on investment securities:		
Taxable interest	5,137	3,487
Tax-exempt interest	2,084	725
Federal funds sold/securities purchased under agreements to resell	106	24
Interest bearing deposits	764	838
	29,472	25,396
Interest expense		
Deposits	2,777	2,498
Securities sold under agreements to repurchase	12	14
Subordinated debenture	115	200
	2,904	2,712
Net interest income	26,568	22,684
Provision for loan and lease losses	17,300	5,500
Net interest income after provision for loan and lease losses	9,268	17,184
Non-interest income		
Service fees on deposit accounts	1,210	1,060
Card payment and ACH processing fees	1,303	867
Prepaid card fees	13,468	11,974
Gain on sale of loans	5,484	2,178
Gain on sales of investment securities	241	267
Other than temporary impairment on securities held-to-maturity	-	(20)
Leasing income	381	587
Debit card income	426	196
Affinity fees	534	856
Other	1,108	1,167
Total non-interest income	24,155	19,132
Non-interest expense		
Salaries and employee benefits	15,361	12,289
Depreciation and amortization	1,050	796
Rent and related occupancy cost	1,082	881
Data processing expense	3,336	2,607
Printing and supplies	571	432
Audit expense	376	311
Legal expense	1,332	619

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Amortization of intangible assets	304		250
Losses on sale and write downs on other real estate owned	62		251
FDIC insurance	1,689		976
Software	1,175		809
Other real estate owned expense	326		110
Other	6,293		4,148
Total non-interest expense	32,957		24,479
Net Income before income tax	466		11,837
Income tax provision	168		4,431
Net income	\$	298	\$ 7,406
Net income per share - basic	\$	0.01	\$ 0.20
Net income per share - diluted	\$	0.01	\$ 0.20

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

THE BANCORP INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the three months ended March 31,	
	2014	2013
	(in thousands)	
Net income	\$ 298	\$ 7,406
Other comprehensive income, net of reclassifications into net income:		
Other comprehensive income (loss)		
Change in net unrealized gain/(loss) during the period	8,583	(503)
Reclassification adjustments for gains included in income	(241)	(267)
Amortization of losses previously held as available-for-sale	5	8
Net unrealized gain/(loss) on investment securities	8,347	(762)
Deferred tax expense (benefit)		
Securities available-for-sale		
Change in net unrealized gain/(loss) during the period	3,004	(176)
Reclassification adjustments for gains included in income	(84)	(94)
Amortization of losses previously held as available-for-sale	2	3
Income tax expense (benefit) related to items of other comprehensive income (loss)	2,922	(267)
Other comprehensive income (loss), net of tax and reclassifications into net income	5,425	(495)
Comprehensive income	\$ 5,723	\$ 6,911

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

THE BANCORP INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the three months ended March 31, 2014

(in thousands, except share data)

	Common stock shares	Common stock	Treasury stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income
Balance at January 1, 2014	37,720,945	\$ 37,721	\$ (866)	\$ 294,576	\$ 27,615	\$
Net income					298	
Common stock issued from option exercises, net of tax benefits	5,374	5	-	66	-	-
Common stock issued from option exercises, cashless exercise, net of tax benefits	29,208	30	-	459	(489)	-
Common stock issued from restricted shares, net of tax benefits	49,375	49		(49)		
Stock-based compensation	-	-	-	772	-	-
Other comprehensive income net of reclassification adjustments	-	-	-	-	-	5,425

and tax

Balance at

March 31, 2014	37,804,902	\$	37,805	\$	(866)	\$	295,824	\$	27,424	\$	5
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The accompanying notes are an integral part of these consolidated statements.

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THE BANCORP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

	For the three months ended March 31,	
	2014	2013
Operating activities		
Net income	\$ 298	\$ 7,406
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	1,677	1,327
Provision for loan and lease losses	17,300	5,500
Net amortization of investment securities discounts/premiums	3,441	823
Stock-based compensation expense	772	745
Loans originated for sale	(218,587)	(28,402)
Sale of loans originated for resale	75,441	13,519
Gain on sales of loans originated for resale	(5,484)	(2,178)
Gain on sale of fixed assets	(2)	-
Other than temporary impairment on securities held-to-maturity	-	20
Losses on sale and write downs on other real estate owned	62	251
Gain on sales of investment securities	(241)	(267)
Increase in accrued interest receivable	(1,584)	(1,664)
Decrease in interest payable	(27)	(8)
Decrease (increase) in other assets	(7,367)	2,133
(Decrease) increase in other liabilities	(1,524)	25,157
Net cash (used in) provided by operating activities	(135,825)	24,362
Investing activities		
Purchase of investment securities available-for-sale	(222,550)	(250,581)
Proceeds from sale of investment securities available-for-sale	24,173	9,356
Proceeds from redemptions and prepayments of securities held-to-maturity	38	-
Proceeds from redemptions and prepayments of securities available-for-sale	64,004	59,942
Proceeds from sale of other real estate owned	2,404	694
Net increase in loans	(102,056)	(70,940)
Proceeds from sale of fixed assets	11	-
Purchases of premises and equipment	(1,092)	(1,392)
Net cash used in investing activities	(235,068)	(252,921)

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Financing activities		
Net (decrease) increase in deposits	(25,781)	399,764
Net decrease in securities sold under agreements to repurchase	(4,730)	(1,876)
Proceeds from issuance of common stock	-	1,629
Proceeds from the exercise of options	71	114
Excess tax benefit from share-based payment arrangements	-	(8)
Net cash (used in) provided by financing activities	(30,440)	399,623
Net decrease in cash and cash equivalents	(401,333)	171,064
Cash and cash equivalents, beginning of period	1,237,942	968,092
Cash and cash equivalents, end of period	\$ 836,609	\$ 1,139,156
Supplemental disclosure:		
Interest paid	\$ 2,911	\$ 2,720

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Taxes paid	\$	1,129	\$	2,244
Transfers of loans to other real estate owned	\$	3,934	\$	1,247
Transfers of loans to held for sale	\$	3,490	\$	-
Common stock shares issued, cashless transaction	78,583		-	

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

THE BANCORP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Nature of Operations

The Bancorp, Inc. (the Company) is a Delaware corporation and a registered financial holding company. Its primary subsidiary is a wholly owned subsidiary bank, The Bancorp Bank (the Bank). The Bank is a Delaware chartered commercial bank located in Wilmington, Delaware and is a Federal Deposit Insurance Corporation (FDIC) insured institution. Through the Bank, the Company provides retail and commercial banking services in the Philadelphia, Pennsylvania and Wilmington, Delaware areas and related other banking services nationally, which include private label banking, institutional banking, health savings accounts and prepaid debit cards. European operations are comprised of three operational service subsidiaries, Transact Payment Services Group Limited, Transact Payment Services Limited and Transact Payment Services Group-Bulgaria EOOD and one subsidiary, Transact Payments Limited, which offers prepaid card issuing services.

The Company and the Bank are subject to regulation by certain state and federal agencies and, accordingly, they are examined periodically by those regulatory authorities. As a consequence of the extensive regulation of commercial banking activities, the Company's and the Bank's businesses may be affected by state and federal legislation and regulations.

Note 2. Significant Accounting Policies

Basis of Presentation

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

Note 3. Share-based Compensation

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

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The Company did not grant stock options in the first quarter of 2014. The Company granted 215,000 common stock options in the first quarter of 2013, 35,000 common stock options with a vesting period of one year and 180,000 common stock options with a vesting period of four years. The weighted-average fair value of the stock options issued was \$4.85. There were 59,999 common stock options exercised for the three month period ended March 31, 2014 and 11,149 common stock options exercised for the three month period ended March 31, 2013. The total intrinsic value of the options exercised during the three months ended March 31, 2014 and 2013 was \$594,000 and \$31,000, respectively.

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

	March 31,	
	2014	2013
Risk-free interest rate	0.00%	1.86%
Expected dividend yield	-	-
Expected volatility	0.00%	49.71%-56.81%
Expected lives (years)	-	4.03-4.22

Expected volatility is based on the historical volatility of the Company's stock and peer group comparisons over the expected life of the grant. The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury strip rate in effect at the time of the grant. The life of the option is based on historical factors which include the contractual term, vesting period, exercise behavior and employee terminations. In accordance with the ASC 718, Stock Based Compensation, stock based compensation expense for the three month period ended March 31, 2014 is based on awards that are ultimately expected to vest and has been reduced for estimated forfeitures. The Company estimates forfeitures using historical data based upon the groups identified by management.

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

Weighted average	Weighted- average remaining contractual	Aggregate
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	Shares	exercise price	term (years)	intrinsic value
	(in thousands, except per share data)			
Outstanding at January 1, 2014	2,620,874	\$ 9.70		
Granted	-	-	-	-
Exercised	(59,999)	9.34	-	-
Expired	-	-	-	-
Forfeited	-	-	-	-
Outstanding at March 31, 2014	2,560,875	\$ 9.71	6.06	\$ -
Exercisable at March 31, 2014	1,746,875	\$ 10.24	5.43	\$ 14,982,995

The Company granted 197,841 restricted stock units with a vesting period of four years at a fair value of \$10.46 in the first quarter of 2013. There were no restricted stock units issued in the first quarter of 2014. Total fair value of restricted stock units vested for the three months ended March 31, 2014, and 2013 was \$885,000 and \$0, respectively.

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

Weighted- Average remaining

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	Shares	average grant date fair value	contractual term (years)
Outstanding at January 1, 2014	197,841	\$ 10.46	2.8
Granted	-	-	-
Vested	(49,375)	-	-
Expired/forfeited	-	-	-
Outstanding at March 31, 2014	148,466		

As of March 31, 2014, there was a total of \$4.3 million of unrecognized compensation cost related to unvested awards under share-based plans. This cost is expected to be recognized over a weighted average period of 1.2 years. Related compensation expense for the three months ended March 31, 2014 and 2013 was \$772,000 and \$745,000 respectively.

Note 4. Earnings Per Share

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

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

	For the three months ended March 31, 2014		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except per share data)		
Basic earnings per share			
Net income available to common shareholders	\$ 298	37,680,614	\$ 0.01
Effect of dilutive securities			
Common stock options	-	965,034	-
Diluted earnings per share			
Net income available to common shareholders	\$ 298	38,645,648	\$ 0.01

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Stock options for 3,000 shares exercisable at prices between \$20.98 and \$25.43 per share, were outstanding at March 31, 2014 but were not included in the diluted earnings per share computation because the exercise price per share was greater than the average market price.

	For the three months ended March 31, 2013		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except per share data)		
Basic earnings per share			
Net income available to common shareholders	\$ 7,406	37,291,820	\$ 0.20
Effect of dilutive securities			
Common stock options	-	480,302	-
Diluted earnings per share			
Net income available to common shareholders	\$ 7,406	37,772,122	\$ 0.20

Stock options for 690,750 shares, exercisable at prices between \$14.24 and \$25.43 per share, were outstanding at March 31, 2013 but were not included in the dilutive shares because the exercise price per share was greater than the average market price.

