Bancorp, Inc.
Form 10-Q
November 10, 2014
Table of Contents

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, 2014

OR

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

For the transition period from: _____ to _____

Commission file number: 51018

THE BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

Yes [X] No [ ]

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

Yes [X] No [ ]

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

(Check one):

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

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

Yes [ ] No [X]

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

As of November 5, 2014 there were 37,708,862 outstanding shares of common stock, $1.00 par value.

THE BANCORP, INC

Form 10-Q Index

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

THE BANCORP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS

	September 30, 2014 (in thousands)	December 31, 2013
ASSETS		
Cash and cash equivalents		
Cash and due from banks	$ 9,913	$ 31,890
Interest earning deposits at Federal Reserve Bank	430,117	1,196,515
Securities purchased under agreements to resell	55,450	7,544
Total cash and cash equivalents	495,480	1,235,949
Investment securities, available-for-sale, at fair value	1,442,049	1,253,117
Investment securities, held-to-maturity (fair value $94,889 and $95,030, respectively)	96,951	97,205
Commercial loans held for sale	136,115	69,904
Loans, net of deferred loan fees and costs	866,765	655,320
Allowance for loan and lease losses	(4,390)	(2,164)
Loans, net	862,375	653,156
Federal Home Loan and Atlantic Central Bankers Bank stock	3,409	3,209
Premises and equipment, net	17,536	15,659
Accrued interest receivable	11,272	8,747
Intangible assets, net	6,573	7,612
Other real estate owned	725	-
Deferred tax asset, net	41,601	30,415
Assets held for sale	1,143,380	1,299,914
Other assets	39,046	31,178
Total assets	$ 4,296,512	$ 4,706,065
LIABILITIES		
Deposits		
Demand and interest checking	$ 3,412,593	$ 3,585,241
Savings and money market	241,518	434,834

Time deposits	24	142
Time deposits, $100,000 and over	-	100
Total deposits	3,654,135	4,020,317
Securities sold under agreements to repurchase	21,496	21,221
Subordinated debenture	13,401	13,401
Liabilities held for sale	227,898	253,203
Other liabilities	23,192	38,319
Total liabilities	3,940,122	4,346,461
SHAREHOLDERS' EQUITY		
Common stock - authorized, 50,000,000 shares of $1.00 par value; 37,808,777 and 37,720,945 shares issued at September 30, 2014 and December 31, 2013, respectively	37,809	37,721
Treasury stock, at cost (100,000 shares)	(866)	(866)
Additional paid-in capital	297,122	294,576
Retained earnings	10,957	27,615
Accumulated other comprehensive income	11,368	558
Total shareholders' equity	356,390	359,604
Total liabilities and shareholders' equity	$ 4,296,512	$ 4,706,065

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

4

Table of Contents

THE BANCORP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Interest income				
Loans, including fees	$ 9,175	$ 7,227	$ 26,439	$ 20,460
Interest on investment securities:				
Taxable interest	5,311	4,057	15,804	11,345
Tax-exempt interest	3,157	1,326	8,197	2,924
Federal funds sold/securities purchased under agreements to resell	105	157	296	279
Interest bearing deposits	285	438	1,460	1,781
	18,033	13,205	52,196	36,789
Interest expense				
Deposits	2,523	2,401	7,697	6,947
Securities sold under agreements to repurchase	14	13	37	39
Subordinated debenture	116	115	344	433
	2,653	2,529	8,078	7,419
Net interest income	15,380	10,676	44,118	29,370
Provision for loan and lease losses	965	379	3,420	461
	14,415	10,297	40,698	28,909

