Bancorp, Inc.
Form 10-Q
November 09, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 2016

OR

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

For the transition period from: _____ to _____

Commission file number: 51018

THE BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

Yes [X] No [ ]

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

Yes [X] No [ ]

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

(Check one):

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

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

Yes [ ] No [X]

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

As of November 4, 2016 there were 55,319,204 outstanding shares of common stock, $1.00 par value.

THE BANCORP, INC

Form 10-Q Index

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

THE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	September 30, 2016 (unaudited) (in thousands)	December 31, 2015
ASSETS		
Cash and cash equivalents		
Cash and due from banks	$ 4,061	$ 7,643
Interest earning deposits at Federal Reserve Bank	312,605	1,147,519
Securities purchased under agreements to resell	39,463	-
Total cash and cash equivalents	356,129	1,155,162
Investment securities, available-for-sale, at fair value	1,334,927	1,070,098
Investment securities, held-to-maturity (fair value $91,787 and $91,599, respectively)	93,495	93,590
Commercial loans held for sale	562,957	489,938
Loans, net of deferred loan fees and costs	1,198,237	1,078,077
Allowance for loan and lease losses	(6,058)	(4,400)
Loans, net	1,192,179	1,073,677
Federal Home Loan Bank and Atlantic Central Bankers Bank stock	11,014	1,062
Premises and equipment, net	21,797	21,631
Accrued interest receivable	10,496	9,471
Intangible assets, net	5,682	4,929
Deferred tax asset, net	29,765	36,207
Investment in unconsolidated entity, at fair value	157,396	178,520
Assets held for sale from discontinued operations	386,155	583,909
Other assets	55,519	47,629
Total assets	$ 4,217,511	$ 4,765,823
LIABILITIES		
Deposits		
Demand and interest checking	$ 3,364,103	$ 3,602,376
Savings and money market	402,832	383,832
Time deposits	-	428,549
Total deposits	3,766,935	4,414,757

Securities sold under agreements to repurchase	353	925
Short-term borrowings	70,000	-
Subordinated debenture	13,401	13,401
Other liabilities	27,744	16,739
Total liabilities	3,878,433	4,445,822
SHAREHOLDERS' EQUITY		
Common stock - authorized, 75,000,000 shares of $1.00 par value; 55,419,204 and 37,861,218 shares issued at September 30, 2016 and December 31, 2015, respectively	55,419	37,861
Treasury stock, at cost (100,000 shares)	(866)	(866)
Additional paid-in capital	359,793	300,549
Accumulated deficit	(83,169)	(15,449)
Accumulated other comprehensive income (loss)	7,901	(2,094)
Total shareholders' equity	339,078	320,001
Total liabilities and shareholders' equity	$ 4,217,511	$ 4,765,823

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

3

THE BANCORP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
	(in thousands, except per share data)			
Interest income				
Loans, including fees	$ 17,697	$ 12,811	$ 48,928	$ 35,042
Interest on investment securities:				
Taxable interest	8,350	4,562	22,782	14,628
Tax-exempt interest	142	3,097	639	9,388
Federal funds sold/securities purchased under agreements to resell	146	143	301	465
Interest earning deposits	397	580	1,677	1,759
	26,732	21,193	74,327	61,282
Interest expense				
Deposits	2,906	3,277	8,692	9,591
Securities sold under agreements to repurchase	-	1	1	14
Short-term borrowings	153	-	263	-
Subordinated debenture	131	117	383	328
	3,190	3,395	9,339	9,933
Net interest income	23,542	17,798	64,988	51,349
Provision for loan and lease losses	750	625	1,810	1,800
Net interest income after provision for loan and lease losses	22,792	17,173	63,178	49,549
Non-interest income				
Service fees on deposit accounts	1,510	1,919	3,335	5,579
Card payment and ACH processing fees	1,459	1,493	4,183	4,242
Prepaid card fees	12,249	11,492	39,333	35,752
Gain (loss) on sale of loans	903	(830)	809	6,747
Gain on sale of investment securities	981	(335)	3,131	(62)
	811	1,040	(12,313)	3,141

Change in value of investment in unconsolidated entity				
Leasing income	588	552	1,456	1,727
Debit card income (loss)	(45)	427	(202)	1,358
Affinity fees	1,091	1,083	3,507	2,391
Other	357	458	4,893	1,925
Total non-interest income	19,904	17,299	48,132	62,800
Non-interest expense				
Salaries and employee benefits	21,508	16,768	62,400	49,677
Depreciation and amortization	1,241	1,171	3,751	3,568
Rent and related occupancy cost	1,638	1,558	4,797	4,471
Data processing expense	3,769	3,747	11,459	10,735
Printing and supplies	825	622	2,194	1,805
Audit expense	246	397	746	1,596
Legal expense	814	427	3,786	2,480
Amortization of intangible assets	394	298	1,032	893
FDIC insurance	2,436	2,700	7,118	8,306
Software	2,770	1,920	7,756	4,793
Insurance	631	482	1,695	1,441
Telecom and IT network communications	582	458	1,547	1,420
Securitization and servicing expense	-	398	747	1,250
Consulting	1,701	1,125	4,214	3,345
Bank Secrecy Act and lookback consulting expenses	1,340	11,687	29,076	26,643
Other	4,276	4,037	14,127	12,666
Total non-interest expense	44,171	47,795	156,445	135,089
Loss from continuing operations before income taxes	(1,475)	(13,323)	(45,135)	(22,740)

Income tax provision (benefit)	55		(5,706)		(15,324)		(10,817)	
Net loss from continuing operations	$	(1,530)	$	(7,617)	$	(29,811)	$	(11,923)
Discontinued operations								
Income (loss) from discontinued operations before income taxes	(21,490)		2,997		(38,073)		10,193	
Income tax provision (benefit)	2,531		955		(164)		3,457	
Income (loss) from discontinued operations, net of tax	(24,021)		2,042		(37,909)		6,736	
Net income (loss) available to common shareholders	$	(25,551)	$	(5,575)	$	(67,720)	$	(5,187)
Net loss per share from continuing operations - basic	$	(0.03)	$	(0.20)	$	(0.73)	$	(0.32)
Net income (loss) per share from discontinued operations - basic	$	(0.51)	$	0.05	$	(0.92)	$	0.18
Net income (loss) per share - basic	$	(0.54)	$	(0.15)	$	(1.65)	$	(0.14)
Net loss per share from continuing operations - diluted	$	(0.03)	$	(0.20)	$	(0.73)	$	(0.32)
Net income (loss) per share from discontinued operations - diluted	$	(0.51)	$	0.05	$	(0.92)	$	0.18
Net income (loss) per share - diluted	$	(0.54)	$	(0.15)	$	(1.65)	$	(0.14)

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

THE BANCORP INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the nine months ended September 30, 2016 (in thousands)		2015	
Net income (loss)				
Other comprehensive income (loss) net of reclassifications into net income:	$	(67,720)	$	(5,187)
Other comprehensive income (loss)				
Change in net unrealized gain (loss) during the period	19,207		(1,598)	
Reclassification adjustments for losses included in income	(3,131)		62	
Reclassification adjustments for foreign currency translation (gains)/losses	335		(449)	
Amortization of losses previously held as available-for-sale	25		42	
Net unrealized gain (loss)	16,436		(1,943)	
Deferred tax expense				
Securities available-for-sale:				
Change in net unrealized gain during the period	7,683		(315)	
Reclassification adjustments for losses included in income	(1,252)		29	
Amortization of losses previously held as available-for-sale	10		14	
Income tax expense (benefit) related to items of other comprehensive income	6,441		(272)	
Other comprehensive income (loss) net of tax and reclassifications into net income	9,995		(1,671)	
Comprehensive loss	$	(57,725)	$	(6,858)

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 nine months ended September 30, 2016

(in thousands, except share data)

	Common stock shares	Common stock	Treasury stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Total
Balance at January 1, 2016	37,861,218	$ 37,861	$ (866)	$ 300,549	$ (15,449)	$ (2,094)	$ 320,
Net loss					(67,720)		(67,720)
Issuance of common stock	17,473,881	17,474	-	57,338	-	-	74,812
Common stock issued as restricted shares, net of tax benefits	84,020	84	- -	(84)	-	-	-
Stock-based compensation	-	-	-	1,990	-	-	1,990
Other comprehensive income net of reclassification adjustments and tax	-	-	-	-	-	9,995	9,995
Balance at September 30, 2016	55,419,119	$ 55,419	$ (866)	$ 359,793	$ (83,169)	$ 7,901	$ 339,

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

THE BANCORP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the nine months ended September 30,	
	2016	2015
	(in thousands)	
Operating activities		
Net loss from continuing operations	$ (29,811)	$ (11,923)
Net income (loss) from discontinued operations	(37,909)	6,736
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	4,783	4,461
Provision for loan and lease losses	1,810	1,800
Net amortization of investment securities discounts/premiums	6,066	10,279
Stock-based compensation expense	1,990	1,532
Loans originated for sale	(372,065)	(427,680)
Sale of loans originated for resale	299,855	296,907
Loss (gain) on sales of loans originated for resale	(809)	(6,747)
Gain on sale of fixed assets	(21)	(10)
Fair value adjustment on investment in unconsolidated entity	14,753	-
Loss (gain) on sales of investment securities	(3,131)	62
Decrease (increase) in accrued interest receivable	(1,025)	19
Increase in other assets	(19,290)	(8,190)
Increase in discontinued assets held for sale	(5,779)	(2,516)
Increase (decrease) in other liabilities	10,505	(5,595)
Net cash provided by (used in) operating activities	(130,078)	(140,865)
Investing activities		
Purchase of investment securities available-for-sale	(499,969)	(97,045)
Proceeds from sale of investment securities available-for-sale	115,637	94,288
Proceeds from redemptions and prepayments of securities held-to-maturity	51	118
Proceeds from redemptions and prepayments of securities available-for-sale	133,212	167,898
Net increase in loans	(120,312)	(121,169)
Net decrease in discontinued loans held for sale	203,533	278,717
Proceeds from sale of fixed assets	341	220
Purchases of premises and equipment	(4,237)	(4,974)

Investment in unconsolidated entity	6,371	6,939
Net cash provided by (used in) by investing activities	(165,373)	324,992
Financing activities		
Net decrease in deposits	(647,822)	(242,569)
Net decrease in securities sold under agreements to repurchase	(572)	(18,380)
Proceeds of short-term borrowings and federal funds purchased	70,000	-
Proceeds from issuance of common stock	74,812	-
Net cash used in financing activities	(503,582)	(260,949)
Net decrease in cash and cash equivalents	(799,033)	(76,822)
Cash and cash equivalents, beginning of period	1,155,162	1,114,235
Cash and cash equivalents, end of period	$ 356,129	$ 1,037,413
Supplemental disclosure:		
Interest paid	$ 9,514	$ 9,584
Taxes paid	$ 366	$ 592

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

8

THE BANCORP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLDIATED FINANCIAL STATEMENTS

Note 1. Structure of Company

The Bancorp, Inc. (the Company) is a Delaware corporation and a registered financial holding company. Its primary subsidiary is The Bancorp Bank (the Bank) which is wholly owned by the Company. The Bank is a Delaware chartered commercial bank located in Wilmington, Delaware and is a Federal Deposit Insurance Corporation (FDIC) insured institution. In its continuing operations, the Bank has four primary lines of specialty lending: securities-backed lines of credit (SBLOC), leasing, Small Business Administration (SBA) loans and loans generated for sale into capital markets primarily through commercial mortgage backed securities (CMBS). Through the Bank, the Company also provides banking services nationally, which include prepaid cards, private label banking, institutional banking, card payment and other payment processing. 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 its subsidiary, Transact Payments Limited, which offer prepaid card and electronic money 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 September 30, 2016 and for the three and nine month periods ended September 30, 2016 and 2015, 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 (U.S. GAAP) 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, 2015 (2015 Form 10-K Report). Note T in those financial statements presents restated interim financial statements as described therein. The results of operations for the nine month period ended September 30, 2016 may not necessarily be indicative of the results of operations for the full year ending December 31, 2016.

Note 3. Share-based Compensation

The Company recognizes compensation expense for stock options in accordance with Financial Accounting Standards Board (FASB) Accounting Standards 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 typically 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 September 30, 2016, the Company had three stock-based compensation plans, which are more fully described in its 2015 Form 10-K Report.

The Company granted 300,000 stock options with a vesting period of four years in the first nine months of 2016. The weighted average grant-date fair value was $2.89. The Company did not grant stock options in the first nine months of 2015. There were no stock options exercised in the nine month periods ended September 30, 2016 or September 30, 2015.

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

	Shares	Weighted average exercise price		Weighted-average remaining contractual term (years)	Aggregate intrinsic value	
Outstanding at January 1, 2016	1,977,500	$	8.58	5.47	$	-
Granted	300,000	6.75		3.67	-	
Exercised	-	-		-	-	
Expired	(1,000)	20.98		-	-	
Forfeited	(240,000)	8.28		-	-	
Outstanding at September 30, 2016	2,036,500	$	8.34	5.49	$	-
Exercisable at September 30, 2016	1,661,500	$	8.55	4.66	$	-

The Company granted 789,000 restricted stock units (RSUs) in the first nine months of 2016 of which 620,000 have a vesting period of three years and 169,000 have a vesting period of one year. 489,000 RSUs have a fair value of $4.50 and 300,000 RSUs have a fair value of $6.75. The Company granted 86,992 RSUs with a vesting period of two years at a fair value of $9.11 in the first nine months of 2015. The total fair value of RSUs vested for the nine months ended September 30, 2016 and 2015 was $830,000 and $517,000, respectively.

A summary of the status of the Company’s RSUs is presented below.

	Shares	Weighted-average grant date fair value		Average remaining contractual term (years)	
Outstanding at January 1, 2016	168,045	$	9.88	1.12	
Granted	789,000	5.36		-	
Vested	(84,020)	9.88			-
Forfeited	(41,250)	6.12			-
Outstanding at September 30, 2016	831,775	$	5.77	1.88	

As of September 30, 2016, 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 approximately two years. Related compensation expense for the nine months ended September 30, 2016 and 2015 was $2.0 million and $1.5 million, respectively.