Note 5. Investment Securities

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

Available-for-sale	March 31, 2014							
	Amortized cost		Gross unrealized gains		Gross unrealized losses	Fair value		
U.S. Government agency securities	\$	18,231	\$	61	\$	-	\$	18,292
Federally insured student loan securities		130,280		1,073		(97)		131,256
Tax-exempt obligations of states and political subdivisions		434,855		5,975		(720)		440,110
Taxable obligations of states and political subdivisions		83,317		1,989		(359)		84,947
Residential mortgage-backed securities		389,359		2,282		(1,623)		390,018
Commercial mortgage-backed securities		147,610		1,856		(512)		148,954
Corporate and other debt securities		197,858		927		(654)		198,131
	\$	1,401,510	\$	14,163	\$	(3,965)	\$	1,411,708

Held-to-maturity	March 31, 2014							
	Amortized cost		Gross unrealized gains		Gross unrealized losses	Fair value		
Other debt securities - single issuers	\$	21,031	\$	451	\$	(4,199)	\$	17,283
Other debt securities - pooled		76,118		1,676		-		77,794
	\$	97,149	\$	2,127	\$	(4,199)	\$	95,077

Available-for-sale	December 31, 2013	
	Gross	Gross

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

Held-to-maturity	December 31, 2013			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Other debt securities - single issuers	\$ 21,027	\$ 367	\$ (4,222)	\$ 17,172
Other debt securities - pooled	76,178	1,680	-	77,858
	\$ 97,205	\$ 2,047	\$ (4,222)	\$ 95,030

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

The amortized cost and fair value of the Company's investment securities at March 31, 2014, by contractual maturity are shown below (in thousands). Expected maturities may differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

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	Available-for-sale		Held-to-maturity	
	Amortized cost	Fair value	Amortized cost	Fair value
Due before one year	\$ 76,232	\$ 76,530	\$ -	\$ -
Due after one year through five years	402,973	404,790	-	-
Due after five years through ten years	230,012	232,312	10,212	10,250
Due after ten years	692,293	698,076	86,937	84,827
	\$ 1,401,510	\$ 1,411,708	\$ 97,149	\$ 95,077

At March 31, 2014 and December 31, 2013, investment securities with a book value of approximately \$27.1 million and \$29.1 million, respectively, were pledged to secure securities sold under repurchase agreements as required or permitted by law.

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

The table below indicates the length of time individual securities had been in a continuous unrealized loss position at March 31, 2014 (dollars in thousands):

Available-for-sale	Number of securities	Less than 12 months		12 months or longer		Total
		Fair Value	Unrealized losses	Fair Value	Unrealized losses	
Description of Securities						
U.S. Government agency securities	1	\$ 1,835	\$ -	\$ -	\$ -	\$ 1,835
Federally insured student loan securities	3	10,078	(73)	11,985	(24)	22,063

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Tax-exempt obligations of states and political subdivisions	143	83,257	(516)	26,576	(204)	109,833
Taxable obligations of states and political subdivisions	30	28,983	(275)	5,280	(84)	34,263
Residential mortgage-backed securities	37	111,016	(1,026)	57,860	(597)	168,876
Commercial mortgage-backed securities	28	92,635	(489)	2,645	(23)	95,280
Corporate and other debt securities	71	66,480	(617)	4,177	(37)	70,657
Total temporarily impaired investment securities	313	\$ 394,284	\$ (2,996)	\$ 108,523	\$ (969)	\$ 502,800

Held-to-maturity Description of Securities	Number of securities	Less than 12 months		12 months or longer		Total	
		Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Unrealized losses
Single issuers	2	\$ -	\$ -	\$ 7,914	\$ (4,199)	\$ 7,914	\$ (4,199)
Total temporarily impaired investment securities	2	\$ -	\$ -	\$ 7,914	\$ (4,199)	\$ 7,914	\$ (4,199)

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

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Available-for-sale Description of Securities	Number of securities	Less than 12 months		12 months or longer		Total	
		Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Fair Value
Federally insured student loan securities	4	\$ 3,300	\$ -	\$ -	\$ -	\$ -	3,300
Tax-exempt obligations of states and political subdivisions	9	50,498	(676)	6,202	(44)	56,700	

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Taxable obligations of states and political subdivisions	229	169,995	(1,951)	-	-	169,995	(1
Residential mortgage-backed securities	52	46,888	(737)	1,808	(9)	48,696	(7
Commercial mortgage-backed securities	38	147,717	(1,656)	55,064	(606)	202,781	(2
Corporate and other debt securities	26	76,668	(399)	405	(11)	77,073	(4
Other equity securities	101	97,904	(1,024)	4,255	(196)	102,159	(1
Total temporarily impaired investment securities	459	\$ 592,970	\$ (6,443)	\$ 67,734	\$ (866)	\$ 660,704	\$

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

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

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

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The \$76.1 million of other debt securities – pooled are comprised of the following. The one pooled trust preferred securities totaled \$332,000 and was collateralized by bank trust preferred securities. The book value for the securities consisting of diversified portfolios of corporate securities is \$75.8 million.

The following table provides additional information related to our single issuer trust preferred securities as of March 31, 2014:

Single issuer	Book value	Fair value	Unrealized gain/(loss)	Credit rating
Security A	\$ 1,896	\$ 2,000	\$ 104	Not rated
Security B	3,189	2,880	(309)	Not rated
Security C	8,924	5,033	(3,891)	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 March 31, 2014:

Pooled issue	Class	Book value	Fair value	Unrealized gain/(loss)	Credit rating	Excess subordination
Pool A (7 performing issuers)	Mezzanine *	\$ 332	\$ 606	\$ 274	CAA1	**

* The actual deferrals and defaults as a percentage of the original collateral were 20.27%. Assumed losses resulting from expected deferrals and defaults as a percentage of remaining collateral is .75% annually with 15% recovery with a two year lag.

** There is no excess subordination in these securities.

The Company has evaluated the securities in the above tables and has concluded that none of these securities has impairment that is other-than-temporary. The Company evaluates whether a credit impairment exists by considering primarily the following factors: (a) the length of time and extent to which the fair value has been less than the amortized cost of the security, (b) changes in the financial condition, credit rating and near-term prospects of the issuer, (c) whether the issuer is current on contractually obligated interest and

principal payments, (d) changes in the financial condition of the security's underlying collateral and (e) the payment structure of the security. The Company's best estimate of expected future cash flows which is used to determine the credit loss amount is a quantitative and qualitative process that incorporates information received from third-party sources along with internal assumptions and judgments regarding the future performance of the security. The Company concluded that most of the securities that are in an unrealized loss position are in a loss position because of changes in interest rates after the securities were purchased. The securities that have been in an unrealized loss position for 12 months or longer include other securities whose market values are sensitive to interest rates and changes in credit quality. The Company's unrealized loss for the debt securities, which includes three single issuer trust preferred securities and one pooled trust preferred security, is primarily related to general market conditions and the resultant lack of liquidity in the market. The severity of the impairments in relation to the carrying amounts of the individual investments is consistent with market developments. The Company's analysis for each investment is performed at the security level. As a result of its review, the Company concluded that other-than-temporary impairment did not exist due to the Company's ability and intention to hold these securities to recover their amortized cost basis.

Note 6. Loans

The Company originates loans for sale to other financial institution which issue commercial mortgage backed securities or to secondary government guaranteed loan markers. The Company has elected fair value treatment for these loans to better reflect the economics of the transactions. At March 31, 2014 the Company had \$222.0 million of loans held for sale, which were originated for sale either to institutions which issue commercial mortgage backed securities or to secondary government guaranteed loan markets. During the three months ended March 31, 2014, the Company recognized a related fair value gain of \$2.0 million. In the three months ended March 31, 2014 the Company recognized \$3.4 million in gains upon the sale of loans.

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

	March 31, 2014	December 31, 2013
Commercial	\$ 489,574	\$ 450,113
Commercial mortgage *	610,990	625,810
Construction	283,928	258,889
Total commercial loans	1,384,492	1,334,812
Direct lease financing	181,007	175,610
Residential mortgage	95,397	94,850
Consumer and other loans	375,818	346,334
	2,036,714	1,951,606
Unamortized loan fees and costs	7,290	6,839

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Total loans, net of deferred loan costs	\$	2,044,004	\$	1,958,445
Supplemental loan data:				
Construction 1-4 family	\$	47,521	\$	48,394
Commercial construction, acquisition and development	236,407		210,495	
	\$	283,928	\$	258,889

Included in the table above are demand deposit overdrafts reclassified as loan balances totaling \$4.9 million and \$2.7 million at March 31, 2014 and December 31, 2013, respectively. Overdraft charge-offs and recoveries are reflected in the allowance for loan and lease losses.

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

	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment	Interest income recognized
March 31, 2014					
Without an allowance recorded					

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Construction	\$	7,119	\$	11,339	\$	-	\$	4,112	\$	-
Commercial mortgage	1,849		1,849		-		1,804		-	
Commercial	2,476		2,851		-		5,748		-	
Consumer - home equity	927		927		-		927		-	
Residential	1,175		1,175		-		1,175		-	
With an allowance recorded										
Construction	6,651		6,683		4,345		3,607		-	
Commercial mortgage	6,560		6,560		2,048		5,331		-	
Commercial	19,640		20,071		8,167		20,243		-	
Consumer - home equity	1,678		1,683		607		1,054		-	
Residential	-		-		-		421		-	
Total										
Construction	13,770		18,022		4,345		7,719		-	
Commercial mortgage	8,409		8,409		2,048		7,135		-	
Commercial	22,116		22,922		8,167		25,991		-	
Consumer - home equity	2,605		2,610		607		1,981		-	
Residential	1,175		1,175		-		1,596		-	

	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment	Interest income recognized
December 31, 2013					
Without an allowance recorded					
Construction	\$ 1,104	\$ 1,454	\$ -	\$ 1,506	\$ -
Commercial mortgage	1,759	1,759	-	4,662	-
Commercial	9,021	11,131	-	7,014	-
Consumer - home equity	927	927	-	927	-
Residential	1,175	1,175	-	873	-
With an allowance recorded					
Construction	563	563	353	2,437	-
	4,102	4,102	1,476	4,581	-

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Commercial mortgage					
Commercial	20,846	21,276	9,369	15,670	-
Consumer - home equity	429	429	135	190	-
Residential	841	841	84	373	-
Total					
Construction	1,667	2,017	353	3,943	-
Commercial mortgage	5,861	5,861	1,476	9,243	-
Commercial	29,867	32,407	9,369	22,684	-
Consumer - home equity	1,356	1,356	135	1,117	-
Residential	2,016	2,016	84	1,246	-

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

	March 31, 2014	March 31, 2013	December 31, 2013
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Non-accrual loans

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Construction	\$	13,770	\$	2,745	\$	1,667
Commercial mortgage		5,250		14,059		5,861
Commercial		21,901		16,242		29,651
Consumer		2,605		927		1,356
Residential		1,175		90		2,016
Total non-accrual loans		44,701		34,063		40,551
Loans past due 90 days or more		189		1,291		110
Total non-performing loans		44,890		35,354		40,661
Other real estate owned		27,763		4,543		26,295
Total non-performing assets	\$	72,653	\$	39,897	\$	66,956

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

	March 31, 2014			December 31, 2013		
	Number	Pre-modification recorded investment	Post-modification recorded investment	Number	Pre-modification recorded investment	Post-modification recorded investment
Commercial	1	\$ 215	\$ 215	1	\$ 217	\$ 217
Commercial mortgage	5	6,210	6,210	3	3,055	3,055
Construction	1	263	263	1	263	263
Residential mortgage	-	-	-	-	-	-
Total	7	\$ 6,688	\$ 6,688	5	\$ 3,535	\$ 3,535

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

	March 31, 2014			December 31, 2013		
	Adjusted interest rate	Extended maturity	Combined rate and maturity	Adjusted interest rate	Extended maturity	Combined rate and maturity
Commercial	\$ -	\$ 215	\$ -	\$ -	\$ 217	\$ -
Commercial mortgage	3,840	214	2,156	681	214	2,160
Construction	-	263	-	-	263	-
Residential mortgage	-	-	-	-	-	-
Total	\$ 3,840	\$ 692	\$ 2,156	\$ 681	\$ 694	\$ 2,160

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The following table summarizes as of March 31, 2014 loans that were restructured within the last 12 months that have subsequently defaulted (dollars in thousands):

	Number	Pre-modification recorded investment
Commercial mortgage	1	\$ 681
Total	1	\$ 681

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

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

Three months ended	Commercial		Residential		Direct lease	Unallocated	Total
	Commercial mortgage	Construction mortgage	Consumer financing	Consumer financing			

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March 31, 2014										
Beginning balance	\$ 18,206	\$ 6,884	\$ 10,559	\$ 661	\$ 937	\$ 311	\$			
Charge-offs	(1,832)	(2,415)	(4,633)	(108)	(128)	-	-			
Recoveries	25	-	5	-	13	-	-			
Provision (credit)	6,274	3,447	7,051	32	692	(124)	(72)			
Ending balance	\$ 22,673	\$ 7,916	\$ 12,982	\$ 585	\$ 1,514	\$ 187	\$			
Ending balance: Individually evaluated for impairment	\$ 8,167	\$ 2,048	\$ 4,345	\$ -	\$ 607	\$ -	\$			
Ending balance: Collectively evaluated for impairment	\$ 14,506	\$ 5,868	\$ 8,637	\$ 585	\$ 907	\$ 187	\$			
Loans: Ending balance	\$ 489,574	\$ 610,990	\$ 283,928	\$ 95,397	\$ 375,818	\$ 181,007	\$			
Ending balance: Individually evaluated for impairment	\$ 22,116	\$ 8,409	\$ 13,770	\$ 1,175	\$ 2,605	\$ -	\$			
Ending balance: Collectively evaluated for impairment	\$ 467,458	\$ 602,581	\$ 270,158	\$ 94,222	\$ 373,213	\$ 181,007	\$			

Twelve months	Commercial	Commercial mortgage	Construction	Residential mortgage	Consumer	Direct lease financing	Unal
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ended December 31, 2013											
Beginning balance	\$ 12,244	\$ 6,223	\$ 9,505	\$ 2,089	\$ 1,799	\$ 239	\$				
Charge-offs	(9,920)	(4,851)	(10,295)	(54)	(489)	(29)					
Recoveries	67	98	1,019	-	88	8					
Provision (credit)	15,815	5,414	10,330	(1,374)	(461)	93					(317)
Ending balance	\$ 18,206	\$ 6,884	\$ 10,559	\$ 661	\$ 937	\$ 311	\$				
Ending balance: Individually evaluated for impairment	\$ 9,369	\$ 1,476	\$ 353	\$ 84	\$ 135	\$ -	\$				
Ending balance: Collectively evaluated for impairment	\$ 8,837	\$ 5,408	\$ 10,206	\$ 577	\$ 802	\$ 311	\$				
Loans: Ending balance	\$ 450,113	\$ 625,810	\$ 258,889	\$ 94,850	\$ 346,334	\$ 175,610	\$				
Ending balance: Individually evaluated for impairment	\$ 29,867	\$ 5,861	\$ 1,667	\$ 2,016	\$ 1,356	\$ -	\$				
Ending balance: Collectively evaluated for impairment	\$ 420,246	\$ 619,949	\$ 257,222	\$ 92,834	\$ 344,978	\$ 175,610	\$				

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Three months ended March 31, 2013	Commercial			Residential			Direct lease		Unall
	Commercial	mortgage	Construction	mortgage	Consumer	financing			
Beginning balance	\$ 12,244	\$ 6,223	\$ 9,505	\$ 2,089	\$ 1,799	\$ 239	\$	\$	
Charge-offs	(1,561)	(512)	(1,608)	-	(54)	-			
Recoveries	31	4	-	-	43				
Provision (credit)	2,484	2,550	1,293	193	(437)	(6)		(577)	
Ending balance	\$ 13,198	\$ 8,265	\$ 9,190	\$ 2,282	\$ 1,351	\$ 233	\$	\$	
Ending balance: Individually evaluated for impairment	\$ 4,470	\$ 2,645	\$ 612	\$ 69	\$ -	\$ -	\$	\$	
Ending balance: Collectively									

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evaluated for impairment	\$	8,728	\$	5,620	\$	8,578	\$	2,213	\$	1,351	\$	233	\$
Loans: Ending balance	\$	477,690	\$	673,916	\$	263,579	\$	94,238	\$	296,370	\$	157,508	\$
Ending balance: Individually evaluated for impairment	\$	16,242	\$	14,059	\$	2,745	\$	90	\$	927	\$	-	\$
Ending balance: Collectively evaluated for impairment	\$	461,448	\$	659,857	\$	260,834	\$	94,148	\$	295,443	\$	157,508	\$

The Company did not have loans acquired with deteriorated credit quality at either March 31, 2014 or December 31, 2013.

A detail of the Company's delinquent loans by loan category is as follows (in thousands):

	30-59 Days past due	60-89 Days past due	Greater than 90 days	Non-accrual	Total past due	
March 31, 2014						
Commercial	\$ 401	\$ -	\$ -	\$ 21,901	\$ 22,302	\$
Commercial mortgage	-	-	-	5,250	5,250	60
Construction	912	-	-	13,770	14,682	26
Direct lease financing	2,637	405	189	-	3,231	17
Consumer - other	1	-	-	923	924	33
Consumer - home equity	-	-	-	1,682	1,682	42

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Residential mortgage	-	-	-	1,175	1,175	94
Unamortized loan fees and costs	-	-	-	-	-	7,
	\$ 3,951	\$ 405	\$ 189	\$ 44,701	\$ 49,246	\$

	30-59 Days past due	60-89 Days past due	Greater than 90 days	Non-accrual	Total past due	
December 31, 2013 Commercial mortgage	998	5,999	-	5,861	12,858	61
Construction	-	-	-	1,667	1,667	25
Direct lease financing	3,427	1,293	110	-	4,830	17
Consumer - other	425	-	-	1,356	1,781	30
Consumer - home equity	18	-	-	-	18	43
Residential mortgage	-	-	-	2,016	2,016	92
Unamortized loan fees and costs	-	-	-	-	-	6,8
	\$ 4,868	\$ 7,292	\$ 110	\$ 40,551	\$ 52,821	\$

The Company evaluates its loans under an internal loan risk rating system as a means of identifying problem loans. The following table provides information by credit risk rating indicator for each segment of the loan portfolio excluding loans held for sale at the dates indicated (in thousands):

Risk Rating	Commercial		Construction		Commercial mortgage		
	3/31/2014	12/31/2013	3/31/2014	12/31/2013	3/31/2014	12/31/2013	
Pass	\$ 399,972	\$ 377,482	\$ 244,895	\$ 226,926	\$ 512,445	\$ 517,164	\$
Special Mention	-	149	-	-	-	6,997	-
Substandard	22,116	29,867	13,770	1,667	8,409	5,861	1,
Doubtful	-	-	-	-	-	-	-

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Loss	-	-	-	-	-	-	-
Unrated subject to review *	20,805	6,854	18,390	25,255	24,076	29,467	-
Unrated not subject to review *	46,681	35,761	6,873	5,041	66,060	66,321	66,321
Total	\$ 489,574	\$ 450,113	\$ 283,928	\$ 258,889	\$ 610,990	\$ 625,810	\$ 625,810
	Consumer		Direct lease				
	3/31/2014	12/31/2013	financing			Unamortized costs	
			3/31/2014	12/31/2013	3/31/2014	12/31/2013	
Risk Rating							
Pass	\$ 122,724	\$ 116,292	\$ 62,792	\$ 58,545	\$ -	\$ -	\$ -
Special							
Mention	-	1,348	-	-	-	-	-
Substandard	2,605	1,356	-	-	-	-	4,961
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Unrated subject to review *	11,109	524	3,514	2,244	-	-	7,367
Unrated not subject to review *	239,380	226,814	114,701	114,821	7,290	6,839	5,000
Total	\$ 375,818	\$ 346,334	\$ 181,007	\$ 175,610	\$ 7,290	\$ 6,839	\$ 6,839

* Unrated loans consist of performing loans which did not exhibit any negative characteristics which would require the loan to be evaluated, or fell below the dollar threshold requiring review under the Bank's internal policy and are not loans otherwise selected in ongoing portfolio evaluation. The scope of the Bank's loan review policy encompasses commercial and construction loans and leases which singly, or in aggregate for loans with related borrowers, exceed \$3.0 million. The loan portfolio review coverage was approximately 69% at March 31, 2014 and approximately 70% at December 31, 2013. This review is performed by the loan review department, which is independent of the loan origination department and reports directly to the audit committee. Potential problem loans which are identified by either the independent loan review department or line management are reviewed. Adversely classified loans are reviewed quarterly by the independent loan review function of the Bank. Additionally, all loans are subject to ongoing monitoring by portfolio managers and loan officers. Also, many of the Bank's loans are relatively short term, and are subject to reconsideration with a full review in loan committee between one and three years.

Note 7. Transactions with Affiliates

The Company entered into a space sharing agreement for office space in New York, New York with Resource America Inc. commencing in September 2011. The Company pays only its proportionate share of the lease rate to a lessor which is an unrelated third party. The Chairman of the Board of Resource America, Inc. is the father of the

Chairman of the Board and the spouse of the Chief Executive Officer of the Company. The Chief Executive Officer of Resource America, Inc. is the brother of the Chairman of the Board and the son of the Chief Executive Officer of the Company. Rent expense is 50% of the fixed rent, real estate tax payment and the base expense charges. Rent expense was \$26,000 for the three months ended March 31, 2014 and March 31, 2013, respectively.