Note 4. Earnings Per Share

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

10

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

	For the three months ended September 30, 2016		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except share and per share data)		
Basic loss per share from continuing operations			
Net loss available to common shareholders	$ (1,530)	47,153,658	$ (0.03)
Effect of dilutive securities			
Common stock options	-	-	-
Diluted loss per share			
Net loss available to common shareholders	$ (1,530)	47,153,658	$ (0.03)

	For the three months ended September 30, 2016		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except share and per share data)		
Basic loss per share from discontinued operations			
Net loss available to common shareholders	$ (24,021)	47,153,658	$ (0.51)
Effect of dilutive securities			
Common stock options	-	-	-
Diluted loss per share			
Net loss available to common shareholders	$ (24,021)	47,153,658	$ (0.51)

	For the three months ended September 30, 2016		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except share and per share data)		
Basic loss per share			

Net loss available to common shareholders	$	(25,551)	47,153,658	$	(0.54)
Effect of dilutive securities					
Common stock options	-		-	-	
Diluted loss per share					
Net loss available to common shareholders	$	(25,551)	47,153,658	$	(0.54)

Stock options for 2,036,500 shares, exercisable at prices between $6.75 and $25.43 per share, were outstanding at September 30, 2016, but were not included in the dilutive shares because the Company had a net loss available to common shareholders.

11

	For the nine months ended September 30, 2016		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except share and per share data)		
Basic loss per share from continuing operations			
Net loss available to common shareholders	$ (29,811)	40,957,247	$ (0.73)
Effect of dilutive securities			
Common stock options	-	-	-
Diluted loss per share			
Net loss available to common shareholders	$ (29,811)	40,957,247	$ (0.73)

	For the nine months ended September 30, 2016		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except share and per share data)		
Basic loss per share from discontinued operations			
Net loss available to common shareholders	$ (37,909)	40,957,247	$ (0.92)
Effect of dilutive securities			
Common stock options	-	-	-
Diluted loss per share			
Net loss available to common shareholders	$ (37,909)	40,957,247	$ (0.92)

	For the nine months ended September 30, 2016		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except share and per share data)		
Basic loss per share			
Net loss available to common shareholders	$ (67,720)	40,957,247	$ (1.65)
Effect of dilutive securities			
Common stock options	-	-	-
Diluted loss per share			
Net loss available to common shareholders	$ (67,720)	40,957,247	$ (1.65)

Stock options for 2,036,500 shares, exercisable at prices between $6.75 and $25.43 per share, were outstanding at September 30, 2016, but were not included in the dilutive shares because the Company had a net loss available to common shareholders.

	For the three months ended September 30, 2015			
	Income (numerator)		Shares (denominator)	Per share amount	
	(dollars in thousands except share and per share data)				
Basic earnings (loss) per share from continuing operations					
Net income (loss) available to common shareholders	$	(7,617)	37,758,322	$	(0.20)
Effect of dilutive securities					
Common stock options	-		-	-	
Diluted income (loss) per share					
Net income (loss) available to common shareholders	$	(7,617)	37,758,322	$	(0.20)

12

	For the three months ended September 30, 2015				
	Income (numerator)		Shares (denominator)	Per share amount	
	(dollars in thousands except share and per share data)				
Basic earnings (loss) per share from discontinued operations					
Net income (loss) available to common shareholders	$	2,042	37,758,322	$	0.05
Effect of dilutive securities					
Common stock options	-		262,608	-	
Diluted income (loss) per share					
Net income (loss) available to common shareholders	$	2,042	38,020,930	$	0.05

	For the three months ended September 30, 2015				
	Income (numerator)		Shares (denominator)	Per share amount	
	(dollars in thousands except share and per share data)				
Basic earnings (loss) per share					
Net income (loss) available to common shareholders	$	(5,575)	37,758,322	$	(0.15)
Effect of dilutive securities					
Common stock options	-		-	-	
Diluted earnings (loss) per share					
Net income (loss) available to common shareholders	$	(5,575)	37,758,322	$	(0.15)

Stock options for 2,348,750 shares, exercisable at prices between $7.36 and $25.43 per share, were outstanding at September 30, 2015 but were not included in dilutive shares because the exercise price per share was greater than the average market price.

	For the nine months ended September 30, 2015				
	Income (numerator)		Shares (denominator)	Per share amount	
	(dollars in thousands except share and per share data)				
Basic earnings (loss) per share from continuing operations					
Net income (loss) available to common shareholders	$	(11,923)	37,754,110	$	(0.32)
Effect of dilutive securities					
Common stock options	-		-	-	
Diluted income (loss) per share					

Net income (loss) available to common shareholders	$	(11,923)	37,754,110	$	(0.32)

	For the nine months ended September 30, 2015				
	Income (numerator)		Shares (denominator)	Per share amount	
	(dollars in thousands except share and per share data)				
Basic earnings (loss) per share from discontinued operations					
Net income (loss) available to common shareholders	$	6,736	37,754,110	$	0.18
Effect of dilutive securities					
Common stock options	-		342,338	-	
Diluted income (loss) per share					
Net income (loss) available to common shareholders	$	6,736	38,096,448	$	0.18

13

	For the nine months ended September 30, 2015		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except share and per share data)		
Basic earnings (loss) per share			
Net income (loss) available to common shareholders	$ (5,187)	37,754,110	$ (0.14)
Effect of dilutive securities			
Common stock options	-	-	-
Diluted earnings (loss) per share			
Net income (loss) available to common shareholders	$ (5,187)	37,754,110	$ (0.14)

Stock options for 2,348,750 shares exercisable at prices between $7.36 and $25.43 per share, were outstanding at September 30, 2015 but were not included in 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 at September 30, 2016 and December 31, 2015 are summarized as follows (in thousands):

Available-for-sale	September 30, 2016			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Government agency securities	$ 29,468	$ 299	$ (51)	$ 29,716
Asset-backed securities	382,750	1,386	(2,793)	381,343
Tax-exempt obligations of states and political subdivisions	44,434	364	(51)	44,747
Taxable obligations of states and political subdivisions	79,260	4,336	(7)	83,589
Residential mortgage-backed securities	331,004	3,625	(813)	333,816
Collaterized mortgage obligation securities	174,640	1,981	(373)	176,248
Commercial mortgage-backed securities	127,364	3,978	(107)	131,235
Foreign debt securities	55,800	875	(8)	56,667
Corporate debt securities	95,639	1,956	(29)	97,566

	$ 1,320,359	$ 18,800	$ (4,232)	$ 1,334,927

Held-to-maturity	September 30, 2016			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Other debt securities - single issuers	$ 17,973	$ 413	$ (3,181)	$ 15,205
Other debt securities - pooled	75,522	1,060	-	76,582
	$ 93,495	$ 1,473	$ (3,181)	$ 91,787

14

Available-for-sale	December 31, 2015			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Government agency securities	$ 29,316	$ 18	$ (95)	$ 29,239
Asset-backed securities	194,690	46	(3,642)	191,094
Tax-exempt obligations of states and political subdivisions	95,792	2,728	(74)	98,446
Taxable obligations of states and political subdivisions	94,582	2,307	(476)	96,413
Residential mortgage-backed securities	210,051	697	(882)	209,866
Collaterized mortgage obligation securities	172,623	819	(1,190)	172,252
Commercial mortgage-backed securities	127,085	386	(1,361)	126,110
Foreign debt securities	58,077	64	(333)	57,808
Corporate debt securities	89,370	170	(670)	88,870
	$ 1,071,586	$ 7,235	$ (8,723)	$ 1,070,098

Held-to-maturity	December 31, 2015			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Other debt securities - single issuers	$ 17,934	$ 569	$ (3,456)	$ 15,047
Other debt securities - pooled	75,656	938	(42)	76,552
	$ 93,590	$ 1,507	$ (3,498)	$ 91,599

Investments in Federal Home Loan and Atlantic Central Bankers Bank stock are recorded at cost and amounted to $11.0 million and $1.1 million, respectively, at September 30, 2016 and December 31, 2015.

The amortized cost and fair value of the Company’s investment securities at September 30, 2016, by contractual maturity, are shown below (in thousands). Expected maturities may differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-sale	Held-to-maturity

	Amortized cost	Fair value	Amortized cost	Fair value
Due before one year	$ 26,420	$ 26,412	$ -	$ -
Due after one year through five years	167,777	170,450	7,012	7,309
Due after five years through ten years	428,966	436,257	-	-
Due after ten years	697,196	701,808	86,483	84,478
	$ 1,320,359	$ 1,334,927	$ 93,495	$ 91,787

At September 30, 2016 and December 31, 2015, investment securities with a carrying value of approximately $614.0 million and $472.3 million, respectively, were pledged as collateral to secure Federal Home Loan Bank advances, letters of credit and securities sold under repurchase agreements as required or permitted by law.

Fair value of available-for-sale securities are based on the fair market value supplied by a third-party market data provider, while the fair value of held-to-maturity securities are based on the present value of cash flows, which discounts expected cash flows from principal and interest using yield to maturity at the measurement date. The Company periodically reviews its investment portfolio to determine whether unrealized losses are other than temporary, based on an evaluation 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 amount of the credit impairment is calculated by estimating the discounted cash flows for those securities. The Company did not recognize any other-than-temporary impairment charges in the first nine months of 2016.

The table below indicates the length of time individual securities had been in a continuous unrealized loss position at September 30, 2016 (dollars in thousands):

Available-for-sale		Less than 12 months		12 months or longer		Total
	Number of securities	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value
Description of Securities						
U.S. Government agency securities	3	$ 10,037	$ (51)	$ -	$ -	$ 10,0
Asset-backed securities	24	78,621	(685)	64,595	(2,108)	143,216
Tax-exempt obligations of states and political subdivisions	42	17,515	(13)	7,435	(38)	24,950
Taxable obligations of states and political subdivisions	4	2,726	(7)	-	-	2,726
Residential mortgage-backed securities	43	147,529	(670)	9,992	(143)	157,521
Collaterized mortgage obligation securities	23	39,552	(136)	19,823	(237)	59,375
Commercial mortgage-backed securities	21	12,151	(64)	3,762	(43)	15,913
Foreign debt securities	6	3,273	(6)	1,451	(2)	4,724
Corporate debt securities	8	3,715	(21)	1,189	(8)	4,904
Total temporarily impaired investment securities	174	$ 315,119	$ (1,653)	$ 108,247	$ (2,579)	$ 423,3

Held-to-maturity		Less than 12 months		12 months or longer		Total
	Number of securities	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value
Description of Securities						
Corporate and other debt securities:						
Single issuers	1	$ -	$ -	$ 5,871	$ (3,181)	$ 5,871
Total temporarily impaired investment securities	1	$ -	$ -	$ 5,871	$ (3,181)	$ 5,871

The table below indicates the length of time individual securities had been in a continuous unrealized loss position at December 31, 2015 (dollars in thousands):

Available-for-sale		Less than 12 months		12 months or longer		Total
	Number of securities	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value
Description of Securities						
U.S. Government agency securities	3	$ 16,500	$ (95)	$ -	$ -	$ 16,5
Asset-backed securities	33	138,244	(1,944)	41,955	(1,698)	180,199
Tax-exempt obligations of states and political subdivisions	31	13,580	(22)	6,905	(52)	20,485
Taxable obligations of states and political subdivisions	30	45,136	(450)	2,197	(26)	47,333
Residential mortgage-backed securities	29	121,997	(761)	5,964	(121)	127,961
Collaterized mortgage obligation securities	26	56,142	(600)	34,508	(590)	90,650
	43	81,990	(1,024)	14,520	(337)	96,510

Commercial mortgage-backed securities										
Foreign debt securities	51	40,586		(273)		2,636		(60)		43,222
Corporate debt securities	67	54,069		(631)		1,327		(39)		55,396
Total temporarily impaired investment securities	313	$	568,244	$	(5,800)	$	110,012	$	(2,923)	$ 678,2

16

Held-to-maturity		Less than 12 months		12 months or longer		Total
	Number of securities	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value
Description of Securities						
Corporate and other debt securities:						
Single issuers	1	$ -	$ -	$ 5,558	$ (3,456)	$ 5,558
Pooled	1	25,563	(42)	-	-	25,563
Total temporarily impaired investment securities	2	$ 25,563	$ (42)	$ 5,558	$ (3,456)	$ 31,121

Other securities included in the held-to-maturity classification at September 30, 2016 consisted of three securities secured by diversified portfolios of corporate securities, one bank senior note, two single-issuer trust preferred securities and one pooled trust preferred security.

A total of $18.0 million of other debt securities - single issuers is comprised of the following: (i) amortized cost of the two single-issuer trust preferred securities of $10.9 million, of which one security for $1.9 million was issued by a bank and one security for $9.0 million was issued by an insurance company; and (ii) the book value of a bank senior note of $7.0 million.

A total of $75.5 million of other debt securities – pooled is comprised of three securities consisting of diversified portfolios of corporate securities.

The following table provides additional information related to the Company’s single issuer trust preferred securities as of September 30, 2016 (in thousands):

Single issuer	Book value	Fair value	Unrealized gain/(loss)	Credit rating
Security A	$ 1,909	$ 2,025	$ 116	Not rated
Security B	9,052	5,871	(3,181)	Not rated

Class: All of the above are trust preferred 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 market interest rates after the securities were purchased. Securities that have been in an unrealized loss position for 12 months or longer include other securities whose market values are sensitive to market interest rates and changes in credit quality. The Company's unrealized loss for other of the debt securities, which include three single issuer trust preferred securities and one pooled trust preferred security, is primarily related to general market conditions, including a lack of liquidity in the market. The severity of the temporary 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 has several lending lines of business including SBA loans, direct lease financing, SBLOC and other specialty and consumer lending. The Company also originates loans for sale to other financial institutions which issue commercial mortgage backed securities or to secondary government guaranteed loan markets. These sales are accounted for as true sales and there is no continuing involvement in these loans after the sale. Servicing rights on these loans are not retained. The Company has elected fair value treatment for these loans to better reflect the economics of the transactions. At September 30, 2016, the fair value of the loans held for sale was $563.0 million and the unpaid principal balance was $550.6 million. Included in the gain on sale of loans in the Statements of Operations were gains recognized from changes in fair value of $6.3 million for the nine months ended September 30, 2016. There were no changes in fair value related to credit risk. Interest earned on loans held for sale during the period held are recorded in Interest Income-Loans, including fees on the Statements of Operations.

In the second quarter of 2016, the Company purchased approximately $60 million in fleet vehicle leases which resulted in a customer list intangible of $1.8 million.. The balance of the $8.9 million purchase price was allocated to premium which is being amortized over the estimated average lives of the leases. The Company expects to complete its accounting for this purchase by the end of the fourth quarter of 2016.

The Company analyzes credit risk prior to making loans on an individual loan basis. The Company considers relevant aspects of the borrowers' financial position and cash flow, past borrower performance, management's knowledge of market conditions, collateral and the ratio of loan amounts to estimated collateral value in making its credit determinations.

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

	September 30, 2016		December 31, 2015	
SBA non real estate	$	74,262	$	68,887
SBA commercial mortgage	117,053		114,029	
SBA construction	6,317		6,977	
SBA loans *	197,632		189,893	
Direct lease financing	332,632		231,514	
SBLOC	621,456		575,948	
Other specialty lending	20,076		48,315	
Other consumer loans	19,375		23,180	
	1,191,171		1,068,850	
Unamortized loan fees and costs	7,066		9,227	
Total loans, net of deferred loan costs	$	1,198,237	$	1,078,077

Included in the table above are demand deposit overdrafts reclassified as loan balances totaling $1.8 million and $2.8 million at September 30, 2016 and December 31, 2015, respectively. Overdraft charge-offs and recoveries are reflected in the allowance for loan and lease losses.

* The following table shows SBA loans and SBA loans held for sale at the dates indicated (in thousands):

September 30,	December 31,

	2016		2015	
SBA loans, including deferred fees and costs	$	203,196	$	197,966
SBA loans included in held for sale	146,450		109,174	
Total SBA loans	$	349,646	$	307,140

18

The following table provides information about impaired loans at September 30, 2016 and December 31, 2015 (in thousands):

	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment	Interest income recognized
September 30, 2016					
Without an allowance recorded					
SBA non real estate	$ 704	$ 704	$ -	$ 372	$ -
Consumer - other	317	317	-	324	-
Consumer - home equity	1,563	1,563	-	1,052	-
With an allowance recorded					-
SBA non real estate	2,070	2,070	939	1,050	-
Consumer - other	-	-	-	-	-
Consumer - home equity	827	927	474	686	-
Total					
SBA non real estate	2,774	2,774	939	1,422	-
Consumer - other	317	317	-	324	-
Consumer - home equity	2,390	2,490	474	1,738	-

December 31, 2015

Without an allowance recorded					
SBA non real estate	$ 263	$ 263	$ -	$ 228	$ -
Consumer - other	330	330	-	338	-
Consumer - home equity	368	368	-	966	-
With an allowance recorded					
SBA non real estate	640	640	123	670	-
Consumer - other	-	-	-	-	-
Consumer - home equity	827	927	26	800	-
Total					
SBA non real estate	903	903	123	898	-
Consumer - other	330	330	-	338	-
Consumer - home equity	1,195	1,295	26	1,766	-

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 September 30, 2016 or December 31, 2015) (in thousands):

	September 30, 2016	December 31, 2015
Non-accrual loans		
SBA non real estate	$ 1,921	$ 733
Consumer	2,100	1,194
Total non-accrual loans	4,021	1,927
Loans past due 90 days or more	2,933	403
Total non-performing loans	6,954	2,330
Other real estate owned	-	-
Total non-performing assets	$ 6,954	$ 2,330

19

The Company's loans that were modified as of September 30, 2016 and December 31, 2015 and considered troubled debt restructurings are as follows (dollars in thousands):

	September 30, 2016			December 31, 2015		
	Number	Pre-modification recorded investment	Post-modification recorded investment	Number	Pre-modification recorded investment	Post-modification recorded investment
SBA non real estate	3	$ 917	$ 917	1	$ 171	$ 171
Consumer	3	711	711	2	434	434
Total	6	$ 1,628	$ 1,628	3	$ 605	$ 605

The balances below provide information as to how the loans were modified as troubled debt restructurings loans as of September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016			December 31, 2015		
	Adjusted interest rate	Extended maturity	Combined rate and maturity	Adjusted interest rate	Extended maturity	Combined rate and maturity
SBA non real estate	$ -	$ 151	$ 766	$ -	$ 171	$ -
Consumer	-	317	394	-	330	104
Total	$ -	$ 468	$ 1,160	$ -	$ 501	$ 104

There were no loans that had been restructured within the last 12 months that have subsequently defaulted as of September 30, 2016.

As of September 30, 2016 and December 31, 2015, the Company had no commitments to lend additional funds to loan customers whose loan 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):

	SBA non real estate	SBA commercial mortgage	SBA construction	Direct lease financing	SBLOC	Other specialty lending
September 30, 2016						
Beginning balance	$ 844	$ 408	$ 48	$ 1,022	$ 762	$ 19
Charge-offs	(76)	-	-	(63)	-	-
Recoveries	1	-	-	18	-	-
Provision (credit)	1,179	343	7	568	(451)	(143)
Ending balance	$ 1,948	$ 751	$ 55	$ 1,545	$ 311	$ 5
Ending balance: Individually evaluated for impairment	$ 939	$ -	$ -	$ -	$ -	$ -
Ending balance: Collectively evaluated for impairment	$ 1,009	$ 751	$ 55	$ 1,545	$ 311	$ 5
Loans: Ending balance	$ 74,262	$ 117,053	$ 6,317	$ 332,632	$ 621,456	$ 20,07

Ending balance: Individually evaluated for impairment	$ 2,774	$ -	$ -	$ -	$ -	$ -
Ending balance: Collectively evaluated for impairment	$ 71,488	$ 117,053	$ 6,317	$ 332,632	$ 621,456	$ 20,07
December 31, 2015						
Beginning balance	$ 385	$ 461	$ 114	$ 836	$ 562	$ 6
Charge-offs	(111)	-	-	(30)	-	-
Recoveries	-	-	-	-	-	-
Provision (credit)	570	(53)	(66)	216	200	133
Ending balance	$ 844	$ 408	$ 48	$ 1,022	$ 762	$ 19
Ending balance: Individually evaluated for impairment	$ 123	$ -	$ -	$ -	$ -	$ -
Ending balance: Collectively evaluated for impairment	$ 721	$ 408	$ 48	$ 1,022	$ 762	$ 19
Loans: Ending balance	$ 68,887	$ 114,029	$ 6,977	$ 231,514	$ 575,948	$ 48,31
Ending balance: Individually	$ 904	$ -	$ -	$ -	$ -	$ -

evaluated for impairment						
Ending balance: Collectively evaluated for impairment	$ 67,983	$ 114,029	$ 6,977	$ 231,514	$ 575,948	$ 48,31
September 30, 2015						
Beginning balance	$ 385	$ 461	$ 114	$ 836	$ 562	$ 6
Charge-offs	(65)	-	-	(9)	-	-
Recoveries	-	-	-	-	-	-
Provision (credit)	465	277	(88)	78	153	(33)
Ending balance	$ 785	$ 738	$ 26	$ 905	$ 715	$ 3
Ending balance: Individually evaluated for impairment	$ 158	$ -	$ -	$ -	$ -	$ -

Ending balance: Collectively evaluated for impairment	$	627	$	738	$	26	$	905	$	715	$	3
Loans: Ending balance	$	64,988	$	116,545	$	5,191	$	223,929	$	539,240	$	12,11
Ending balance: Individually evaluated for impairment	$	1,107	$	-	$	-	$	-	$	-	$	-
Ending balance: Collectively evaluated for impairment	$	63,881	$	116,545	$	5,191	$	223,929	$	539,240	$	12,11

The Company did not have loans acquired with deteriorated credit quality at either September 30, 2016 or December 31, 2015.

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

September 30, 2016	30-59 Days past due		60-89 Days past due		Greater than 90 days		Non-accrual		Total past due		Current	
SBA non real estate	$	-	$	-	$	-	$	1,920	$	1,920	$	72,3
SBA commercial mortgage	-		-		-		-		-		117,053	
SBA construction	-		-		-		-		-		6,317	
Direct lease financing	14,410		1,289		2,933		-		18,632		314,000	

SBLOC	16	-	-	-	16	621,440
Other specialty lending	-	-	-	-	-	20,076
Consumer - other	-	-	-	-	-	5,235
Consumer - home equity	159	275	-	2,101	2,535	11,605
Unamortized loan fees and costs	-	-	-	-	-	7,066
	$ 14,585	$ 1,564	$ 2,933	$ 4,021	$ 23,103	$ 1,175,1

December 31, 2015	30-59 Days past due	60-89 Days past due	Greater than 90 days	Non-accrual	Total past due	Current
SBA non real estate	$ -	$ -	$ -	$ 733	$ 733	$ 68,1
SBA commercial mortgage	-	-	-	-	-	114,029
SBA construction	-	-	-	-	-	6,977
Direct lease financing	3,957	3,108	403	-	7,468	224,046
SBLOC	-	-	-	-	-	575,948
Other specialty lending	-	-	-	-	-	48,315
Consumer - other	-	1	-	-	1	6,844
Consumer - home equity	-	1,398	-	1,194	2,592	13,743
Unamortized loan fees and costs	-	-	-	-	-	9,227
	$ 3,957	$ 4,507	$ 403	$ 1,927	$ 10,794	$ 1,067,2

22

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):

September 30, 2016	Pass	Special mention	Substandard	Doubtful	Loss	Unrated subject to review *	Unr to r
SBA non real estate	$ 56,403	$ 139	$ 3,401	$ -	$ -	$ 1,030	$
SBA commercial mortgage	97,211	-	901	-	-	688	18,
SBA construction	5,828	-	-	-	-	489	-
Direct lease financing	119,008	-	3,265	-	-	9,849	200
SBLOC	275,373	-	-	-	-	1,000	345
Other specialty lending	20,076	-	-	-	-	-	-
Consumer	10,970	290	3,573	-	-	-	4,5
Unamortized loan fees and costs	-	-	-	-	-	-	7,0
	$ 584,869	$ 429	$ 11,140	$ -	$ -	$ 13,056	$
December 31, 2015							
SBA non real estate	$ 55,682	$ -	$ 904	$ -	$ -	$ 8,610	$
SBA commercial mortgage	92,859	-	-	-	-	3,894	17,
SBA construction	6,977	-	-	-	-	-	-
Direct lease financing	90,588	-	670	-	-	17,200	123
SBLOC	204,201	-	-	-	-	19,372	352
Other specialty lending	46,520	-	-	-	-	-	1,7
Consumer	7,631	70	3,473	-	-	457	11,
Unamortized loan fees and costs	-	-	-	-	-	-	9,2
	$ 504,458	$ 70	$ 5,047	$ -	$ -	$ 49,533	$

* For information on targeted loan review thresholds see “Allowance for Loan Losses”

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, which terminated January 31, 2015. The Company paid only its proportionate share of the lease rate to a lessor which was an unrelated third party. The former Chairman of the Board of Resource America, Inc. is the father of the Chairman of the Board and the spouse of the former Chief Executive Officer of the Company. The former Chief Executive Officer of Resource America, Inc. is the brother of the Chairman of the Board and the son of the former Chief Executive Officer of the Company. Rent expense was 50% of the fixed rent, real estate tax and the base expense charges. Rent expense was $0 for the nine months ended September 30, 2016 and $9,000 for the nine months ended September 30, 2015.

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. This agreement expired and was terminated in May 2015. The Company paid only its proportionate share of the lease rate to a lessor which was 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 former 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 former Chief Executive Officer of the Company. Rent expense was 50% of the fixed rent, real estate tax payment and the base expense charges. Rent expense was $0 and $35,000 for the nine months ended September 30, 2016 and 2015, respectively.

The Bank maintains deposits for various affiliated companies totaling approximately $14.6 million and $33.4 million as of September 30, 2016 and December 31, 2015, 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. All loans were made on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable loans with persons not related to the Bank. At September 30, 2016, these loans were current as to principal and interest payments and did not involve more than normal risk of collectability. Loans to these related parties included in Loans, net of deferred loan fees and costs, amounted to $947,000 at September 30, 2016 and $1.8 million at December 31, 2015.

The Bank periodically purchases securities under agreements to resell and engages in other securities transactions as follows. The Company executed transactions through J.V.B. Financial Group, LLC, (JVB), a broker dealer in which the Company’s Chairman has a minority interest. The Company’s Chairman also serves as Vice Chairman of Institutional Financial Markets Inc., the parent company

of JVB. The Company purchased securities under agreements to resell through JVB primarily consisting of G.N.M.A. certificates which are full faith and credit obligations of the United States government issued at competitive rates. JVB was in compliance with all of the terms of the agreements at September 30, 2016 and had complied with all terms for all prior repurchase agreements. There were $39.4 million of repurchase agreements outstanding at September 30, 2016 and none outstanding at December 31, 2015.

The Company entered into a consulting agreement with Betsy Z. Cohen, its former Chief Executive Officer, which was effective January 1, 2015 and expires on December 31, 2016. Under the agreement, Mrs. Cohen acts as an advisor to the Board of Directors and executive management with respect to business strategies, the performance of various lines of business, and other corporate and regulatory matters. The agreement is intended to preserve for the Company Mrs. Cohen's insight and experience with respect to the Company, the Bank and the financial services industry generally. The agreement provides for a monthly consulting fee of $30,000, and the provision of office space and administrative support. We have not paid any monthly fees under this agreement pending continuing regulatory review.

Note 8. Fair Value Measurements

ASC 825, " Financial Instruments Available for Sale", 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. Accordingly, estimated fair values are determined by the Company using the best available data and an estimation methodology it believes to be suitable for each category of financial instruments. 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 the sale of commercial loans to secondary markets. 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, the Company's balance at the Federal Reserve Bank and securities purchased under agreements to resell, had recorded values of $356.1 million and $1.16 billion as of September 30, 2016 and December 31, 2015, 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. Level 3 investment securities fair values 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.