The Company entered into a space sharing agreement for office space in New York, New York with Atlas Energy, L.P. commencing in May 2012. The Company pays only its proportionate share of the lease rate to a lessor which is an unrelated third party. The Chairman of the Board of the general partner of Atlas Energy, L.P. is the brother of the Chairman of the Board and the son of the Chief Executive Officer of the Company. The Chief Executive Officer and President of Atlas Energy, L.P. is the father of the Chairman of the Board and the spouse of the Chief Executive Officer of the Company. Rent expense is 50% of the fixed rent, real estate tax payment and the base expense charges. Rent expense was \$26,000 for the three months ended March 31, 2014 and March 31, 2013, respectively.

The Bank maintains deposits for various affiliated companies totaling approximately \$44.1 million and \$36.7 million as of March 31, 2014 and December 31, 2013, respectively.

The Bank has entered into lending transactions in the ordinary course of business with directors, executive officers, principal stockholders and affiliates of such persons on the same terms as those prevailing for comparable transactions with other borrowers. At March 31, 2014, these loans were current as to principal and interest payments and did not involve more than normal risk of collectability. At March 31, 2014, loans to these related parties amounted to \$55.7 million and \$34.9 million at December 31, 2013.

The Company executed security transactions through PrinceRidge Group LLC (“PrinceRidge”), a broker dealer in which the Company’s Chairman has a minority interest and also serves as Vice Chairman of Institutional Financial Markets Inc., the parent company of PrinceRidge. For the three months ended March 31, 2014, the Company had purchased \$2.7 million of AAA SBA loans for Community Reinvestment Act purposes through PrinceRidge. The Company had no security purchases from PrinceRidge for the three months ended March 31, 2014. From time to time, the Company may also purchase securities under agreements to resell

through that company. The securities consist exclusively of G.N.M.A. certificates which are full faith and credit obligations of the United States government issued at competitive rates. All terms were met as agreed and \$26.4 million was outstanding at March 31, 2014.

Note 8. Fair Value Measurements

ASC 825, Financial Instruments, requires disclosure of the estimated fair value of an entity's assets and liabilities considered to be financial instruments. For the Company, as for most financial institutions, the majority of its assets and liabilities are considered to be financial instruments. However, many of such instruments lack an available trading market as characterized by a willing buyer and willing seller engaging in an exchange transaction. Also, it is the Company's general practice and intent to hold its financial instruments to maturity whether or not categorized as "available-for-sale" and not to engage in trading or sales activities, except for certain loans. For fair value disclosure purposes, the Company utilized certain value measurement criteria required under the ASC 820, Fair Value Measurements and Disclosures, and discussed below.

Estimated fair values have been determined by the Company using the best available data and an estimation methodology it believes to be suitable for each category of financial instruments. Changes in the assumptions or methodologies used to estimate fair values may materially affect the estimated amounts. Also, there may not be reasonable comparability between institutions due to the wide range of permitted assumptions and methodologies in the absence of active markets. This lack of uniformity gives rise to a high degree of subjectivity in estimating financial instrument fair values.

Cash and cash equivalents, which are comprised of cash and due from banks, our balance at the Federal Reserve Bank and securities purchased under agreements to resell, had recorded values of \$836.6 million and \$1.24 billion as of March 31, 2014 and December 31, 2013, respectively, which approximated fair values.

The estimated fair values of investment securities are based on quoted market prices, if available, or estimated using a methodology based on management's inputs. The fair values of the Company's investment securities held-to-maturity and loans held for sale are based on using "unobservable inputs" that are the best information available in the circumstances.

The net loan portfolio at March 31, 2014 and December 31, 2013 has been valued using the present value of discounted cash flow where market prices were not available. The discount rate used in these calculations is the estimated current market rate adjusted for credit risk. The carrying value of accrued interest receivable approximates fair value.

The estimated fair values of demand deposits (i.e. interest-and noninterest-bearing checking accounts, savings, and certain types of demand and money market accounts) are equal to the amount payable on demand at the reporting date (i.e. their carrying amounts). The fair values of securities sold under agreements to repurchase and short term borrowings are equal to their carrying amounts as they are overnight borrowings.

The fair values of certificates of deposit and subordinated debentures are estimated using a discounted cash flow calculation that applies current interest rates to discounted expected cash flows. Based upon time deposit maturities at March 31, 2014, the carrying values approximate their fair values. The carrying amount of accrued interest payable approximates its fair value (in thousands).

	March 31, 2014		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	Carrying amount (in thousands)	Estimated fair value			
Investment securities available-for-sale	\$ 1,411,708	\$ 1,411,708	\$ -	\$ 1,411,708	\$ -
Investment securities held-to-maturity	97,149	95,077	-	-	95,077
Federal Home Loan and Atlantic Central Bankers Bank stock	3,209	3,209	-	-	3,209
Commercial loans held for sale	222,024	222,024	-	-	222,024
Loans, net	2,044,004	2,046,615	-	-	2,046,615
Demand and interest checking	3,842,569	3,842,569	3,842,569	-	-
Savings and money market	393,329	393,329	393,329	-	-

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Time deposits	11,310	11,362	-	-	11,362
Subordinated debenture	13,401	7,945	-	-	7,945
Securities sold under agreements to repurchase	16,491	16,491	16,491	-	-
Interest rate swaps	(99)	(99)	-	(99)	-

	December 31, 2013		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	Carrying amount (in thousands)	Estimated fair value			
Investment securities available-for-sale	\$ 1,253,117	\$ 1,253,117	\$ -	\$ 1,252,566	\$ -
Investment securities held-to-maturity	97,205	95,030	-	-	95,030
Federal Home Loan and Atlantic Central Bankers Bank stock	3,209	3,209	-	-	3,209
Commercial loans held for sale	69,904	69,904	-	-	69,904
Loans, net	1,958,445	1,954,058	-	-	1,954,058
Demand and interest checking	3,722,602	3,722,602	3,722,602	-	-
Savings and money market	536,162	536,162	536,162	-	-
Time deposits	14,225	14,444	-	-	14,444
Subordinated debentures	13,401	9,287	-	-	9,287
Securities sold under agreements to repurchase	21,221	21,221	21,221	-	-
Interest rate swaps	481	481	-	481	-

The fair value of commitments to extend credit is estimated based on the amount of unamortized deferred loan commitment fees. The fair value of letters of credit is based on the amount of unearned fees plus the estimated cost to terminate the letters of credit. Fair values of unrecognized financial instruments, including commitments to extend credit, and the fair value of letters of credit are considered immaterial.

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	Fair value March 31, 2014	Fair Value Measurements at Reporting Date Using			
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Investment securities available for sale					
U.S. Government agency securities	\$ 18,292	\$ -	\$ 18,292	\$ -	
Federally insured student loan securities	131,256	-	131,256	-	
Obligations of states and political subdivisions	525,057	-	525,057	-	
Residential mortgage-backed securities	390,018	-	390,018	-	
Commercial mortgage-backed securities	148,954	-	148,954	-	
Other debt securities	198,131	-	198,131	-	
Total investment securities available for sale	1,411,708	-	1,411,708	-	
Loans held for sale	222,024	-	-	222,024	
Interest rate swaps	(99)	-	(99)	-	
	\$ 1,633,633	\$ -	\$ 1,411,609	\$ -	22

Fair Value Measurements at Reporting Date Using
 Quoted prices in active markets for identical
 Significant other observable
 Significant unobservable

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	Fair value December 31, 2013	assets (Level 1)	inputs (Level 2)	inputs (Level 3)
Investment securities available for sale				
U.S. Government agency securities	\$ 10,726	\$ -	\$ 10,726	\$ -
Federally insured student loan securities	147,573	-	147,573	-
Obligations of states and political subdivisions	458,118	-	458,118	-
Residential mortgage-backed securities	322,774	-	322,774	-
Commercial mortgage-backed securities	120,347	-	120,347	-
Other debt securities	193,579	-	193,028	551
Total investment securities available for sale	1,253,117	-	1,252,566	551
Loans held for sale	69,904	-	-	69,904
Interest rate swaps	481	-	481	-
	\$ 1,323,502	\$ -	\$ 1,253,047	\$ -

In addition, ASC 820, Fair Value Measurements and Disclosures, establishes a common definition for fair value to be applied to assets and liabilities. It clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also establishes a framework for measuring fair value and expands disclosures concerning fair value measurements. ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Level 1 valuation is based on quoted market prices for identical assets or liabilities to which the Company has access at the measurement date. Level 2 valuation is based on other observable inputs for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets in active or inactive markets, inputs other than quoted prices that are observable for the asset or liability such as yield curves, volatilities, prepayment speeds, credit risks, default rates, or inputs that are derived principally from, or corroborated through, observable market data by market-corroborated reports. Level 3 valuation is based on “unobservable inputs” which the Company believes is the best information available in the circumstances. A financial instrument’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The changes in the Company’s Level 3 assets measured at fair value on a recurring basis, segregated by fair value hierarchy level, are summarized below (in thousands):

Fair Value Measurements Using
Significant Unobservable Inputs
(Level 3)

	Available-for-sale securities		Held-for-sale loans	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
Beginning balance	\$ 551	\$ 597	\$ 69,904	\$ -
Transfers into level 3	-	-	-	-
Transfers out of level 3	(551)	-	-	-
Total gains or losses (realized/unrealized)				
Included in earnings	-	(1)	3,159	3,082
Included in other comprehensive income	-	21	-	-
Purchases, issuances, and settlements				
Purchases	-	-	-	-
Issuances	-	-	222,077	309,358
Sales	-	-	(72,964)	(253,832)
Settlements	-	(66)	(152)	(45)
Ending balance	\$ -	\$ 551	\$ 222,024	\$ -

The other debt securities included in level 3 at March 31, 2014 and December 31, 2013 have been valued on the present value of cash flows, which discounts expected cash flows from principal and interest using yield to maturity at the measurement date. The discount rate used in these calculations is the estimated current market rate adjusted for credit risk.

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Assets measured at fair value on a nonrecurring basis, segregated by fair value hierarchy, during the periods shown are summarized below (in thousands):

Description	Fair value March 31, 2014	Fair Value Measurements at Reporting Date Using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Impaired loans	\$ 48,075	\$ -	\$ -	\$ 48,075
Other real estate owned	27,763	-	-	27,763
Intangible assets	7,407	-	-	7,407
	\$ 83,245	\$ -	\$ -	\$ 83,245

Description	Fair value December 31, 2013	Fair Value Measurements at Reporting Date Using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Impaired loans	\$ 40,767	\$ -	\$ -	\$ 40,767
Other real estate owned	26,295	-	-	26,295
Intangible assets	7,612	-	-	7,612
	\$ 74,674	\$ -	\$ -	\$ 74,674

At March 31, 2014, impaired loans that are measured based on the value of underlying collateral have been presented at their fair value, less costs to sell, of \$48.0 million through specific reserves and other write downs of \$15.2 million or by recording charge-offs when the carrying value exceeds the fair value. Included in the impaired balance at March 31, 2014 were troubled debt restructured loans with a balance of \$6.7 million which have specific reserves of \$1.8 million. Valuation techniques consistent with the market and/or cost approach were used to measure fair value and primarily included observable inputs for the individual impaired loans being evaluated such as recent sales of similar

assets or observable market data for operational or carrying costs. In cases where such inputs were unobservable, the loan balance is reflected within the Level 3 hierarchy. The fair value of other real estate owned is based on an appraisal of the property using the market approach for valuation.