FHLB and Atlantic Central Bankers Bank stock is held as required by those respective institutions and is carried at cost. Federal law requires a member institution of the FHLB to hold stock according to predetermined formulas. Atlantic Central Bankers Bank requires its correspondent banking institutions to hold stock as a condition of membership.

Commercial loans held for sale have estimated fair values based upon market indications of the sales price of such loans from recent sales transactions.

The net loan portfolio at September 30, 2016 and December 31, 2015 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. Accrued interest receivable has a carrying value that approximates fair value

On December 30, 2014, the Bank entered into an agreement for, and closed on, the sale of a portion of its discontinued commercial loan portfolio. The purchaser of the loan portfolio was a newly formed entity, 2014-1 LLC (Walnut Street). The price paid to the Bank for the loan portfolio which had a face value of approximately $267.6 million, was approximately $209.6 million, of which approximately $193.6 million was in the form of two notes issued by Walnut Street to the Bank; a senior note in the principal amount of approximately $178.2 million bearing interest at 1.5% per year and maturing in December 2024 and a subordinate note in the principal amount of approximately $15.4 million, bearing interest at 10.0% per year and maturing in December 2024. The balance of these notes comprises the balance of the investment in unconsolidated entity. The fair value was established by the sales price and subsequently subjected to cash flow analysis. The change in value of investment in unconsolidated entity in the income statement includes interest paid and changes in estimated fair value.

Assets held for sale as of September 30, 2016 are held at the lower of cost basis or market value. For loans, market value was determined using the income approach which converts expected cash flows from the loan portfolio by unit of measurement to a present value estimate. Unit of measurement was determined by loan type and for significant loans on an individual loan basis. The fair values of the Company's loans classified as assets held for sale are based on "unobservable inputs" that are the best information available in the circumstances. Level 3 fair values are based on the present value of cash flows by unit of measurement. For commercial loans, a market adjusted rate to discount expected cash flows from outstanding principal and interest to expected maturity at the measurement date, was utilized. For other real estate owned, market value was based upon appraisals of the underlying collateral by third party appraisers, reduced by 7% to 10% for estimated selling costs.

The estimated fair values of demand deposits (comprising interest and non-interest bearing checking accounts, savings, and certain types of money market accounts) are equal to the amount payable on demand at the reporting date (generally, 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.

Time deposits and subordinated debentures have a fair value estimated using a discounted cash flow calculation that applies current interest rates to discount expected cash flows. Based upon time deposit maturities at September 30, 2016, the carrying values approximate their fair values. The carrying amount of accrued interest payable approximates its fair value.

The fair values of interest rate swaps are determined using models that use readily observable market inputs and a market standard methodology applied to the contractual terms of the derivatives, including the period to maturity and interest rate indices.

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.

The following tables provide information regarding carrying amounts and estimated fair values (in thousands):

September 30, 2016

Carrying amount (in thousands)	Estimated fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
$ 1,334,927	$ 1,334,927	$ -	$ 1,334,927	$

Investment securities available-for-sale					
Investment securities held-to-maturity	93,495	91,787	-	85,916	5,871
Securities purchased under agreements to resell	39,463	39,463	39,463	-	-
Federal Home Loan and Atlantic Central Bankers Bank stock	11,014	11,014	-	-	11,014
Commercial loans held for sale	562,957	562,957	-	-	562,957
Loans, net of deferred loan fees and costs	1,198,237	1,193,085	-	-	1,193,085
Investment in unconsolidated entity, senior note	150,686	150,686	-	-	150,686
Investment in unconsolidated entity, subordinated note	6,710	6,710	-	-	6,710
Assets held for sale	386,155	386,155	-	-	386,155
Demand and interest checking	3,364,103	3,364,103	3,364,103	-	-
Savings and money market	402,832	402,832	402,832	-	-
Subordinated debentures	13,401	9,101	-	-	9,101
Securities sold under agreements to repurchase	353	353	353	-	-
Interest rate swaps, liability	5,321	5,321	-	5,321	-

25

	December 31, 2015				
	Carrying amount (in thousands)	Estimated fair value	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	$ 1,070,098	$ 1,070,098	$ -	$ 1,070,098	$
Investment securities held-to-maturity	93,590	91,599	7,490	76,552	7,557
Federal Home Loan and Atlantic Central Bankers Bank stock	1,062	1,062	-	-	1,062
Commercial loans held for sale	489,938	489,938	-	-	489,938
Loans, net of deferred loan fees and costs	1,078,077	1,068,718	-	-	1,068,718
Investment in unconsolidated entity, senior note	166,548	166,548	-	-	166,548
Investment in unconsolidated entity, subordinated note	11,972	11,972	-	-	11,972
Assets held for sale	583,909	583,909	-	-	583,909
Demand and interest checking	3,602,376	3,602,376	3,602,376	-	-
Savings and money market	383,832	383,832	383,832	-	-
Time deposits	428,549	428,711	-	-	428,711
Subordinated debentures	13,401	8,529	-	-	8,529
Securities sold under agreements to repurchase	925	925	925	-	-
Interest rate swaps, asset	43	43	-	43	-

The assets and liabilities measured at fair value on a recurring basis, segregated by fair value hierarchy, are summarized below (in thousands):

		Fair Value Measurements at Reporting Date Using		
	Fair value September 30, 2016	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	$ 29,716	$ -	$ 29,716	$
Asset-backed securities	381,343	-	381,343	-
Obligations of states and political subdivisions	128,336	-	128,336	-
Residential mortgage-backed securities	333,816	-	333,816	-
Collaterized mortgage obligation securities	176,248	-	176,248	-
Commercial mortgage-backed securities	131,235	-	131,235	-
Foreign debt securities	56,667	-	56,667	-
Corporate debt securities	97,566	-	97,566	-
Total investment securities available for sale	1,334,927	-	1,334,927	-
Loans held for sale	562,957	-	-	562,957
Investment in unconsolidated entity, senior note	150,686	-	-	150,686
Investment in unconsolidated entity, subordinated note	6,710	-	-	6,710
Assets held for sale	386,155	-	-	386,155
Interest rate swaps, liability	5,321	-	5,321	-

$	2,436,114	$	-	$	1,329,606	$	1,10

26

	Fair value December 31, 2015	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	$ 29,240	$ -	$ 29,240	$
Asset-backed securities	191,093	-	191,093	-
Obligations of states and political subdivisions	194,859	-	194,859	-
Residential mortgage-backed securities	209,866	-	209,866	-
Collaterized mortgage obligation securities	172,252	-	172,252	-
Commercial mortgage-backed securities	126,110	-	126,110	-
Foreign debt securities	57,808	-	57,808	-
Corporate debt securities	88,870	-	88,870	-
Total investment securities available for sale	1,070,098	-	1,070,098	-
Loans held for sale	489,938	-	-	489,938
Investment in unconsolidated entity, senior note	166,548	-	-	166,548
Investment in unconsolidated entity, subordinated note	11,972	-	-	11,972
Assets held for sale	583,909	-	-	583,909
Interest rate swaps, asset	43	-	43	-
	$ 2,322,508	$ -	$ 1,070,141	$ 1,25

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		Commercial loans held for sale	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 20
Beginning balance	$ -	$ 1,366	$ 489,938	$
Transfers into level 3	-	-	-	-
Transfers out of level 3	-	-	-	-
Total gains or losses (realized/unrealized)				
Included in earnings	-	(23)	6,350	1,677
Included in other comprehensive income	-	-	-	-
Purchases, issuances, and settlements				
Purchases	-	-	-	-
Issuances	-	-	372,065	681,526
Sales	-	(1,343)	(305,396)	(410,345)
Settlements	-	-	-	-
Ending balance	$ -	$ -	$ 562,957	$
The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at the reporting date.	$ -	$ -	$ 7,735	$

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	Investment in unconsolidated entity		Assets held for sale	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31,
Beginning balance	$ 178,520	$ 193,595	$ 583,909	$

Transfers into level 3	-		-		-		-
Transfers out of level 3	-		-		-		-
Total gains or losses (realized/unrealized)							
Included in earnings	(14,753)		(2,430)		(45,443)		(4,662)
Included in other comprehensive income	-		-		-		-
Purchases, issuances, and settlements							
Purchases	-		-		-		-
Issuances	-		-		-		-
Sales	-		-		(64,605)		(149,560)
Settlements	(6,371)		(12,645)		(87,706)		(149,798)
Ending balance	$	157,396	$	178,520	$	386,155	$
The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at the reporting date.	$	(14,753)	$	(2,430)	$	44,884	$

28

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 September 30, 2016	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 - collateral dependent	$ 5,481	$ -	$ -	$ 5,48
Intangible assets	5,682	-	-	5,682
	$ 11,163	$ -	$ -	$ 11,16

Description	Fair value December 31, 2015	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 - collateral dependent	$ 2,428	$ -	$ -	2,428
Intangible assets	4,929	-	-	4,929
	$ 7,357	$ -	$ -	$ 7,35

(1) The method of valuation approach for the impaired loans was the market value approach based upon appraisals of the underlying collateral by external appraisers, reduced by 7-10% for estimated selling costs. Intangible assets are valued based upon internal analyses.

At September 30, 2016, impaired loans and troubled debt restructuring that are measured based on the value of underlying collateral have been presented at their fair value, less costs to sell, of $5.5 million through specific reserves and other write downs of $1.4 million or by recording charge-offs when the carrying value exceeds the fair value. Included in the impaired balance at September 30, 2016 were six troubled debt restructured loans with a balance of $1.6 million which had specific reserves of $565,000. 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 September 30, 2016, the Company had entered into twenty-two interest rate swap agreements with an aggregate notional amount of $142.8 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 a loss of $5.4 million for the nine months ended September 30, 2016 to recognize the fair value of the derivative instruments which is reported in gain (loss) on sale of loans. The amount payable by the Company under these swap agreements was $5.3 million at September 30, 2016 which is reported in other liabilities. The Company had minimum collateral posting thresholds with certain of its derivative counterparties and had posted cash collateral of $7.0 million as of September 30, 2016.

The maturity dates, notional amounts, interest rates paid and received and fair value of the Company's remaining interest rate swap agreements as of September 30, 2016 are summarized below (in thousands):

Maturity date	September 30, 2016 Notional amount	Interest rate paid	Interest rate received	Fair value
May 9, 2021	$ 3,400	1.18%	0.79%	$ (3)
August 4, 2021	10,300	1.12%	0.77%	24
October 4, 2021	5,600	1.19%	0.00%	(2)
August 17, 2025	4,000	2.27%	0.80%	(296)
August 17, 2025	2,500	2.27%	0.80%	(185)
August 17, 2025	2,500	2.27%	0.80%	(185)
October 7, 2025	3,200	2.06%	0.66%	(179)
November 27, 2025	1,700	2.10%	0.83%	(103)
December 11, 2025	2,400	2.14%	0.85%	(152)
December 15, 2025	5,300	2.10%	0.85%	(320)
December 17, 2025	3,300	2.18%	0.86%	(222)
December 23, 2025	6,800	2.16%	0.86%	(442)
December 24, 2025	8,200	2.17%	0.86%	(546)
December 29, 2025	9,900	2.20%	0.85%	(686)
December 30, 2025	14,800	2.19%	0.84%	(1,006)
January 28, 2026	3,000	1.87%	0.74%	(120)
March 10, 2026	1,200	1.69%	0.85%	(28)
March 29, 2026	1,700	1.74%	0.85%	(47)
April 18, 2026	12,500	1.66%	0.68%	(252)
April 18, 2026	6,600	1.67%	0.68%	(140)
June 8, 2026	27,600	1.61%	0.84%	(434)
July 20, 2026	6,300	1.44%	0.70%	3
Total	$ 142,800			$ (5,321)

Note 10. Other Identifiable Intangible Assets

On November 29, 2012, the Company acquired certain software rights and personnel of a prepaid card program manager in Europe for approximately $1.8 million. The Company allocated the majority of the $1.8 million acquisition cost to software used for its prepaid card business, with related services provided by its European data processing subsidiary. The software is being amortized over eight years. Amortization expense is $217,000 per year ($800,000 over the next five years). The gross carrying amount of the software is $1.8 million and as of September 30, 2016 the accumulated amortization was $1.0 million.

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 ($3.9 million over the next five years). The gross carrying amount of the customer list intangible is $12.0 million and as of September 30, 2016 the accumulated amortization was $8.8 million. For both 2016 and 2015, amortization expense for the third quarter was $250,000 and for the nine months was $750,000. In the second quarter of 2016, the Company purchased approximately $60 million in fleet vehicle leases which resulted in a customer list intangible of $1.8 million which is being amortized over a 12 year period. Amortization expense is $176,000 per year ($880,000 over the next five years). The Company preliminarily allocated the $1.8 million to the customer list and expects to complete its accounting for this purchase by the fourth quarter of 2016. Until completion, the above allocation of purchase price is considered preliminary. As of September 30, 2016 the gross carrying amount of the customer list intangible is $1.8 million and the accumulated amortization was $149,000. For 2016, estimated amortization expense for the third quarter was $100,000 and for the nine months was $149,000.

Note 11. Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers". This ASU establishes a comprehensive revenue recognition standard for virtually all industries in U.S. GAAP, including those that previously followed industry-specific guidance such as the real estate and construction industries. The revenue standard's core principle is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this, the standard requires five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) identify the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, (v) recognize revenue when (or as) the entity satisfies the performance obligation. Three basic transition methods are available - full retrospective, retrospective with certain practical expedients, and a cumulative effect approach. Under the cumulative effect alternative, an entity would apply the new revenue standard only to contracts that are incomplete under legacy U.S. GAAP at the date of initial application and recognize the cumulative effect of the new standard as an adjustment to the opening balance of retained earnings. The guidance in this ASU is effective for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2017. The Company does not expect this ASU to have a significant impact on its financial condition or results of operations.

In January 2016, the FASB issued ASU 2016-11, "Financial Instruments-Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities". This ASU revises an entity's accounting related to the classification and measurement of investments in equity securities and the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. For public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently assessing the impact that the adoption of this standard will have on the financial condition and results of operations of the Company.