Note 9. Derivatives

The Company utilizes derivative instruments to assist in the management of interest rate sensitivity by modifying the repricing, maturity and option characteristics on commercial real estate loans held for sale. These instruments are not accounted for as hedges. As of March 31, 2014, the Company entered into four interest rate swap agreements with an aggregate notional amount of \$28.6 million. These swap agreements provide for the Company to receive an adjustable rate of interest based upon the three-month London Interbank Offering Rate (LIBOR). The Company recorded income of \$1.8 million for the three months ended March 31, 2014 to recognize fair value on derivative instruments. The amount receivable by the Company under these swap agreements was \$183,000 at March 31, 2014.

The maturity dates, notional amounts, interest rates paid and received and fair value of the Company's remaining interest rate swap agreements as of March 31, 2014 are summarized below (in thousands):

Maturity date	March 31, 2014			Fair value
	Notional amount	Interest rate paid	Interest rate received	
November 5, 2018	\$ 6,100	1.51%	0.24%	\$ 43
March 24, 2019	12,100	1.81%	0.23%	(12)
January 6, 2024	6,200	3.07%	0.24%	(153)
March 18, 2024	4,200	2.76%	0.23%	23

Total	\$	28,600	\$	(99)
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Note 10. Other Identifiable Intangible Assets

On November 29, 2012, the Company acquired certain software rights and personnel of a prepaid program manager in Europe for approximately \$1.8 million. With this acquisition the Company expects to establish a European prepaid card presence. The Company allocated the majority of the \$1.8 million acquisition cost to software used for fraud monitoring for its prepaid card business, with related services provided by its European data processing subsidiary. The fraud monitoring software is being amortized over eight years. Amortization expense is \$217,000 per year (\$1.1 million over the next five years). The gross carrying amount of the software is \$1.8 million and as of March 31, 2014 the accumulated amortization was \$200,000.

The Company accounts for its customer list in accordance with ASC 350, Intangibles—Goodwill and Other. The acquisition of the Stored Value Solutions division of Marshall Bank First in 2007 resulted in a customer list intangible of \$12.0 million which is being amortized over a 12 year period. Amortization expense is \$1.0 million per year (\$5.0 million over the next five years). The gross carrying amount of the customer list intangible is \$12.0 million and as of March 31, 2014 the accumulated amortization was \$6.2 million. For both 2014 and 2013, amortization expense for the first quarter was \$250,000.

Note 11. Subsequent Events

The Company evaluated its March 31, 2014 financial statements for subsequent events through the date the financial statements were issued. The Company is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

Note 12. Recent Accounting Pronouncements

On July 18, 2013, the FASB issued Accounting Standards Update 2013-11, Income Taxes (Topic 740), Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carry-forward, a Similar Tax Loss, or a Tax Credit Carry-forward Exists. This standard requires the netting of unrecognized tax benefits against a deferred tax asset for a loss or other carry-forward that would apply in settlement of the uncertain tax positions. Under the new standard, unrecognized tax benefits will be netted against all available same-jurisdiction loss or other tax carry-forward that

would be utilized, rather than only against carryforwards that are created by the unrecognized tax benefits. This standard will be effective for the Company beginning on January 1, 2014. The Company does not expect a significant impact on its financial positions as a result of adoption of these new requirements.

In January 2014, FASB ASU No. 2014-04, amended ASC Sub-Topic 310-40 “Receivables—Troubled Debt Restructurings by Creditors.” The amendments clarify that an in substance repossession or foreclosure occurs, and the Company is considered to have received physical possession of residential real estate property collateralizing a mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The amendments in this update are effective for the annual periods beginning on or after December 15, 2014 and an entity can elect to adopt the amendments in this update using either a modified retrospective transition method or a prospective transition method as allowed in ASU No. 2014-04. The implementation of ASU No. 2014-04 is not expected to have a material effect on the Company’s consolidated financial statements.

Part I - Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation

Forward-Looking Statements

When used in this Form 10-Q, the words "believes" "anticipates" "expects" and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties more particularly described in Item 1A, under the caption "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2013 and in other of our public filings with the Securities and Exchange Commission. These risks and uncertainties could cause actual results to differ materially from those expressed or implied in this Form 10-Q. We caution readers not place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances after the date of this report except as required by applicable law.

In the following discussion we provide information about our results of operations, financial condition, liquidity and asset quality. We intend that this information facilitate your understanding and assessment of significant changes and trends related to our financial condition and results of operations. You should read this section in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operation" included in our Annual Report on Form 10-K for the year ended December 31, 2013.

Overview

We are a Delaware financial holding company with a wholly owned subsidiary, The Bancorp Bank, which we refer to as the Bank. Through the Bank, we provide a wide range of commercial and retail banking services and related banking services, which include private label banking, healthcare accounts, prepaid and debit cards, and merchant card processing to both regional and national markets.

Regionally, we focus on providing our banking services directly to retail and commercial customers in the Philadelphia-Wilmington metropolitan area, consisting of the 12 counties surrounding Philadelphia, Pennsylvania and Wilmington, Delaware including Philadelphia, Delaware, Chester, Montgomery, Bucks and Lehigh Counties in Pennsylvania, New Castle County in Delaware and Mercer, Burlington, Camden, Ocean and Cape May Counties in New Jersey. We believe that changes over the past ten years in this market have created an underserved base of small and middle-market businesses and high net worth individuals that are interested in banking with a company headquartered in and with decision-making authority based in the Philadelphia-Wilmington area. We believe that our presence in the area provides us with insights as to the local market and, as a result, with the ability to tailor our products and services, and especially the structure of our loans, more closely to the needs of our targeted customers. We seek to develop overall banking relationships with our targeted customers so that our lending operations serve as a generator of deposits and our deposit relationships serve as a source of loan assets. We believe that our regional presence also allows us to oversee and further develop our existing customer relationships.

Nationally, 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; 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, also known as stored value cards, for insurers, incentive plans, large retail chains and consumer service organizations. 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 private label banking, merchant processing, healthcare accounts and prepaid card programs are a source of fee income and low-cost deposits.

In Europe, the Company maintains three operational service subsidiaries and one subsidiary through which it offers e-money (prepaid card) issuing services.

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.

Results of Operations

First quarter 2014 to first quarter 2013

Net Income: Net income for the first quarter of 2014 was \$298,000, compared to \$7.4 million for the first quarter of 2013. The decrease reflected a \$3.9 million increase in net interest income and an \$5.0 million increase in non-interest income (excluding security gains) which were more than offset by an \$8.5 million increase in non-interest expense and an \$11.8 million increase in the provision for loan and lease losses. Non-interest income (excluding security gains) increased to \$23.9 million in first quarter 2014 from \$18.9 million in first quarter 2013, reflecting increases in loan sales income and prepaid card fees. The gain on sale of loans, which is presented net of direct sales costs, was \$5.5 million for the first quarter of 2014 compared to \$2.2 million for the first quarter of 2013. This gain was partially offset by approximately \$3.1 million of departmental loan origination expenses reflected in non-interest expense. Higher prepaid fees reflected an increased volume of accounts and related transaction fees. Net interest income increased to \$26.6 million compared to \$22.7 million primarily as a result of higher loan and investment security balances. The provision for loan and lease losses increased \$11.8 million to \$17.3 million in first quarter 2014, compared to \$5.5 million in first quarter 2013 primarily due to the impact of three large relationships. Diluted earnings per share were \$0.01 in first quarter 2014 compared to \$0.20 in the first quarter of 2013. Return on average assets was 0.02% and return on average equity was 0.33% for the first quarter of 2014, compared to 0.72% and 8.83%, respectively, for the first quarter of 2013.

Net Interest Income: Our net interest income for first quarter 2014 increased to \$26.6 million, an increase of \$3.9 million or 17.1% from \$22.7 million in first quarter 2013. Our interest income for first quarter 2014 increased to \$29.5 million, an increase of \$4.1 million or 16.0% from \$25.4 million for first quarter 2013. The increase in interest income resulted primarily from higher balances of loans and investment securities. Investment security balances have been increased to achieve higher returns compared to overnight investments. Our average loans and leases increased to \$2.16 billion for first quarter 2014 from \$1.94 billion for first quarter 2013, while related interest income increased \$1.1 million on a tax equivalent basis. Our average investment securities increased to \$1.41 billion for first quarter 2014 from \$808.9 million for first quarter 2013, while related interest income increased \$3.7 million on a tax equivalent basis.

Our net interest margin (calculated by dividing net interest income by average interest earning assets) for first quarter 2014 increased to 2.30% from 2.25% in the first quarter of 2013, an increase of 5 basis points. The increase in the net interest margin resulted primarily from replacing our interest earning deposits with higher yielding investment securities and loans. In first quarter 2014, the average yield on our loans decreased to 3.96% from 4.19% for first quarter 2013, a decrease of 23 basis points. The decrease reflects existing higher rate loans repricing to lower rates, and new loans pricing at lower rates. Yields on taxable investment securities in first quarter 2014 were lower at 2.01% compared to 2.04% for first quarter 2013, a decrease of 3 basis points. Additionally, yields on non-taxable investments were lower at 3.28% compared to 3.54%, respectively, a decrease of 26 basis points. The lower yields reflected new purchases with shorter maturities or earlier repricing periods which typically have lower yields than longer maturities, and lower market yields. These decreases were partially offset by a 3 basis point decrease in the cost of our interest bearing liabilities to 0.25% from 0.28%. Average interest earning deposits decreased \$108.6 million, or 8.1% to \$1.24 billion in first quarter 2014 from \$1.34 billion in first quarter 2013, reflecting deployment of such balances into higher yielding loans and securities. The decrease is primarily the result of continuing decreases in our deposit rates due to the prolonged period of low market interest rates.