In February 2016, the FASB issued ASU 2016-02, "Leases". The FASB issued this ASU to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet by lessees for those leases classified as operating leases under current U.S. GAAP and disclosing key information about leasing arrangements. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early application of this ASU is permitted for all entities. The Company is currently assessing the impact that the adoption of this standard will have on the financial condition and results of operations of the Company.

In March 2016, the FASB issued ASU 2016-09, "Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting". This ASU simplifies several areas of accounting for share based payment award transactions, including the income tax consequences, classification of awards as either equity or liabilities, and the classification on the statement of cash flows. For public companies, this is effective for annual periods beginning after December 15, 2016, and the interim periods within those annual periods. The Company is currently assessing the impact that the adoption of this standard will have on the financial condition and results of operations of the

Company.

In June 2016 the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments-Update". The Update changes the accounting for credit losses on loans and debt securities. For loans and held-to-maturity debt securities, the Update requires an expected credit loss model to determine the allowance for credit losses. The expected credit loss model estimates losses for the estimated life of the financial asset. Expected credit losses reflect losses over the remaining contractual life of an asset, considering the effect of voluntary prepayments and considering available information about the collectability of cash flows, including information about past events, current conditions, and reasonable and supportable forecasts. The resulting allowance for credit losses reflects the portion of the amortized cost basis that the entity does not expect to collect. Additional quantitative and qualitative disclosures are required upon adoption. In addition, the Update modifies the other-than-temporary impairment model for available-for-sale debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods. The guidance is effective in first quarter 2020 with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. Early adoption is permitted beginning in first quarter 2019. The Company is evaluating the impact the Update will have on the consolidated financial statements.

Note 12. Regulatory Matters

It is the policy of the Federal Reserve that financial holding companies should pay cash dividends on common stock only out of income available over the past year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. The policy provides that a financial holding company should not maintain a level of cash dividends that undermines the financial holding company's ability to serve as a source of strength to its banking subsidiaries.

Various federal and state statutory provisions limit the amount of dividends that subsidiary banks can pay to their holding companies without regulatory approval. Under Delaware banking law, the Bank's directors may declare dividends on common or preferred stock of so much of its net profits as they judge expedient, but the Bank must, before the declaration of a dividend on common stock from net profits, carry 50% of its net profits from the preceding period for which the dividend is paid to its surplus fund until its surplus fund amounts to 50% of its capital stock and thereafter must carry 25% of its net profits for the preceding period for which the dividend is paid to its surplus fund until its surplus fund amounts to 100% of its capital stock.

In addition to these explicit limitations, federal and state regulatory agencies are authorized to prohibit a banking subsidiary or financial holding company from engaging in an unsafe or unsound practice. Depending upon the circumstances, the agencies could take the position that paying a dividend would constitute an unsafe or unsound banking practice. In August 2015, the Bank entered into an Amendment to a 2014 Consent Order with the FDIC pursuant to which the Bank may not pay dividends without prior FDIC approval. On May 11, 2015, the Company had received a Supervisory Letter pursuant to which the Company may not pay dividends without prior Federal Reserve approval. The Federal Reserve approved the payment of the interest on the Company's trust preferred securities due September 15, 2016. Future payments are subject to future approval by the Federal Reserve.

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification of the Company and the Bank are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Note 13. Legal

On July 17, 2014, a class action securities complaint captioned Fletcher v. The Bancorp Inc., et al., was filed in the United States District Court for the District of Delaware. A consolidated version of that class action complaint was filed before the same court on January 23, 2015 on behalf of Lead Plaintiffs Arkansas Public Employees Retirement System and Arkansas Teacher Retirement System under the caption of In Re The Bancorp, Inc. Securities Litigation, Case No. 14-cv-0952 (SLR). On October 26, 2015, Lead Plaintiffs filed an amended consolidated complaint against Bancorp, Betsy Z. Cohen, Paul Frenkiel, Frank M. Mastrangelo and Jeremy Kuiper, which alleges that during a class period beginning January 26, 2011 through June 26, 2015, the defendants made materially false and/or misleading statements and/or failed to disclose that (i) Bancorp had wrongfully extended and modified problem loans and under-reserved for loan losses due to adverse loans, (ii) Bancorp's operations and credit practices were in violation of the Bank Secrecy Act (BSA), and (iii) as a result, Bancorp's financial statements, press releases and public statements were materially false and misleading during the relevant period. The amended consolidated complaint further alleges that, as a result, the price of Bancorp's common stock was artificially inflated and fell once the defendants' misstatements and omissions were revealed, causing damage to the plaintiffs and the other members of the class. The complaint asks for an unspecified amount of damages, prejudgment and post-judgment interest and attorneys' fees. This litigation is in its preliminary stages. The defendants filed a motion to dismiss the amended consolidated complaint on November 23, 2015. Oral argument on the defendants' motion was held on January 29, 2016 and a court ruling on the motion has been pending. On July 27, 2016, we and all other individually-named defendants entered into a Stipulation and Agreement of Settlement (Settlement Agreement) with respect to the consolidated class action. Under the terms of the Settlement Agreement, we will pay $17.5 million to the plaintiffs as full and complete settlement of the litigation. All amounts paid by us will be fully funded by the Company's insurance carriers. All terms of the Settlement Agreement are subject to court approval which is pending.

The Company received a subpoena from the SEC, dated March 22, 2016, relating to an investigation by the SEC of the Company's restatement of its financial statements for the years ended December 31, 2010 through December 31, 2013 and the interim periods ended March 31, 2014, June 30, 2014 and September 30, 2014, which restatement was filed with the SEC on September 28, 2015, and the facts and circumstances underlying the restatement. The Company is cooperating fully with the SEC's investigation. The costs to respond to the subpoena and cooperate with the SEC's investigation could be material.

On June 30, 2016, the Company received written notice from the Internal Revenue Service that it will be conducting an audit of the Company's tax returns for the tax years 2012, 2013 and 2014. The audit is in process.

The Company received a letter, dated August 1, 2016, demanding inspection of its books and records pursuant to Section 220 of the Delaware General Corporation Law from legal counsel representing a shareholder (the "Demand Letter"). In addition to demanding access to certain of the Company's books and records, the Demand Letter states that the shareholder intends to investigate the actions of the Company's officers and directors, and that the shareholder contemplates the commencement of a shareholder's derivative suit against certain officers and directors of the Company seeking the recovery of the Company's damages and other remedies. The Company has engaged outside counsel to represent it in this matter and is in the process of responding to the Demand Letter and analyzing its rights and obligations. We have been advised by our counsel in the matter that reasonably possible losses cannot be estimated.

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

Note 14. Segment Financials

The Company performed a strategic evaluation of its businesses in the third quarter of 2014. As a result of the evaluation, the Company decided to discontinue its commercial lending operations, as described in Note 15, Discontinued Operations. The shift from a traditional bank balance sheet led the Company to evaluate its continuing operations. Based on the continuing operations of the Company, it was determined that there would be four segments of the business: specialty finance, payments, corporate and discontinued operations. Specialty finance includes commercial loan sales, SBA loans, leasing and SBLOCs and any deposits generated by those business lines. Payments include prepaid cards, merchant payments and healthcare accounts. Corporate includes the investment portfolio, corporate overhead and other non-allocated expenses. Investment income is allocated to the payments segment. These operating segments reflect the way the Company views its current operations.

	For the three months ended September 30, 2016				
	Specialty finance	Payments	Corporate	Discontinued operations	Total
	(in thousands)				
Interest income	$ 17,727	$ 0	$ 9,005	$ -	$ 26,732
Interest allocation	-	9,005	(9,005)	-	-
Interest expense	740	1,975	475	-	3,190
Net interest income	16,987	7,030	(475)	-	23,542
Provision for loan and lease losses	750	-	-	-	750
Non-interest income	4,215	15,180	509	-	19,904
Non-interest expense	16,352	24,081	3,738	-	44,171
Income (loss) from continuing operations before taxes	4,100	(1,871)	(3,704)	-	(1,475)
Income tax benefit	-	-	55	-	55
Income (loss) from continuing operations	4,100	(1,871)	(3,759)	-	(1,530)

Loss from discontinued operations	-		-		-		(24,021)		(24,021)	
Net income (loss)	$	4,100	$	(1,871)	$	(3,759)	$	(24,021)	$	(25,551)

33

For the three months ended September 30, 2015

	Specialty finance (in thousands)	Payments	Corporate	Discontinued operations	Total
Interest income	$ 12,789	$ -	$ 8,404	$ -	$ 21,193
Interest allocation	-	8,404	(8,404)	-	-
Interest expense	1,267	1,918	209	-	3,395
Net interest income	11,521	6,486	(209)	-	17,798
Provision for loan and lease losses	625	-	-	-	625
Non-interest income	1,329	15,949	21	-	17,299
Non-interest expense	12,036	33,021	2,739	-	47,795
Income (loss) from continuing operations before taxes	190	(10,586)	(2,927)	-	(13,323)
Income tax benefit	-	-	(5,706)	-	(5,706)
Income (loss) from continuing operations	190	(10,586)	2,779	-	(7,617)
Income from discontinued operations	-	-	-	2,042	2,042
Net income (loss)	$ 190	$ (10,586)	$ 2,779	$ 2,042	$ (5,575)

For the nine months ended September 30, 2016

	Specialty finance (in thousands)	Payments	Corporate	Discontinued operations	Total
Interest income	$ 48,712	$ 2	$ 25,613	$ -	$ 74,327
Interest allocation	-	25,613	(25,613)	-	-
Interest expense	2,139	5,779	1,421	-	9,339
Net interest income	46,573	19,836	(1,421)	-	64,988
Provision	1,810	-	-	-	1,810
Non-interest income	(6,787) *	48,245	6,674	-	48,132
Non-interest expense	47,828	96,376	12,241	-	156,445
Income (loss) from continuing operations before taxes	(9,852)	(28,295)	(6,988)	-	(45,135)
Income taxes	-	-	(15,324)	-	(15,324)
Income (loss) from continuing operations	(9,852)	(28,295)	8,336	-	(29,811)
Income from discontinued operations	-	-	-	(37,909)	(37,909)
Net income (loss)	$ (9,852)	$ (28,295)	$ 8,336	$ (37,909)	$ (67,720)

* Reflects writedown of investment in unconsolidated entity

	For the nine months ended September 30, 2015				
	Specialty finance	Payments	Corporate	Discontinued operations	Total
	(in thousands)				
Interest income	$ 34,993	$ 11	$ 26,278	$ -	$ 61,282
Interest allocation	-	26,278	(26,278)	-	-
Interest expense	3,745	5,568	620	-	9,933
Net interest income	31,248	20,721	(620)	-	51,349
Provision	1,800	-	-	-	1,800
Non-interest income	14,017	48,721	62	-	62,800
Non-interest expense	34,111	90,174	10,804	-	135,089

34

Income (loss) from continuing operations before taxes	9,354	(20,732)	(11,362)	-	(22,740)
Income taxes	-	-	(10,817)	-	(10,817)
Income (loss) from continuing operations	9,354	(20,732)	(545)	-	(11,923)
Income from discontinued operations	-	-	-	6,736	6,736
Net income (loss)	$ 9,354	$ (20,732)	$ (545)	$ 6,736	$ (5,187)

	September 30, 2016				
	Specialty finance	Payments	Corporate	Discontinued operations	Total
	(in thousands)				
Total assets	$ 1,918,907	$ 35,330	$ 1,877,119	$ 386,155	$ 4,217,511
Total liabilities	$ 561,254	$ 2,982,569	$ 334,610	$ -	$ 3,878,433

	December 31, 2015				
	Specialty finance	Payments	Corporate	Discontinued operations	Total
	(in thousands)				
Total assets	$ 1,747,558	$ 35,165	$ 2,399,191	$ 583,909	$ 4,765,823
Total liabilities	$ 783,866	$ 2,991,856	$ 670,100	$ -	$ 4,445,822

Note 15. Discontinued Operations

The Company performed a strategic evaluation of its businesses in the third quarter of 2014 and decided to discontinue its commercial lending operations to focus on its specialty finance lending. The loans which constitute the commercial loan portfolio are in the process of disposition. As such, financial results of the commercial lending operations are presented as separate from continuing operations on the consolidated statements of operations and assets of the commercial lending operations to be disposed are presented as assets held for sale on the consolidated balance sheets.

The results of the third quarter of 2016 reflected a fair value charge in connection with a secured commercial real estate lending relationship held in discontinued operations. Related loans, in the principal amount of $41.9 million, became 90 days delinquent after the quarter ended September 30, 2016 due to the failure to make required principal payments. The loans are secured by a Florida shopping mall with multiple major department store anchors and over 70 various retail tenants. Based on an appraisal of the collateral value by an independent certified appraiser, the fair value was reduced by $23.9 million, and that amount was recorded as a charge to earnings. The reduction in the carrying value of the loan does not reflect any recovery on a personal guarantee that the Bank also has as additional security. There can be no assurance that any recovery will be made on the personal guarantee. Valuation allowances against resulting cumulative deferred tax assets offset tax benefits related to the loss and no benefit was recognized. Accordingly, the after tax loss was not reduced by the statutory 34% tax rate.

The following table presents financial results of the commercial lending business included in net income (loss) from discontinued operations for the three months and nine months ended September 30, 2016 and 2015.

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
	(in thousands)			
Interest income	$ 3,891	$ 6,343	$ 15,037	$ 22,275
Interest expense	-	-	-	-
Provision for loan and lease losses	-	-	-	-
Net interest income after provision	3,891	6,343	15,037	22,275
Non interest income	575	120	678	2,456
Non interest expense	25,956	3,466	53,788	14,538
Income (loss) before taxes	(21,490)	2,997	(38,073)	10,193
Income tax (benefit) provision	2,531	955	(164)	3,457
Net income (loss)	$ (24,021)	$ 2,042	$ (37,909)	$ 6,736

	September 30, 2016	December 31, 2015
	(in thousands)	

Loans, net	$ 365,215	$ 568,748
Other assets	20,940	15,161
Total assets	$ 386,155	$ 583,909

The Company utilizes lower of cost or market valuations for discontinued operations loans which are updated based on internal loan officers' information, third party consultant information, internal loan review analysis and third party review of impairments. Based on that review, weighted average fair values were applied to the loans not specifically reviewed. The results of discontinued operations do not include any future severance payments. Of the approximately $1.1 billion in book value of loans in that portfolio as of the September 30, 2014 date of discontinuance of operations, $365.2 million of loans remain in assets held for sale on the balance sheet as a result of loan sales, principal paydowns and fair value charges. The Company is attempting to sell those remaining loans. Additionally, the balance sheet reflects $157.4 million in investment in unconsolidated entity, which is comprised of notes owned by the Company as a result of the sale of certain discontinued loans to Walnut Street, see Note 8, Fair Value Measurements.

Various elements of the lower of cost or market valuation are as follows:

Measured on a recurring basis	Valuation techniques	Significant unobservable inputs	Range
Large balance commercial loans	Discounted cash flows	Discount rate	3.53% - 9.15%
Small balance commercial loans	Discounted cash flows	Discount rate	3.59% - 8.94%

Note 16. Subsequent Events

The Company evaluated its September 30, 2016 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, not otherwise disclosed herein.

Final Prepaid Card Rule Released by the Consumer Financial Protection Bureau

On October 5, 2016, the Consumer Financial Protection Bureau (CFPB) released its final Prepaid Card Rule (Final Prepaid Rule), which it first proposed by publication on December 23, 2014. The effective date of the Final Prepaid Rule is October 1, 2017, but applicability

36

of certain requirements of the Final Prepaid Rule are delayed until October 1, 2018. The Final Prepaid Rule regulates certain prepaid products, including physical cards as well as codes and other access devices. The Final Prepaid Rule did not materially deviate from the terms of the proposed rule that we have disclosed in previous filing. The Final Prepaid Rule among other things, causes prepaid products to be fully-covered by Regulation E, which implements the Electronic Fund Transfer Act, and to be covered by Regulation Z, which implements the Truth in Lending Act, to the extent the prepaid product accesses a "credit" feature.

The Final Prepaid Rule and related commentary is over 1,600 pages in length and provides significant discussion, materials and commentary that we are currently assessing. The Final Prepaid Rule includes a significant number of changes to the regulatory framework for prepaid products, some of which include: (a) establishing a definition of "prepaid account" within Regulation E that includes reloadable and non-reloadable physical cards, as well as codes or other devices, and focuses on how the product is issued and used; (b) modifying Regulation E to require that short form and long form disclosures be provided to a consumer prior to a consumer agreeing to acquire a prepaid account with certain exceptions and with specified forms that, if used, would provide a safe harbor for financial institutions; (c) extending to prepaid accounts the periodic transaction history and statement requirements of Regulation E, with certain specified permissible alternatives to the provision of periodic statements; (d) extending the error resolution and limited liability provisions of Regulation E to prepaid cards, with some modifications specific to prepaid cards; (e) requiring financial institutions to provide prepaid account agreements to the CFPB and to either post them to the issuer's website or provide them upon request of the consumer in specified manner and timeframes; (f) extending Regulation Z's credit card rules and disclosure requirements to prepaid accounts that provide overdraft protection and other credit features and incorporating into Regulation Z a new definition of "hybrid prepaid-credit card"; (g) requiring an issuer to obtain a prepaid account holder's consent prior to adding overdraft services or other credit features and prohibiting the issuer from adding overdraft services or other credit features for at least 30 calendar days after a consumer registers the prepaid account; (h) prohibiting the application of different terms and conditions, such as charging different fees, to a prepaid account depending on whether the consumer elects to link the prepaid account to overdraft services or other credit features.

The Final Prepaid Rule represents a material change in the rules and regulations governing prepaid cards. We rely on prepaid cards as the largest single component of our deposits and the largest single component of our noninterest income. We are continuing to evaluate the Prepaid Card Rule and the impact it may have on our business and our results of operations. We are in the preliminary stages of evaluating and building implementation plans for the Prepaid Card Rule and, as such, we cannot reasonably quantify the financial impact, if any, that implementation of the Prepaid Card Rule may have on the Bank's business, financial condition, or results of operations.

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

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, 2015 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 to 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 Operations" included in our Annual Report on Form 10-K for the year ended December 31, 2015.

Overview

We are a Delaware financial holding company and our primary subsidiary, wholly owned, is The Bancorp Bank, which we refer to as the Bank. The vast majority of our revenue and income is currently generated through the Bank. In our continuing lending operations we have four primary lines of specialty lending: securities-backed lines of credit, or SBLOC, automobile fleet and other equipment leasing, Small Business Administration, or SBA, loans and loans generated for sale into capital markets primarily through commercial mortgage backed securities, or CMBS. SBLOCs are loans which are generated through institutional banking affinity groups and are collateralized by marketable securities. SBLOCs are typically offered in conjunction with brokerage accounts and are offered nationally. Automobile fleet and other equipment leases are generated in a number of Atlantic Coast and other states. SBA loans and loans generated for sale into CMBS capital markets are made nationally.

In our banking operations, we focus on providing our services on a national basis 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; 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 and prepaid card programs are a source of fee income and low-cost deposits. In Europe, we maintain three operational service subsidiaries and one subsidiary through which we offer prepaid card issuing services.

In the third quarter of 2014, we decided to discontinue our Philadelphia-based commercial lending operations. The loans which constitute that portfolio are in the process of disposition. This represents a strategic shift to a focus on our national specialty lending programs including small fleet leasing, SBLOC, CMBS origination and SBA lending. We anticipate using the proceeds from disposition to acquire investment securities and to provide liquidity to fund growth in our continuing specialty lending lines. Yields we obtain from reinvestment of the proceeds will be subject to economic and other conditions at the time of reinvestment, including market interest rates, many of which will be beyond our control. We cannot predict whether income resulting from the reinvestment of loans we hold for sale resulting from discontinued operations will match or exceed the amount from the sold loans. Of the approximately $1.1 billion in book value of loans in that commercial and residential portfolio as of the September 30, 2014 date of discontinuance of operations, $365.2 million of loans remain in assets held for sale on the balance sheet, which reflects related sales, paydowns and fair value charges. Additionally, the balance sheet reflects $157.4 million in investment in unconsolidated entity, which is comprised of notes owned by the Company as a result of the sale of certain discontinued loans. We have been exiting certain deposit accounts to reduce excess balances at the Federal Reserve Bank.

The results of the third quarter of 2016 reflected a fair value charge in connection with a secured commercial real estate lending relationship held in discontinued operations. Related loans, in the principal amount of $41.9 million, became 90 days delinquent after the quarter ended September 30, 2016 due to the failure to make required principal payments. The loans are secured by a Florida shopping mall with multiple major department store anchors and over 70 various retail tenants. Based on an appraisal of the collateral value by an independent certified appraiser, the fair value was reduced by $23.9 million, and that amount was recorded as a charge to earnings. The reduction in the carrying value of the loan does not reflect any recovery on a personal guarantee that the Bank also has as additional security. There can be no assurance that any recovery will be made on the personal guarantee.

At the end of the third quarter of 2016, we eliminated approximately 20% of the Bank's staff positions resulting in approximately $1.3 million in related severance expense recognized in that quarter. In addition to the elimination of the staff positions, we have developed a plan targeting other reductions in various non-interest expense categories including occupancy, data processing, legal, consulting, software and others. We expect to begin implementing the plan in the fourth quarter of 2016 with principal impact in 2017. BSA lookback expense for third quarter 2016 was $1.3 million, significantly less than in prior periods. Additionally, the third party performing the lookback completed its work during the quarter and no additional related third party fees are expected to be incurred. Interest income continued to increase, reflecting growth in SBLOC, SBA, leasing and loans held for sale into secondary markets. Reflecting those increases, net interest income increased 32% in the third quarter of 2016 compared to third quarter 2015. The net interest income increase also reflected continued historically low interest rates. Rates on the largest component of funding, prepaid deposits, will only partially adjust to increases in market rates while variable rate loans and securities should fully adjust. Non-interest income reflected a 7% increase in quarter over prior year quarter prepaid card fees, which is the largest driver of non-interest income. Non-interest expense reflected the aforementioned reduced BSA lookback expenses which should no longer be incurred. While the quarter reflected the aforementioned $1.3 million of severance expense, future quarters should reflect related salary expense reductions. During the quarter, we completed a stock offering which netted approximately $74.8 million of capital, with 17.4 million common shares issued.

On August 5, 2016, we sold in a private placement to institutional and accredited investors an aggregate of 7,560,000 shares of our common stock at a purchase price of $4.50 per share, and 40,000 shares of a new series of preferred stock, Series C mandatorily convertible cumulative non-voting perpetual preferred stock, or the Series C Preferred Stock, at a purchase price of $1,000 per share, for total consideration of approximately $74 million. The Series C Preferred Stock was mandatorily convertible into shares of common stock upon obtaining the approval of the holders of our common stock. Also on August 5, 2016, we entered into an agreement with certain of our directors and executive officers to sell an aggregate of 1,025,000 shares of our common stock at $4.50 per share, contingent upon the receipt of stockholder approval to convert the Series C Preferred Stock to shares of common stock, and satisfaction of stock exchange rules.

On September 29, 2016, upon receiving the affirmative vote of a majority of the shares of common stock eligible to vote at our special meeting held on September 29, 2016, we sold 1,025,000 shares of common stock to certain of our directors and executive officers at $4.50 per share, for total consideration of approximately $4.6 million. Also on September 29, 2016, upon receiving the affirmative vote of a majority of the shares of common stock eligible to vote at our special meeting, all shares of Series C Preferred Stock were converted into approximately 8,888,888 shares of common stock.

In connection with the private placement discussed above, two investors, Pilgrims & Indians Capital LLC, or P&I, and Castle Creek Capital, or CC, entered into side letter agreements with us. Under the terms of the side letter agreements, each of P&I and CC are each entitled to have one representative appointed to our board of directors for so long as each entity, together with its respective affiliates, owns, in the aggregate, 4% or more of all of our outstanding common stock. If P&I or CC hold less than 4% of all of the outstanding common shares, but 50% or more of their shares purchased in the private placement, then such investor will be entitled to have one representative attend all meetings of our board of directors as a nonvoting observer for so long as such entity, together with its respective affiliates, owns, in the aggregate, 50% or more of the shares it purchased in the private placement. On August 17, 2016, our board of directors resolved to appoint John Eggemeyer as a director in satisfaction of the side letter agreement with CC. Mr. Eggemeyer's appointment will be effective upon completion of regulatory review, non-objection or approval as required by applicable law. During the pendency of the regulatory review period, Mr. Eggemeyer will be a non-voting observer to our board of directors. On August 17, 2016, our board of directors resolved to appoint Shivan Govindan as director in satisfaction of the side letter agreement with P&I, subject to effective completion of regulatory review, non-objection or approval as required by applicable law. At the request of P&I and Mr. Govindan, his name has been withdrawn from consideration, and we are awaiting additional instructions from P&I as to their proposed nominee to fill P&I's seat on the board. In the meantime, Mr. Govindan remains a non-voting observer to our board of directors.

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 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 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, our determination of the fair value of financial instruments and the level in which an instrument is placed within the valuation hierarchy, our determination of other than temporary impairment, and income taxes 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 income statement. 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 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 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. We currently use the tax expenses as calculated on year-to-date numbers, since small changes in annual estimates would have a significant change in the annual effective rate.

Financial Statement Restatement; Regulatory Actions

We have adjusted our financial statement presentation for items related to discontinued operations. Separately, we have restated our financial statements for periods from 2010 through September 30, 2014, the last date through which financial statements previously had been filed prior to our 2015 filing of our Annual Report on Form 10-K for the year ended December 31, 2014. The restatement reflected the recognition of provisions for loan losses and loan charge-offs for discontinued operations in periods earlier than those in which those charges were initially recognized. The majority of these loan charges were originally recognized in 2014, primarily in the third quarter, when commercial lending operations were discontinued. An additional $28.5 million of discontinued operations losses that were not previously reported were included within these periods. Also, $12.7 million of losses incurred in 2015 related to loans that were resolved before the issuance date of our financial statements and were reflected in our 2014 financial statements. Substantially all of the losses and corresponding restatement adjustments resulted from the discontinued commercial loan operations.

The Bank has entered into a Stipulation and Consent to the Issuance of a Consent Order, or the 2014 Consent Order, with the Federal Deposit Insurance Corporation, or FDIC, which became effective on June 5, 2014. The Bank took this action without admitting or denying any charges of unsafe or unsound banking practices or violations of law or regulation relating to the Bank’s BSA compliance program.

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

To date, the Bank has implemented multiple upgrades that address the requirements of the 2014 Consent Order, such as appointing a qualified BSA/OFAC officer, increasing oversight and staffing of the BSA compliance function, improving practices and procedures to monitor and report transactions, and increasing training, as well as adopting an independent testing program to ensure adherence to more effective BSA standards.

Until the Bank submits to the FDIC (and the FDIC approves) a BSA report summarizing the completion of its corrective actions, the 2014 Consent Order places some restrictions on certain activities: the Bank is restricted from signing and boarding new independent sales organizations, issuing new non-benefit related reloadable prepaid card programs, establishing new distribution channels for existing non-benefit reloadable prepaid card programs and originating Automated Clearing House transactions for new merchant-related payments. Until we receive the FDIC's approval, restrictions in these specific areas may potentially impact their growth. We do not believe that these restrictions will have a material impact on current revenue levels. The Bank utilized one primary consultant related to its BSA-AML (Anti-Money Laundering) program refinement and one primary consultant related to conducting a lookback review of historical transactions to confirm that suspicious activity was properly identified and reported in accordance with applicable law. The consultant assisting with BSA-AML program refinement completed its work in 2014. The consultant performing the BSA lookback completed its work in July 2016 and no additional related fees are expected to be incurred. Suspicious activity reports resulting from the lookback have been filed.