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

	Three months ended March 31, 2014			2013			
	Average Balance (dollars in thousands)	Interest	Average Rate	Average Balance (dollars in thousands)	Interest		Average Rate
Assets:							
Interest earning assets:							
Loans net of unearned fees and costs **	\$ 2,142,143	\$ 21,220	3.96%	\$ 1,928,786	\$ 20,192		4.19%
Leases - bank qualified*	18,288	247	5.40%	14,393	200		5.50%
Investment securities-taxable	1,020,135	5,137	2.01%	682,676	3,487		2.04%
Investment securities-nontaxable*	391,486	3,207	3.28%	126,221	1,116		3.54%
Interest earning deposits at Federal Reserve Bank	1,235,319	764	0.25%	1,343,899	838		0.28%

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Federal funds sold/securities purchased under agreement to resell	30,545	106	1.39%	20,380	24	0.4
Net interest earning assets	4,837,916	30,681	2.54%	4,116,355	25,857	2.5
Allowance for loan and lease losses	(38,419)			(34,839)		
Other assets	155,646			83,902		
	\$ 4,955,143			\$ 4,165,418		
Liabilities and shareholders' equity:						
Deposits:						
Demand and interest checking	\$ 4,015,547	\$ 2,238	0.22%	\$ 3,257,692	\$ 1,866	0.2
Savings and money market	498,185	504	0.40%	506,174	578	0.4
Time	13,342	35	1.05%	20,919	54	1.0
Total deposits	4,527,074	2,777	0.25%	3,784,785	2,498	0.2
Short term borrowings	22	-	0.00%	-	-	0.0
Repurchase agreements	16,752	12	0.29%	15,762	14	0.3
Subordinated debt	13,401	115	3.43%	13,401	200	5.9
Total deposits and interest bearing liabilities	4,557,249	2,904	0.25%	3,813,948	2,712	0.2
Other liabilities	32,950			11,344		

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Total liabilities	4,590,199		3,825,292	
Shareholders' equity	364,944		340,126	
	\$	4,955,143	\$	4,165,418
Net interest income on tax equivalent basis *		\$	27,777	\$
				23,145
Tax equivalent adjustment		1,209		461
Net interest income		\$	26,568	\$
				22,684
Net interest margin *			2.30%	2.25%

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

** Includes loans held for sale.

For first quarter 2014, average interest earning assets increased to \$4.84 billion, an increase of \$721.6 million or 17.5% from first quarter 2013. The increase reflected increased average balances of loans and leases of \$217.3 million or 11.2%, and increased average balances of investment securities of \$602.7 million or 74.5%. Average demand and interest checking deposits increased \$757.9 million or 23.3%. Average savings and money market deposits decreased \$8.0 million or 1.6%, as the Bank terminates certain higher cost deposit relationships. The Bank experienced growth in institutional banking, payment acceptance (card payment and ACH processing) and other deposit categories, due to the acquisition of new customers.

Provision for Loan and Lease Losses. Our provision for loan and lease losses was \$17.3 million for the first quarter of 2014 compared to \$5.5 million for the first quarter of 2013. The \$11.8 million increase in the provision resulted primarily from three loan relationships. For the first relationship, a \$3.8 million reserve was established for a borrower who became delinquent in the first quarter of 2014 after a long successful history of developing land and repaying similar loans to the Bank. The Bank concluded that the borrower may not be continuing with the project, and a

reserve was established, notwithstanding that the borrower has other repayment sources and that the Bank will pursue collection. For the second relationship, management and its borrower accelerated the disposition of a property by contracting for an alternate use for the property resulting in a \$4.6 million charge off. For the third relationship, the Bank decided to settle with a borrower whose personal legal issues made other potential collection of the loans more problematic, resulting in the recognition of a \$2.9 million charge off. In addition to related specific reserves which increased the provision and allowance, related charge offs increased the allowance by increasing the component of the allowance determined by applying historical charge off ratios to outstanding loan balances. Primarily as a result of these loans, the allowance for loan losses was increased to \$46.4 million or 2.27% of total loans compared to \$38.2 million or 1.95% of total loans at December 31, 2013. We believe that our allowance is adequate to cover inherent 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", "-Summary of loan and lease loss experience," "-Net charge-offs," and "-Non-performing loans, loans 90 days delinquent and still accruing, and troubled debt restructurings," below.

Non-Interest Income. Non-interest income was \$23.9 million in first quarter 2014 compared to \$18.9 million in first quarter 2013 before gains on securities of \$241,000 in the first quarter of 2014 and \$267,000 in the first quarter of 2013. The \$5.0 million or 26.8% increase between those respective periods reflected significant increases in several categories, including a \$1.5 million or 12.5% increase in prepaid fees to \$13.5 million for first quarter 2014. The increase reflected an increased volume of transactions from new customers. Loan sale income increased \$3.3 million or 151.8% to \$5.5 million for first quarter 2014, which was gross of \$3.1 million of direct production expenses, from \$2.2 million for first quarter 2013, which was gross of \$1.0 million of such expense. Loan sale income and expense result from the sale of commercial real estate loans to institutions which package such loans in secondary commercial mortgage backed securities markets. Service fees on deposit accounts increased \$150,000 or 14.2% to \$1.2 million for first quarter 2014 from \$1.1 for first quarter 2013 reflecting increased service charges on retirement accounts. Affinity fees decreased \$322,000 or 37.6% to \$534,000 for first quarter 2014 from \$856,000 for first quarter 2013. This decrease resulted primarily from the termination of one affinity relationship in 2013 which had \$492,000 in fees in the first quarter of 2013. That decrease was partially offset by growth in fees from another client. Other non-interest income decreased \$59,000 or 5.1% to \$1.1 for first quarter 2014 from \$1.2 million in first quarter 2013. This decrease substantially reflected a decrease in fees earned on the wind down of a contract related to our European operations in the first quarter of 2013.

Non-Interest Expense. Total non-interest expense was \$33.0 million for first quarter 2014, an increase of \$8.5 million or 34.6% over \$24.5 million for first quarter 2013. Salaries and employee benefits amounted to \$15.4 million, an increase of \$3.1 million or 25.0% over \$12.3 million for first quarter 2013. The increase in salaries and employee benefits reflected staff additions and related expense for commercial loan sales, prepaid card operations, compliance, leasing and information security. It also reflected average annual

salary increases in the 2% range for our staff. Depreciation and amortization increased \$254,000 or 31.9% to \$1.1 million in first quarter 2014 from \$796,000 in first quarter 2013 which reflected increased depreciation costs related to leasehold improvements and equipment for staff additions and information technology upgrades. Rent and occupancy increased \$201,000 or 22.8% to \$1.1 million in first quarter 2014 from \$881,000 in first quarter 2013 which reflected increased main office operations space. Data processing increased \$729,000 or 28.0% to \$3.3 million in first quarter 2014 from \$2.6 million in first quarter 2013. The increase reflected increased account and transaction volume and increased call center expense. Printing and supplies increased \$139,000 or 32.2% to \$571,000, in first quarter 2014 from \$432,000 in first quarter 2013. The increase reflected increased volume for new accounts. Audit expense increased \$65,000 or 20.9% to \$376,000 in first quarter 2014 from \$311,000 in first quarter 2013. The increase reflected additional audit expense for external auditors. Legal expense increased \$713,000 or 115.2% to \$1.3 million in first quarter 2014 from \$619,000 in first quarter 2013. The increase in legal expense reflected a \$235,000 settlement for a merchant acquiring matter, compliance matters and higher loan collection costs. Amortization of intangible assets increased \$54,000, or 21.6%, as a result of the amortization of prepaid card fraud related software. Losses on sale and write downs on other real estate owned decreased \$189,000 or 75.3% to \$62,000 in first quarter of 2014 from \$251,000 in first quarter 2013 due primarily to lower write downs to reduce carrying costs to expected proceeds from sales. Federal Deposit Insurance Corporation (FDIC) insurance expense increased \$713,000 or 73.1% to \$1.7 million for first quarter 2014 from \$976,000 in first quarter 2013, reflecting deposit growth and higher premium rates. Software expense increased \$366,000 or 45.2% to \$1.2 million in first quarter 2014 from \$809,000 in first quarter 2013 reflecting various information technology related expense. Other real estate owned expense increased \$216,000 or 196.4% to \$326,000 in first quarter 2014 from \$110,000 in first quarter 2013, reflecting higher OREO balances. Other non-interest expense increased \$2.1 million or 51.7% to \$6.3 million in first quarter 2014 from \$4.1 million in first quarter 2013. The \$2.1 million increase reflected an increase of \$432,000 related to commercial loan sales, \$269,000 in consulting, \$220,000 in operating taxes, \$206,000 in travel, \$205,000 in insurance \$192,000 in telephone and \$139,000 in printing and supplies.

Income Taxes. Income tax expense was \$168,000 for first quarter 2014 compared to \$4.4 million in first quarter 2013, a decrease of \$4.3 million. The decrease resulted primarily from a decrease in taxable income. Our effective tax rate for third quarter 2013 was 36.1% compared to 37.4% in first quarter 2013. The lower rate in 2013 reflected the impact of tax exempt securities income.

Liquidity and Capital Resources

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.

The primary source of funds for our financing activities during the first three months of 2014 was from cash and cash equivalents, as deposit outflows were \$25.7 million. The net outflow reflected the exit of certain higher cost deposit relationships. Loan repayments, also a source of funds, were exceeded by new loan disbursements during that period and securities maturities and repayments were exceeded by new purchases. 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 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 excess liquidity at certain times.

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 our deposits as our funding source as a result of deposit growth. 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, Wells Fargo Bank and PNC Bank. We have a \$392 million line of credit with the Federal Home Loan Bank and \$49.0 million in additional lines of credit with correspondent banks. As of March 31, 2014, we had no amounts outstanding on our borrowing lines. We expect to continue to use our facility with the Federal Home Loan Bank and our correspondent banks.

Included in our cash and cash-equivalents at March 31, 2014 were \$796.4 million 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 the federal funds rates decreased to the same 25 basis point level offered by the Federal Reserve Bank, we have adjusted our strategy to retain our excess funds at the Federal Reserve Bank, which also offers the full guarantee of the federal government. In addition, we diverted a portion of our excess funds to short term securities to generate better returns.

Funding was directed primarily at cash outflows required for purchases of investment securities (net of repayments), which were \$133.2 million for the year to date period ended March 31, 2014 and \$181.3 million for the prior year to date period ended March 31, 2013 and funding for net loan growth, which was \$102.1 million and \$70.9 million, respectively. We had outstanding commitments

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to fund loans, including unused lines of credit, of \$590.7 million and \$590.1 million as of March 31, 2014 and December 31, 2013, respectively.

We must comply with capital adequacy guidelines issued by the FDIC. A bank must, in general, have a Tier 1 leverage ratio of 5.00%, 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 March 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 March 31, 2014			
Bancorp	7.39%	13.01%	14.26%
The Bancorp Bank	6.19%	10.87%	12.12%
"Well capitalized" institution (under FDIC regulations)	5.00%	6.00%	10.00%
As of December 31, 2013			
Bancorp	8.58%	14.57%	15.83%
The Bancorp Bank	6.72%	11.40%	12.66%
"Well capitalized" institution (under FDIC regulations)	5.00%	6.00%	10.00%

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.

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. 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 March 31, 2014. We estimate the repricing characteristics of deposits based on historical performance, past experience at other institutions, wholly judgmental predictions and other deposit behavior assumptions. However, we may choose not to reprice liabilities

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proportionally to changes in market interest rates for competitive or other reasons. The table does not assume any prepayment of fixed-rate loans and mortgage-backed securities, which 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 net interest income because the repricing 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:					
Loans net of deferred loan costs	\$ 767,718	\$ 253,091	\$ 355,257	\$ 218,339	\$ 449,599
Investment securities	457,683	78,989	345,326	222,918	403,941
Interest earning deposits	796,385	-	-	-	-
Securities purchased under agreements to resell	24,926	-	-	-	-
Total interest earning assets	2,046,712	332,080	700,583	441,257	853,540
Interest bearing liabilities:					
Demand and interest checking	2,417,330	185,570	185,570	-	-
Savings and money market	98,332	196,665	98,332	-	-
Time deposits	758	7,548	2,972	32	-
Securities sold under agreements	16,491	-	-	-	-

to repurchase Subordinated debenture	13,401	-	-	-	-	-	-
Total interest bearing liabilities	2,546,312	389,783	286,874	32	-	-	-
Gap	\$ (499,600)	\$ (57,703)	\$ 413,709	\$ 441,225	\$ 853,540	-	-
Cumulative gap	\$ (499,600)	\$ (557,303)	\$ (143,594)	\$ 297,631	\$ 1,151,171	-	-
Gap to assets ratio	-11%	-1%	9%	9%	18%	-	-
Cumulative gap to assets ratio	-11%	-12%	-3%	6%	24%	-	-

* While demand deposits are non-interest bearing, related fees paid to affinity groups may reprice according to specified indices.

The methods used to analyze interest rate sensitivity in this table have 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. Accordingly, actual results can and often do differ from projections.

Financial Condition

General. Our total assets at March 31, 2014 were \$4.70 billion, of which our total loans were \$2.04 billion. At December 31, 2013 our total assets were \$4.71 billion, of which our total loans were \$1.96 billion.

Interest earning deposits and federal funds sold. At March 31, 2014, we had a total of \$796.4 million of interest earning deposits compared to \$1.20 billion at December 31, 2013 a decrease of \$400.1 million or 33.4%. These deposits were comprised primarily of balances at the Federal Reserve Bank, which pays interest on such balances. Reductions in such balances reflected deployment of such funds into higher yielding loans and securities.

Investment portfolio. For detailed information on the composition and maturity distribution of our investment portfolio, see Note 5 to the Financial Statements. Total investment securities increased to \$1.51 billion at March 31, 2014, an increase of \$158.5 million or 11.7% from year-end 2013. The increase in investment securities was primarily a result of increased purchases of residential mortgage backed, municipal and commercial mortgage backed securities. The purchases carry higher yields than overnight investments which, because of the historically low rate environment, earn approximately 25 basis points.

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

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

The \$76.1 million of other debt securities – pooled are comprised of the following. The pooled trust preferred security totaled \$332,000 and was collateralized by bank trust preferred securities. The book value for the securities consisting of diversified portfolios of corporate securities is \$75.8 million.

The following table provides additional information related to our single issuer trust preferred securities as of March 31, 2014 (in thousands):

Single issuer	Book value		Fair value		Unrealized gain/(loss)	Credit rating
Security A	\$	1,896	\$	2,000	\$ 104	Not rated
Security B	3,189		2,880		(309)	Not rated
Security C	8,924		5,033		(3,891)	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 March 31, 2014:

Pooled issue	Class	Book value		Fair value		Unrealized gain	Credit rating	Excess subordination
Pool A (7 performing issuers)	Mezzanine *	\$	332	\$	606	\$ 274	CAA1	**

* The actual deferrals and defaults as a percentage of the original collateral were 20.27%. Assumed losses resulting from expected deferrals and defaults as a percentage of remaining collateral is .75% annually with 15% recovery with a two

year lag.

** There is no excess subordination in these securities.

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 the following conditions: 1) 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 2) 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 capital losses 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 capital losses, 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 capital losses becomes the security's new cost basis. As prescribed by accounting standards, for year to date March 31, 2014 and March 31, 2013 respectively, we recognized other-than-temporary impairment charges of \$0 and \$20,000 related to trust preferred securities classified in our held-to-maturity portfolio.

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

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Investment securities with a carrying value of \$27.1 million at March 31, 2014 and \$29.1 million at December 31, 2013, were pledged as collateral for Federal Home Loan Bank advances and to secure securities sold under repurchase agreements as required or permitted by law.

Loans held for sale. Loans held for sale are comprised of commercial mortgage loans, SBA loans and residential mortgage loans originated for sale in the secondary market. The fair value of commercial mortgage loans and the SBA loans originated for sale is based on purchase commitments or quoted prices for the same or similar loans. The residential mortgage loans held for sale are carried at the lower of cost of market. Commercial loans held for sale increased to \$222.0 million at March 31, 2014 from \$69.9 million at December 31, 2013.

Loan portfolio. Total loans increased to \$2.04 billion at March 31, 2014 from \$1.96 billion at December 31, 2013.

The following table summarizes our loan portfolio not including loans held for sale by loan category for the periods indicated (in thousands):

	March 31, 2014	December 31, 2013
Commercial	\$ 489,574	\$ 450,113
Commercial mortgage *	610,990	625,810
Construction	283,928	258,889
Total commercial loans	1,384,492	1,334,812
Direct lease financing	181,007	175,610
Residential mortgage	95,397	94,850
Consumer and other loans	375,818	346,334
	2,036,714	1,951,606
Unamortized loan fees and costs	7,290	6,839
Total loans, net of deferred loan costs	\$ 2,044,004	\$ 1,958,445
Supplemental loan data:		
Construction 1-4 family	\$ 47,521	\$ 48,394
Commercial construction, acquisition and development	236,407	210,495
	\$ 283,928	\$ 258,889

Allowance for loan and lease losses. We review the adequacy of our allowance for loan and lease losses on at least a quarterly basis to determine that the provision for loan losses is made in an amount necessary to maintain our allowance at a level that is appropriate, based on management's estimate of inherent losses. Our estimates of loan and lease losses are intended to, and, in management's opinion, do, meet the criteria for accrual of loss contingencies in accordance with ASC 450, Contingencies, and ASC 310, Receivables. The process of evaluating this adequacy has two basic elements: first, the identification of problem loans or leases based on current financial information and the fair value of the underlying collateral; and second, a methodology for estimating general loss reserves. For loans or leases classified as "special mention," "substandard" or "doubtful," we reserve all losses inherent in the portfolio at the time

we classify the loan or lease. This “specific” portion of the allowance is the total of potential, although unconfirmed, losses for individually classified loans. In this process, we establish specific reserves based on an analysis of the most probable sources of repayment and liquidation of collateral. While each impaired loan is individually evaluated, not every loan requires a reserve when the collateral value and estimated cash flows exceed the current balance.

The second phase of our analysis represents an allocation of the allowance. This methodology analyzes pools of loans that have similar characteristics and applies historical loss experience and other factors for each pool including management’s experience with similar loan and lease portfolios at other institutions, the historic loss experience of our peers and a review of statistical information from various industry reports to determine the allocable portion of the allowance. This estimate is intended to represent the potential unconfirmed and inherent losses within the portfolio. Individual loan pools are created for major loan categories: commercial loans, commercial mortgages, construction loans, direct lease financing and various types of loans to individuals. We augment historical experience for each loan pool by accounting for such items as current economic conditions, current loan portfolio performance, loan

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policy or management changes, loan concentrations, increases in our lending limit, average loan size and other factors as appropriate. Our Chief Risk Officer, who reports directly to our audit committee, oversees the loan review department processes and measures the adequacy of the allowance independently of management. The loan review department's oversight parameters include borrower relationships over \$3.0 million and loans that are 90 days or more past due or which have been previously adversely classified. Approximately 69% of the portfolio was reviewed at March 31, 2014 and 70% at December 31, 2013.

The following table presents delinquencies by type of loan as follows (in thousands):

	30-59 Days	60-89 Days	Greater than		Total	
March 31, 2014	past due	past due	90 days	Non-accrual	past due	C
Commercial	\$ 401	\$ -	\$ -	\$ 21,901	\$ 22,302	\$
Commercial mortgage	-	-	-	5,250	5,250	60
Construction	912	-	-	13,770	14,682	20
Direct lease financing	2,637	405	189	-	3,231	17
Consumer - other	1	-	-	923	924	33
Consumer - home equity	-	-	-	1,682	1,682	42
Residential mortgage	-	-	-	1,175	1,175	94
Unamortized loan fees and costs	-	-	-	-	-	7
	\$ 3,951	\$ 405	\$ 189	\$ 44,701	\$ 49,246	\$

	30-59 Days	60-89 Days	Greater than		Total	
December 31, 2013	past due	past due	90 days	Non-accrual	past due	C
Commercial	\$ -	\$ -	\$ -	\$ 29,651	\$ 29,651	\$
Commercial mortgage	998	5,999	-	5,861	12,858	61
Construction	-	-	-	1,667	1,667	25
Direct lease financing	3,427	1,293	110	-	4,830	17
Consumer - other	425	-	-	1,356	1,781	30

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Consumer - home equity	18	-	-	-	18	43
Residential mortgage	-	-	-	2,016	2,016	92
Unamortized loan fees and costs	-	-	-	-	-	6,
	\$	4,868	\$	7,292	\$	110
					\$	40,551
					\$	52,821
						\$

Although we consider our allowance for loan and lease losses to be adequate based on information currently available, future additions to the allowance may be necessary due to changes in economic conditions, our ongoing loss experience and that of our peers, changes in management's assumptions as to future delinquencies, recoveries and losses, deterioration of specific credits and management's intent with regard to the disposition of loans and leases.

Summary of loan and lease loss experience. The following tables summarize our credit loss experience for each of the periods indicated:

The following table summarizes select asset quality ratios for each of the periods indicated:

	As of or for the three months ended March 31, 2014		2013
Ratio of the allowance for loan losses to total loans	2.27%	1.77%	
Ratio of the allowance for loan losses to nonperforming loans (1)	103.38%	98.67%	

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Ratio of nonperforming assets to total assets (1)	1.55%	0.97%
Ratio of net charge-offs to average loans	0.42%	0.19%
Ratio of net charge-offs to average loans annualized	1.68%	0.75%

(1) Includes loans 90 days past due still accruing interest

The ratio of the allowance for loan and lease losses to total loans increased to 2.27% at March 31, 2014 from 1.77% at March 31, 2013. The increase reflected the impact of higher charge-offs on the allowance adequacy methodology and a specific reserve required on a large loan (see "Provision for Loan and Lease Losses"). The ratio of the allowance for loan losses to non-performing loans increased to 103.38% at March 31, 2014 from 98.67% at March 31, 2013 primarily as a result of the increased allowance, the impact of which was partially offset by higher non-performing loans. The ratio of non-performing assets to total assets increased primarily as a result of higher other real estate owned and non-performing loan balances. Net charge-offs to average loans increased to 0.42% for the three months ended March 31, 2014 from 0.19% for the three months ended March 31, 2013, primarily due to higher charge-offs in the first quarter of 2014 compared to the first quarter of 2013 (see "Provision for Loan and Lease Losses").

Net charge-offs. Net charge-offs were \$9.1 million for the three months ended March 31, 2014, an increase of \$5.4 million over net charge-offs for the same period of 2013. Charge-offs in the first three months of 2014 of \$4.2 million were associated with commercial loan relationships while charge-offs of construction loans totaled \$4.6 million.