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

On May 11, 2015, the Federal Reserve issued a letter, or the Supervisory Letter, to the Bank as a result of the 2014 Consent Order and the Amendment, (which, at the time of the Supervisory Letter, was in proposed form), which provides that we may not pay any dividends on our common stock, make any distributions to our European entities or make any interest payments on our trust preferred securities, without the prior written approval of the Federal Reserve. It further provides that we may not incur any debt (excluding payables in the ordinary course of business) or redeem any shares of our stock, without the prior written approval of the Federal Reserve. The Federal Reserve approved the payment of the interest on our trust preferred securities which was due June 15, 2016. Future payments are subject to future approval by the Federal Reserve.

On December 23, 2015 the Bank entered into a Stipulation and Consent to the Issuance of an Amended Consent Order, Order for Restitution, and Order to Pay Civil Money Penalty with the FDIC, which we refer to as the 2015 Consent Order. The Bank took this action without admitting or denying any charges of violations of law or regulation. The 2015 Consent Order supercedes in its entirety the terms of a previous consent order entered into in 2012.

The 2015 Consent Order was based on FDIC allegations regarding electronic fund transfer, or EFT, error resolution practices, account termination practices and fee practices of various third parties with whom the Bank had previously provided, or currently provides, deposit-related products which we refer to as Third Parties. The specific operational practices of the third parties identified by the FDIC were the following: practices related to the termination of a third-party rewards program tied to deposit accounts, including the timing of the notice of termination, and the disclosure of the effects of such termination on the consumer's ability to obtain unredeemed rewards; practices performed by third parties related to the time frames within which we must respond to a consumer's notice of error related to electronic transactions related to various types of deposit accounts; and, practices related to the timing and frequency of disclosed account fees and the manner by which the accountholder is notified of these fees in periodic statements which are generated by third parties. The 2015 Consent Order continues the Bank's obligations originally set forth in the 2012 Consent Order, including its obligations to increase board oversight of the Bank's compliance management system, or CMS, improve the Bank's CMS, enhance its internal audit program, increase its management and oversight of Third Parties, and correct any apparent violations of law. The 2015 Consent Order also directs the Bank's Board to establish a Complaint and Error Claim Oversight and Review Committee, which we refer to as the Complaint and Error Claim Committee, to review and oversee the Bank's processes and practices for handling, monitoring and resolving consumer complaints and EFT error claims (whether received directly or through Third Parties) and to review management's plans for correcting any weaknesses that may be found in such processes and practices; and implement a corrective action plan regarding those prepaid cardholders who asserted or attempted to assert EFT error claims and to provide restitution to cardholders harmed by EFT error resolution practices. The Bank's Board of Directors appointed the required Complaint and Error Claim Committee on January 29, 2016. The Bank corrective action plan is in process.

We received a subpoena from the SEC, dated March 22, 2016, relating to an investigation by the SEC of the restatement of our financial statements for the years ended December 31, 2010 through December 31, 2013 and the interim periods ended March 31, 2014, June 30, 2014 and September 30, 2014, which restatement was filed with the SEC on September 28, 2015, and the facts and circumstances underlying the restatement. We are cooperating fully with the SEC's investigation. The costs to respond to the subpoena and cooperate with the SEC's investigation could be material.

On October 5, 2016, the Consumer Financial Protection Bureau (CFPB) released its final Prepaid Card Rule (Final Prepaid Rule), which it first proposed by publication on December 23, 2014. The effective date of the Final Prepaid Rule is October 1, 2017, but applicability of certain requirements of the Final Prepaid Rule are delayed until October 1, 2018. The Final Prepaid Rule regulates certain prepaid products, including physical cards as well as codes and other access devices. The Final Prepaid Rule did not materially deviate from the terms of the proposed rule that we have disclosed in previous filing. The Final Prepaid Rule among other things, causes prepaid products to be fully-covered by Regulation E, which implements the Electronic Fund Transfer Act, and to be covered by Regulation Z, which implements the Truth in Lending Act, to the extent the prepaid product accesses a "credit" feature.

The Final Prepaid Rule and related commentary is over 1,600 pages in length and provides significant discussion, materials and commentary that we are currently assessing. The Final Prepaid Rule includes a significant number of changes to the regulatory framework for prepaid products, some of which include: (a) establishing a definition of "prepaid account" within Regulation E that includes reloadable and non-reloadable physical cards, as well as codes or other devices, and focuses on how the product is issued and used; (b) modifying Regulation E to require that short form and long form disclosures be provided to a consumer prior to a consumer agreeing to acquire a prepaid account with certain exceptions and with specified forms that, if used, would provide a safe harbor for financial institutions; (c) extending to prepaid accounts the periodic transaction history and statement requirements of Regulation E, with certain specified permissible alternatives to the provision of periodic statements; (d) extending the error resolution and limited liability provisions of Regulation E to prepaid cards, with some modifications specific to prepaid cards; (e) requiring financial institutions to provide prepaid account agreements to the CFPB and to either post them to the issuer's website or provide them upon request of the consumer in specified manner and timeframes; (f) extending Regulation Z's credit card rules and disclosure requirements to prepaid accounts that provide overdraft protection and other credit features and incorporating into Regulation Z a new definition of "hybrid prepaid-credit card"; (g) requiring an issuer to obtain a prepaid account holder's consent prior to adding overdraft services or other credit features and prohibiting the issuer from adding overdraft services or other credit features for at least 30 calendar days after a consumer registers the prepaid account; (h) prohibiting the application of different terms and conditions, such as charging different fees, to a prepaid account depending on whether the consumer elects to link the prepaid account to overdraft services or other credit features.

The Final Prepaid Rule represents a material change in the rules and regulations governing prepaid cards. We rely on prepaid cards as the largest single component of our deposits and the largest single component of our non-interest income. We are continuing to evaluate the Prepaid Card Rule and the impact it may have on our business and our results of operations. We are in the preliminary stages of evaluating and building implementation plans for the Prepaid Card Rule and, as such, we cannot reasonably quantify the financial impact, if any, that implementation of the Prepaid Card Rule may have on the Bank's business, financial condition, or results of operations.

Results of Operations

Third quarter 2016 to third quarter 2015

Net Income: Net loss from continuing operations for the third quarter of 2016 was $1.5 million, or $.03 per diluted share, compared to net loss of $7.6 million, or $.20 per diluted share for the third quarter of 2015. After discontinued operations, net loss for the third quarter of 2016 was $25.6 million compared to $5.6 million for the third quarter of 2015. The results of the third quarter of 2016 reflected a fair value charge in connection with a secured commercial real estate lending relationship held in discontinued operations. Related loans, in the principal amount of $41.9 million, became 90 days delinquent after the quarter ended September 30, 2016 due to the failure to make required principal payments. The loans are secured by a Florida shopping mall with multiple major department store anchors and over 70 various retail tenants. Based on an appraisal of the collateral value by an independent certified appraiser, the fair value was reduced by $23.9 million, and that amount was recorded as a charge to earnings. The reduction in the carrying value of the loan does not reflect any recovery on a personal guarantee that the Bank also has as additional security. There can be no assurance that any recovery will be made on the personal guarantee.

Valuation allowances against resulting cumulative deferred tax assets offset tax benefits related to the loss and no benefit was recognized. Accordingly, the after tax loss was not reduced by the statutory 34% tax rate. Valuation allowances are expected to begin to be reversed and increase after tax income in 2017 based on our financial projections, but there can be no assurance that those projections will be realized. Primarily as a result of the loan charge and deferred tax valuation allowance, net loss from discontinued operations was $24.0 million in the third quarter of 2016 compared to net income of $2.0 million for the third quarter of 2015.

Results for continuing operations for the third quarter of 2016 reflected higher net interest income and non-interest income, the completion of the consultants' BSA lookback, severance expense for end of quarter staff position reductions and planning and implementation of other non-interest expense reductions. Net interest income for the third quarter of 2016 compared to the third quarter of 2015 increased to $23.5 million from $17.8 million primarily as a result of higher loan balances and yields. Non-interest income (excluding security gains) increased $1.3 million, which reflected a $1.7 million increase in gain on sale of loans and continuing increases in prepaid fees, the largest driver of non-interest income. Non-interest expense reflected a $10.3 million decrease in BSA lookback consulting expense, an increase of $6.7 million of other non-interest expense and a $125,000 increase in the provision for loan and lease losses. The consultant performing the lookback completed their work in July 2016 and future related fees are not expected to be incurred. The $6.7 million increase in other non-interest expenses (excluding BSA lookback) was primarily driven by a $4.7 million increase in salaries and employee benefits. At the end of the third quarter of 2016, we eliminated approximately 20% of the Bank's staff positions resulting in approximately $1.3 million in related severance expense recognized in that quarter. In addition to the elimination of the staff positions, we have developed a plan targeting other reductions in various non-interest expense categories including occupancy, data processing, legal, consulting, software and others. We expect to begin implementing the plan in the fourth quarter of 2016 with principal impact in 2017. Diluted loss per share was $0.54 in the third quarter of 2016 compared to $0.15 diluted loss per share in the third quarter of 2015 primarily reflecting the factors noted above.

Net Interest Income: Our net interest income for the third quarter of 2016 increased to $23.5 million, an increase of $5.7 million or 32.3% from $17.8 million in the third quarter of 2015. Our interest income for the third quarter of 2016 increased to $26.7 million, an increase of $5.5 million or 26.1% from $21.2 million for the third quarter of 2015. The increase in interest income resulted primarily from higher loan balances and higher yields. Our average loans and leases increased to $1.68 billion for third quarter 2016 from $1.32 billion for third quarter 2015, while related interest income increased $4.8 million on a tax equivalent basis. The increase in average loans reflected the second quarter 2016 purchase of approximately $60 million of lease contracts in addition to organic growth in leasing, SBA and SBLOC lending. Our average investment securities decreased to $1.42 billion for third quarter 2016 from $1.46 billion for third quarter 2015, and related tax equivalent interest income decreased $759,000 on a tax equivalent basis. The decrease in the securities portfolio reflected maturities which were reinvested in loans which carry higher yields.

Our net interest margin (calculated by dividing net interest income by average interest earning assets) for the third quarter of 2016 increased to 2.69% from 2.34% in the third quarter of 2015, an increase of 35 basis points. The increase in the net interest margin reflected higher yields on loans and reduced balances of lower yielding deposits at the Federal Reserve Bank. In the first quarter of 2016, we exited certain higher cost deposit relationships which reduced excess balances at the Federal Reserve Bank which lowered third quarter 2016 averages.

In the third quarter of 2016, the average yield on our loans increased to 4.19% from 3.86% for the third quarter of 2015, an increase of 33 basis points. The increase in loan yields reflected a greater proportion of higher yielding loans including leases and SBA loans and the impact of the December 2015 25 basis point Federal Reserve Bank increase in overnight rates. Yields on taxable investment securities in the third quarter of 2016 increased to 2.43% compared to 1.94% for the third quarter of 2015, an increase of 49 basis points. The increase reflected the impact of the aforementioned 25 basis point Federal Reserve Bank rate increase. Yields on non-taxable investments were lower at 1.79% compared to 3.67%, respectively, a decrease of 188 basis points. The reduction reflected the sale of the vast majority of our tax exempt portfolio in the fourth quarter of 2015 for tax planning purposes to expedite the utilization of deferred tax assets. Average interest earning deposits at the Federal Reserve Bank decreased $632.9 million, or 66.1% to $324.2 million in the third quarter of 2016 from $957.1 million in the third quarter of 2015. The decrease reflected the impact of the first quarter 2016 exit of certain non-strategic deposits to reduce excess Federal Reserve Bank balances which earn nominal rates. The interest cost of total deposits and interest bearing liabilities was relatively stable at 0.33% for the third quarter of 2016 compared to 0.31% in the third quarter of 2015.

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 September 30, 2016 Average Balance (dollars in thousands)	Interest	Average Rate	2015 Average Balance	Interest	Av Ra
Assets:						
Interest earning assets:						
Loans net of unearned fees and costs **	$ 1,661,807	$ 17,425	4.19%	$ 1,292,533	$ 12,466	3.8
Leases - bank qualified*	21,006	418	7.96%	30,091	530	7.0
Investment securities-taxable	1,373,776	8,350	2.43%	940,590	4,562	1.9
Investment securities-nontaxable*	48,683	218	1.79%	518,691	4,765	3.6
Interest earning deposits at Federal Reserve Bank	324,179	397	0.49%	957,078	580	0.2
Federal funds sold and securities purchased under agreement to resell	39,392	146	1.48%	40,705	143	1.4
Net interest earning assets	3,468,843	26,954	3.11%	3,779,688	23,046	2.4
Allowance for loan and lease losses	(5,267)			(4,385)		
Assets held for sale from discontinued operations	459,400	3,891	3.39%	627,806	6,343	4.0
Other assets	246,171			286,839		
	$ 4,169,147			$ 4,689,948		
Liabilities and shareholders' equity:						
Deposits:						
Demand and interest checking	$ 3,249,801	$ 2,379	0.29%	$ 3,998,798	$ 2,850	0.2
Savings and money market	392,045	423	0.43%	337,793	426	0.5
Time	76,931	104	0.54%	410	1	0.9
Total deposits	3,718,777	2,906	0.31%	4,337,001	3,277	0.3

Short-term borrowings	102,243		153		0.60%	-		-		0.0
Repurchase agreements	376		-		0.00%	1,606		1		0.2
Subordinated debt	13,401		131		3.91%	13,401		117		3.4
Total deposits and interest bearing liabilities	3,834,797		3,190		0.33%	4,352,008		3,395		0.3
Other liabilities	19,670					12,957				
Total liabilities	3,854,467					4,364,965				
Shareholders' equity	314,680					324,983				
	$	4,169,147				$	4,689,948			
Net interest income on tax equivalent basis *			$	27,655				$	25,994	
Tax equivalent adjustment			222					1,853		
Net interest income			$	27,433				$	24,141	
Net interest margin *					2.69%					2.3

* Full taxable equivalent basis, using a 35% statutory tax rate.
** Includes loans held for sale.

For the third quarter of 2016, average interest earning assets decreased to $3.47 billion, a decrease of $310.8 million, or 8.2% from the third quarter of 2015. The decrease reflected a $36.8 million, or 2.5%, decrease of average investment securities and a $632.9 million, or 66.1% decrease, of average interest earning deposits at the Federal Reserve Bank, net of increases in average balances of loans and

44

leases of $360.2 million, or 27.2%. Average demand and interest checking deposits decreased $749.0 million, or 18.7%, which resulted from planned deposit exits to decrease such excess balances. Those exits also resulted in lower balances at the Federal Reserve Bank , which earn a nominal rate of interest.

Provision for Loan and Lease Losses. Our provision for loan and lease losses was $750,000 for the third quarter of 2016 compared to $625,000 for the third quarter of 2015. The allowance for loan losses increased to $6.1 million or 0.51% of total loans at September 30, 2016, from $4.4 million or 0.41% of total loans at December 31, 2015. We believe that our allowance is adequate to cover expected losses For more information about our provision and allowance for loan and lease losses and our loss experience, see "Financial Condition-Allowance for loan and lease losses", "-Net charge-offs," and "-Non-performing loans, loans 90 days delinquent and still accruing, and troubled debt restructurings," below and Note 6 to the financial statements.

Non-Interest Income. Non-interest income was $18.9 million in the third quarter of 2016 compared to $17.6 million in the third quarter of 2015 before gains on sale of investment securities of $981,000 in the third quarter of 2016 and a loss on sale of investment securities of $335,000 in the third quarter of 2015. The $1.3 million, or 7.3% increase, between those respective periods reflected a $1.7 million increase in gain on sale of loans to $903,000 in the third quarter of 2016. The increase in the third quarter of 2016 compared to the third quarter of 2015 reflected a higher volume of loans held for sale which are fair valued at quarter end. Prepaid card fees increased by $757,000, or 6.6%, to $12.2 million for third quarter 2016. The increase reflected increased volumes and associated revenues attributable to that volume. Debit card income decreased $472,000, or 110.5%, to a loss of $45,000 for the third quarter of 2016 from income of $427,000 for the third quarter of 2015 which reflected a decrease in income due to the sale of the majority of our health savings accounts in the fourth quarter of 2015. That sale also resulted in a reduction in service fees on deposit accounts which decreased $409,000, or 21.3%, to $1.5 million between those respective periods. Affinity fees increased slightly by $8,000, or 0.7%, to $1.1 million for the third quarter of 2016 from $1.1 million for the third quarter of 2015. The increase resulted from the growth in one affinity relationship. Other non-interest income decreased $101,000, or 22.1%, to $357,000 for the third quarter of 2016 from $458,000 in the third quarter of 2015. A $981,000 gain on sale of investment securities resulted primarily from securities sales of municipal bonds for credit reasons, based on the recommendation of a third party specialist.

Non-Interest Expense. Total non-interest expense was $44.2 million for the third quarter of 2016, a decrease of $3.6 million, or 7.6%, over $47.8 million for the third quarter of 2015. The decrease included a decline of $10.3 million for BSA lookback consulting expenses, discussed previously. Salaries and employee benefits amounted to $21.5 million, an increase of $4.7 million, or 28.3%, over $16.8 million for the third quarter of 2015. The increase in salaries and employee benefits reflected staff additions and related expense for increased BSA and other regulatory compliance functions and included temporary staff expense for the BSA lookback. Other increases reflected new staff positions in operations and infrastructure and leasing, including expense resulting from the purchase of lease receivables in the second quarter of 2016. Third quarter 2016 salary expense also reflected $1.3 million of severance for the elimination of approximately 20% of staff positions throughout the Bank. The reductions occurred at the end of the quarter and related reductions in ongoing salary expense and other expense categories will be reflected in future quarters. Depreciation and amortization increased $70,000, or 6.0%, to $1.2 million in the third quarter of 2016 from $1.2 million in the third quarter of 2015, which reflected increased depreciation costs related to leasehold improvements and equipment for staff additions and information technology upgrades. Rent and occupancy increased $80,000, or 5.1%, to $1.6 million in the third quarter of 2016 from $1.6 million in the third quarter of 2015. The increase reflected a new sales office in San Francisco, leasing sales offices in Washington state and New Jersey and an SBA office in North Carolina. Data processing increased modestly by $22,000, or 0.6%, to $3.8 million in the third quarter of 2016 from $3.7 million in the third quarter of 2015. Printing and supplies increased $203,000, or 32.6%, to $825,000 in the third quarter of 2016 from $622,000 in the third quarter of 2015, which reflected mailings related to service charge increases and other periodic communications with customers. Audit expense decreased $151,000, or 38.0%, to $246,000 in the third quarter of 2016 from $397,000 in the third quarter of 2015 which reflected the transfer of certain audit functions in house. Legal expense increased $387,000, or 90.6%, to $814,000 in the third quarter of 2016 from $427,000 in the third quarter of 2015 primarily as a result of regulatory costs including fees associated with an SEC subpoena related to the restatement of the financial statements (see "Financial Statements; Regulatory Actions"). Amortization of intangible assets increased $96,000, or 32.2%, to $394,000 for the third quarter of 2016 from $298,000 for the third quarter of 2015. The increase resulted primarily from the amortization of the intangible asset resulting from the second quarter 2016 purchase of $60 million of lease receivables. FDIC insurance expense decreased $264,000, or 9.8%, to $2.4 million for the third quarter of 2016 from $2.7 million in the third quarter of 2015 reflecting the impact of decreased average deposits. Software expense increased $850,000, or 44.3%, to $2.8 million in the third quarter of 2016 from $1.9 million in the third quarter of 2015 as a result of additional information technology infrastructure to improve efficiency and scalability, including BSA software required to satisfy regulatory requirements. Insurance expense increased $149,000, or 30.9%, to $631,000 in the third quarter 2016 compared to $482,000 in the third quarter of 2015. The increase reflected higher cyber and director and officer coverages. Telecom and IT network communications increased $124,000, or 27.1%, to $582,000 in the third quarter of 2016 from $458,000 in the third quarter of 2015. Securitization and servicing expense decreased $398,000, or 100.0%, to $0 for the third quarter of 2016 from $398,000 for the third quarter of 2015 as there were no sales in the third quarter of 2016. Consulting increased $576,000, or 51.2%, to $1.7 million in the third quarter of 2016 from $1.1 million in the third quarter of 2015. The increased expense reflected consulting related to reducing European prepaid operations expense, a more scalable SBLOC loan processing system and consulting for internal information systems report development. Other non-interest expense increased $239,000, or 5.9%, to $4.3 million in the third quarter of 2016 from $4.0 million in the third quarter of 2015. The increase reflected an increase in credit bureau expense of approximately $150,000.

Loss on Discontinued Operations and Change in Value of Unconsolidated Entity. The results of the third quarter of 2016 reflected a fair value charge in connection with a secured commercial real estate lending relationship held in discontinued operations. Related loans, in the principal amount of $41.9 million, became 90 days delinquent after the quarter ended September 30, 2016 due to the failure to make required principal payments. The loans are secured by a Florida shopping mall with multiple major department store anchors and over 70 various retail tenants. Based on an appraisal of the collateral value by an independent certified appraiser, the fair value was reduced by $23.9 million, and that amount was recorded as a charge to earnings. The reduction in the carrying value of the loan does not reflect any recovery on a personal guarantee that the Bank also has as additional security. There can be no assurance that any recovery will be made on the personal guarantee.   Valuation allowances against resulting cumulative deferred tax assets offset tax benefits related to the loss and no benefit was recognized. Valuation allowances are expected to be reversed and increase after tax income in future periods based on our financial projections but there can be no assurance those projections will be realized.

Income Taxes. Income tax expense for continuing operations was $55,000 for the third quarter of 2016 compared to a benefit of $5.7 million in the third quarter of 2015. The 34% statutory rate tax benefit relating to the continuing and discontinued losses which would normally reduce the after tax losses, were offset by valuation allowances against cumulative deferred tax assets. As noted in the previous paragraph, these valuation allowances are expected to reverse in future periods.

First nine months 2016 to first nine months 2015

Net Income: Net loss from continuing operations for the first nine months of 2016 was $29.8 million, or $.73 per diluted share, compared to net loss of $11.9 million, or $.32 per diluted share for the first nine months of 2015. After discontinued operations, net loss for the first nine months of 2016 was $67.7 million compared to net loss of $5.2 million for the first nine months of 2015. A $13.6 million increase in net interest income was offset by a $17.9 million decrease in non-interest income (excluding security gains), a $2.4 million increase in BSA lookback-related consulting expenses and a $12.7 million increase in salaries and employee benefits. Non-interest income (excluding security gains) decreased to $45.0 million in the first nine months of 2016 from $62.9 million in the first nine months of 2015, which reflected a $15.5 million decrease in change in value of investment in an unconsolidated entity and a $5.9 million decrease in gain on sale of loans. The $15.5 million decrease between those respective periods reflected a $14.7 million second quarter 2016 charge against change in value of investment in unconsolidated entity (see “Loss on Discontinued Operations and Change in Value of Unconsolidated Entity”) in Form 10-Q for the quarter ended June 30, 2016. The decrease in gain on sale of loans reflected lower margins resulting from increased credit spreads. As credit spreads increase, loan sale prices and related margins decrease. Net interest income increased to $65.0 million from $51.3 million primarily as a result of higher loan balances and yields. The provision for loan and lease losses increased $10,000 to $1.8 million in the first nine months of 2016 compared to $1.8 million in the first nine months of 2015. Net loss from discontinued operations was $37.9 million for the first nine months of 2016, compared to net income of $6.7 million from discontinued operations for the first nine months of 2015. Diluted loss per share was $1.65 for the first nine months of 2016 compared to diluted loss per share of $0.14 for the first nine months of 2015.

Net Interest Income: Our net interest income for the first nine months of 2016 increased to $65.0 million, an increase of $13.6 million, or 26.6%, from $51.3 million in the first nine months of 2015. Our interest income for the first nine months of 2016 increased to $74.3 million, an increase of $13.0 million, or 21.3%, from $61.3 million for the first nine months of 2015. The increase in interest income resulted primarily from higher balances of loans and higher yields. Our average loans and leases increased to $1.56 billion for the first nine months of 2016 from $1.22 billion for the first nine months of 2015, while related interest income increased $13.9 million on a tax equivalent basis. Our average investment securities decreased to $1.34 billion for the first nine months of 2016 from $1.51 billion for the first nine months of 2015, while related interest income decreased $5.3 million on a tax equivalent basis. The decrease reflected the time required to reinvest the proceeds from the fourth quarter 2015 sale of our municipal portfolio and continuing loan demand which resulted in fewer investment purchases.

Our net interest margin (calculated by dividing net interest income by average interest earning assets) for the first nine months of 2016 increased to 2.57% from 2.32% in the first nine months of 2015, an increase of 25 basis points. The increase in the net interest margin reflected higher yields on loans and reduced balances of lower yielding deposits at the Federal Reserve Bank. In the first nine months of 2016, the average yield on our loans increased to 4.15% from 3.83% for the first nine months of 2015, an increase of 32 basis points. The increase in loan yields reflected a greater proportion of higher yielding loans including leases and SBA loans. The increase in loan yields also reflected a greater proportion of higher yielding loans originated for sale in secondary markets, and the impact of the December 2015, 25 basis point Federal Reserve Bank increase. Yields on taxable investment securities were higher at 2.37% compared to 1.98% an increase of 39 basis points. The increase reflected the impact of the aforementioned 25 basis point Federal Reserve Bank rate increase. Additionally, yields on non-taxable investments were lower at 2.19% compared to 3.67%. The reduction reflected the sale of the vast majority of our tax exempt portfolio in the fourth quarter of 2015 for tax planning purposes to expedite the utilization of deferred tax assets. Average interest earning deposits at the Federal Reserve Bank decreased $511.0 million, or 51.0%, to $490.0 million in the first nine months of 2016 from $1.0 billion in the first nine months of 2015. The decrease reflected the impact of the first quarter 2016 exit of certain non-strategic deposits to reduce excess Federal Reserve Bank balances which earn a nominal rate. The interest cost of total deposits and interest bearing liabilities was relatively stable at 0.32% for the first nine months of 2016 compared to 0.30% in the first nine months of 2015.

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:

	Nine months ended September 30, 2016 Average Balance (dollars in thousands)	Interest	Average Rate	2015 Average Balance	Interest	Av Ra
Assets:						
Interest earning assets:						
Loans net of unearned fees and costs **	$ 1,543,448	$ 48,061	4.15%	$ 1,192,939	$ 34,231	3.8
Leases - bank qualified*	20,618	1,334	8.63%	23,936	1,247	6.9
Investment securities-taxable	1,280,692	22,782	2.37%	983,557	14,628	1.9
Investment securities-nontaxable*	59,892	983	2.19%	524,913	14,443	3.6
Interest earning deposits at Federal Reserve Bank	490,037	1,677	0.46%	1,001,027	1,759	0.2
Federal funds sold and securities purchased under agreement to resell	27,414	301	1.46%	43,724	465	1.4
Net interest earning assets	3,422,101	75,138	2.93%	3,770,096	66,773	2.3
Allowance for loan and lease losses	(4,538)			(4,089)		
Assets held for sale from discontinued operations	528,168	15,037	3.80%	743,594	22,275	3.9
Other assets	283,171			293,561		
	$ 4,228,902			$ 4,803,162		
Liabilities and shareholders' Equity:						
Deposits:						
Demand and interest checking	$ 3,325,047	$ 7,217	0.29%	$ 4,122,409	$ 8,293	0.2
Savings and money market	390,202	1,028	0.35%	323,307	1,286	0.
Time	103,624	447	0.58%	1,066	12	1.
Total deposits	3,818,873	8,692	0.30%	4,446,782	9,591	0.2
Short-term borrowings	58,056	263	0.60%	-	-	0.0
Repurchase agreements	812	1	0.16%	6,598	14	0.2
Subordinated debt	13,401	383	3.81%	13,401	328	3.2
Total deposits and interest bearing	3,891,142	9,339	0.32%	4,466,781	9,933	0.3

liabilities		
Other liabilities	21,306	9,702
Total liabilities	3,912,448	4,476,483
Shareholders' equity	316,454	326,679
	$ 4,228,902	$ 4,803,162