Non-performing loans, loans 90 days delinquent and still accruing, and troubled debt restructurings. Loans are considered to be non-performing if they are on a non-accrual basis or they are past due 90 days or more and still accruing interest. A loan which is past due 90 days or more and still accruing interest remains on accrual status only when it is both adequately secured as to principal and interest, and is in the process of collection. Troubled debt restructurings are loans with terms that have been renegotiated to provide a reduction or deferral of interest or principal because of a weakening in the financial positions of the borrowers. The following tables summarize our non-performing loans, other real estate owned and loans past due 90 days or more still accruing interest (in thousands).

	March 31, 2014	March 31, 2013	December 31, 2013
Non-accrual loans			
Construction	\$ 13,770	\$ 2,745	\$ 1,667
Commercial mortgage	5,250	14,059	5,861
Commercial	21,901	16,242	29,651
Consumer	2,605	927	1,356
Residential	1,175	90	2,016
Total non-accrual loans	44,701	34,063	40,551
Loans past due 90 days or more	189	1,291	110
Total non-performing loans	44,890	35,354	40,661
Other real estate owned	27,763	4,543	26,295
Total non-performing assets	\$ 72,653	\$ 39,897	\$ 66,956

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

	March 31, 2014			December 31, 2013		
	Number	Pre-modification recorded investment	Post-modification recorded investment	Number	Pre-modification recorded investment	Post-modification recorded investment
Commercial	1	\$ 215	\$ 215	1	\$ 217	\$ 217
Commercial mortgage	5	6,210	6,210	3	3,055	3,055
Construction	1	263	263	1	263	263
Residential mortgage	-	-	-	-	-	-
Total	7	\$ 6,688	\$ 6,688	5	\$ 3,535	\$ 3,535

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The balances below provide information as to how the loans were modified as troubled debt restructurings loans at March 31, 2014 and December 31, 2013 (in thousands).

	March 31, 2014			December 31, 2013		
	Adjusted interest rate	Extended maturity	Combined rate and maturity	Adjusted interest rate	Extended maturity	Combined rate and maturity
Commercial	\$ -	\$ 215	\$ -	\$ -	\$ 217	\$ -
Commercial mortgage	3,840	214	2,156	681	214	2,160
Construction	-	263	-	-	263	-
Residential mortgage	-	-	-	-	-	-
Total	\$ 3,840	\$ 692	\$ 2,156	\$ 681	\$ 694	\$ 2,160

The following table summarizes as of March 31, 2014 loans that were restructured within the last 12 months that have subsequently defaulted:

	Number	Pre-modification recorded investment
Commercial mortgage	1	\$ 681
Total	1	\$ 681

The following table provides information about impaired loans at March 31, 2014 and December 31, 2013:

	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment	Interest income recognized
March 31, 2014					
Without an allowance recorded					
Construction	\$ 1,849	\$ 7,119	\$ 11,339	\$ -	\$ 4,112
		1,849	-	1,804	-

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Commercial mortgage					
Commercial	2,476	2,851	-	5,748	-
Consumer - home equity	927	927	-	927	-
Residential	1,175	1,175	-	1,175	-
With an allowance recorded					
Construction	6,651	6,683	4,345	3,607	-
Commercial mortgage	6,560	6,560	2,048	5,331	-
Commercial	19,640	20,071	8,167	20,243	-
Consumer - home equity	1,678	1,683	607	1,054	-
Residential	-	-	-	421	-
Total					
Construction	13,770	18,022	4,345	7,719	-
Commercial mortgage	8,409	8,409	2,048	7,135	-
Commercial	22,116	22,922	8,167	25,991	-
Consumer - home equity	2,605	2,610	607	1,981	-
Residential	1,175	1,175	-	1,596	-

Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment	Interest income recognized
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December 31, 2013 Without an allowance recorded							
Construction	\$ 1,104	\$ 1,454	\$ -	\$ 1,506	\$ -		
Commercial mortgage	1,759	1,759	-	4,662	-		
Commercial	9,021	11,131	-	7,014	-		
Consumer - home equity	927	927	-	927	-		
Residential	1,175	1,175	-	873	-		
With an allowance recorded							
Construction	563	563	353	2,437	-		
Commercial mortgage	4,102	4,102	1,476	4,581	-		
Commercial	20,846	21,276	9,369	15,670	-		
Consumer - home equity	429	429	135	190	-		
Residential	841	841	84	373	-		
Total							
Construction	1,667	2,017	353	3,943	-		
Commercial mortgage	5,861	5,861	1,476	9,243	-		
Commercial	29,867	32,407	9,369	22,684	-		
Consumer - home equity	1,356	1,356	135	1,117	-		
Residential	2,016	2,016	84	1,246	-		

We had \$44.7 million of non-accrual loans at March 31, 2014 compared to \$40.6 million of non-accrual loans at December 31, 2013. The increase in non-accrual loans was primarily due to \$28.9 million of loans placed on non-accrual status partially offset by \$8.5 million of loan charge-offs, \$3.9 million of loans transferred to other real estate owned and \$12.2 million of loan payments. Loans past due 90 days or more still accruing interest amounted to \$189,000 at March 31, 2014 and \$110,000 at December 31, 2013. The \$79,000 increase reflected \$189,000 of additions partially offset by \$110,000 of loan payments.

We had \$27.8 million of other real estate owned at March 31, 2014 compared to \$26.3 million at December 31, 2013. The increase in other real estate owned was primarily due to \$3.9 million of additions which were partially offset by \$2.4 million of sales.

The following table classifies our loans (not including loans held for sale) by categories which are used throughout the industry as of March 31, 2014 and December 31, 2013:

	Commercial		Construction		Commercial mortgage		
	3/31/2014	12/31/2013	3/31/2014	12/31/2013	3/31/2014	12/31/2013	3/31/2014
Risk Rating							
Pass	\$ 399,972	\$ 377,482	\$ 244,895	\$ 226,926	\$ 512,445	\$ 517,164	\$
Special							
Mention	-	149	-	-	-	6,997	-
Substandard	22,116	29,867	13,770	1,667	8,409	5,861	1,116
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Unrated subject to review *	20,805	6,854	18,390	25,255	24,076	29,467	-
Unrated not subject to review *	46,681	35,761	6,873	5,041	66,060	66,321	66,321
Total	\$ 489,574	\$ 450,113	\$ 283,928	\$ 258,889	\$ 610,990	\$ 625,810	\$
			Direct lease financing		Unamortized costs		
	Consumer		3/31/2014	12/31/2013	3/31/2014	12/31/2013	
Risk Rating	3/31/2014	12/31/2013					
Pass	\$ 122,724	\$ 116,292	\$ 62,792	\$ 58,545	\$ -	\$ -	\$
Special							
Mention	-	1,348	-	-	-	-	-
Substandard	2,605	1,356	-	-	-	-	4,961
Doubtful	-	-	-	-	-	-	-

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Loss	-	-	-	-	-	-	-
Unrated subject to review *	11,109	524	3,514	2,244	-	-	77,894
Unrated not subject to review *	239,380	226,814	114,701	114,821	7,290	6,839	549,444
Total	\$ 375,818	\$ 346,334	\$ 181,007	\$ 175,610	\$ 7,290	\$ 6,839	\$

* Unrated loans consist of performing loans which did not exhibit any negative characteristics which would require the loan to be evaluated, or fell below the dollar threshold requiring review and are not loans otherwise selected in ongoing portfolio evaluation. The scope of the Bank's loan review policy encompasses commercial and construction loans and leases which singly or in the aggregate in the case of loans with related borrowers, equal or exceed \$3.0 million. The loan portfolio review coverage was approximately 69% at March 31, 2014 and approximately 70% at December 31, 2013. This review is performed by the loan review department, which is independent of the loan department and reports directly to the audit committee. All classified loans are reviewed by the independent loan review function of the Bank. Potential problem loans which are identified by either the independent loan review department or line management are also reviewed. All loans are subject to review by their relationship manager and senior loan personnel. Also, many of the Bank's loans are relatively short term, and are subject to reconsideration with a full review in loan committee between one and three years.

Premises and equipment, net. Premises and equipment amounted to \$15.7 million at March 31, 2014 and December 31, 2013, respectively.

Deposits. Our primary source of funding is deposit acquisition. We offer a variety of deposit accounts with a range of interest rates and terms, including demand, checking and money market accounts. One strategic focus is growing these accounts through affinity groups. At March 31, 2014, we had total deposits of \$4.2 billion compared to \$4.3 billion at December 31, 2013, a decrease of \$25.8 million or 0.6%. The decrease reflects the exit from higher deposit cost relationships. Increases in average deposit trends have allowed us to virtually eliminate time deposits, which may bear higher interest rates than transaction accounts. The following table presents the average balance and rates paid on deposits for the periods indicated (in thousands):

For the three months ended March 31, 2014		For the year ended December 31, 2013	
Average balance (unaudited)	Average rate	Average balance	Average rate

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Demand and interest checking	\$	4,015,547	0.22%	\$	3,185,919	0.25%
Savings and money market		498,185	0.40%		500,113	0.43%
Time		13,342	1.05%		17,443	1.04%
Total deposits	\$	4,527,074	0.25%	\$	3,703,475	0.27%

Borrowings. We had no outstanding advances from the Federal Home Loan Bank as of March 31, 2014 and December 31, 2013. Additionally, we had no outstanding balances on the Bank's lines of credit as of March 31, 2014 and December 31, 2013. We do not have any policy prohibiting us from incurring debt.

Other liabilities. Other liabilities amounted to \$56.4 million at March 31, 2014 compared to \$38.9 million at December 31, 2013, representing an increase of \$17.5 million. The increase resulted primarily from securities purchases in process and cardholder liabilities for our European prepaid card business.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Except as discussed in Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” there has been no material change in our assessment of our sensitivity to market risk since our presentation in our Annual Report on Form 10-K for the year ended December 31, 2013.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended, or the Exchange Act, is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Under the supervision of our Chief Executive Officer and Chief Financial Officer, we have carried out an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective at the reasonable assurance level.

There has been no change in our internal control over financial reporting that occurred during the quarter ended March 31, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 6. Exhibits

The Exhibits furnished as part of this Quarterly Report on Form 10-Q are identified in the Exhibit Index immediately following the signature page of this Report. Such Exhibit Index is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE BANCORP INC
(Registrant)

May 12, 2014 /s/ Betsy Z. Cohen
Date Betsy Z. Cohen
Chief Executive Officer

May 12, 2014 /s/ Paul Frenkiel
Date Executive Vice President of Strategy,
Chief Financial Officer and Secretary

Exhibit No. Description

3.1 Certificate of
Incorporation (1)

3.2 Bylaws (1)

31.1 Rule
13a-14(a)/15d-14(a)
Certifications

31.2	Rule 13a-14(a)/15d-14(a) Certifications
32.1	Section 1350 Certifications
32.2	Section 1350 Certifications
101.INS	XBRL Instance Document (2)
101.SCH	XBRL Taxonomy Extension Schema Document(2)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document(2)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document(2)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document(2)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document(2)

(1) Filed previously as an exhibit to our Registration Statement on Form S-4, as amended, registration number 333-117385, and by this reference incorporated herein.