Net interest income after provision for loan and lease losses				
Non-interest income				
Service fees on deposit accounts	1,640	1,238	4,146	3,296
Card payment and ACH processing fees	1,369	1,027	3,989	2,940
Prepaid card fees	12,307	10,177	38,673	33,682
Gain on sale of loans	2,772	4,739	13,468	12,665
Gain on sale of investment securities	(35)	42	365	785
Other than temporary impairment on securities held-to-maturity	-	-	-	(20)
Leasing income	840	624	2,236	1,853
Debit card income	414	158	1,296	555
Affinity fees	649	722	1,851	2,428
Other	299	449	1,217	1,936
Total non-interest income	20,255	19,176	67,241	60,120
Non-interest expense				
Salaries and employee benefits	13,935	13,321	44,824	38,927
Depreciation and amortization	1,178	934	3,361	2,665
Rent and related occupancy cost	1,274	986	3,423	2,826
Data processing expense	3,315	2,710	10,033	7,956
Printing and supplies	492	352	1,637	1,191
Audit expense	356	347	1,132	963
Legal expense	557	642	1,489	932
Amortization of intangible assets	304	250	912	750
FDIC insurance	1,492	895	4,297	2,729
Software	1,158	933	3,449	2,672
Bank Secrecy Act and lookback consulting	2,749	-	4,918	-

expenses				
Other	6,325	5,014	18,880	13,075
Total non-interest expense	33,135	26,384	98,355	74,686
Income from continuing operations before income tax expense	1,535	3,089	9,584	14,343
Income tax provision	45	935	282	4,344
Net income from continuing operations	$ 1,490	$ 2,154	$ 9,302	$ 9,999
Net income (loss) from discontinued operations, net of tax	(18,295)	2,634	(25,471)	7,787
Net income (loss) available to common shareholders	$ (16,805)	$ 4,788	$ (16,169)	$ 17,786
Net income per share from continuing operations - basic	$ 0.04	$ 0.06	$ 0.25	$ 0.27

5

Table of Contents

Net income (loss) per share from discontinued operations - basic	$	(0.49)	$	0.07	$	(0.68)	$	0.21
Net income (loss) per share - basic	$	(0.45)	$	0.13	$	(0.43)	$	0.48
Net income per share from continuing operations - diluted	$	0.04	$	0.06	$	0.25	$	0.26
Net income (loss) per share from discontinued operations - diluted	$	(0.49)	$	0.07	$	(0.68)	$	0.21
Net income (loss) per share - diluted	$	(0.45)	$	0.13	$	(0.43)	$	0.47

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

6

Table of Contents

THE BANCORP INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the nine months ended September 30, 2014	2013
	(in thousands)	
Net income (loss)	$ (16,169)	$ 17,786
Other comprehensive income (loss), net of reclassifications into net income:		
Other comprehensive income (loss)		
Change in net unrealized gain/(loss) during the period	16,979	(9,717)
Reclassification adjustments for gains included in income	(364)	(785)
Amortization of losses previously held as available-for-sale	16	87
Net unrealized gain/(loss) on investment securities	16,631	(10,415)
Deferred tax expense (benefit)		
Securities available-for-sale		
Change in net unrealized gain/(loss) during the period	5,943	(3,401)
Reclassification adjustments for gains included in income	(128)	(275)
Amortization of losses previously held as available-for-sale	6	30
Income tax expense (benefit) related to items of other comprehensive income (loss)	5,821	(3,646)
Other comprehensive income (loss), net of tax and reclassifications into net income	10,810	(6,769)
Comprehensive income (loss)	$ (5,359)	$ 11,017

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

7

Table of Contents

THE BANCORP INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the nine months ended September 30, 2014

(in thousands, except share data)

	Common stock shares	Common stock	Treasury stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Total
Balance at January 1, 2014	37,720,945	$ 37,721	$ (866)	$ 294,576	$ 27,615	$ 558	$ 359,6
Net loss					(16,169)		(16,169)
Common stock issued from option exercises, net of tax benefits	9,249	9	-	94	-	-	103
Common stock issued from option exercises, cashless exercise, net of tax benefits	29,208	30	-	459	(489)	-	-
Common stock issued as restricted shares, net of tax benefits	49,375	49		(49)			-
Stock-based compensation	-	-	-	2,042	-	-	2,042
Other comprehensive income net of reclassification adjustments	-	-	-	-	-	10,810	10,810

and tax													
Balance at September 30, 2014	37,808,777	$	37,809	$	(866)	$	297,122	$	10,957	$	11,368	$	356,3

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

8

Table of Contents

THE BANCORP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

	For the nine months ended September 30,	
	2014	2013
Operating activities		
Net income (loss)	$ (16,169)	$ 17,786
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	5,146	4,341
Provision for loan and lease losses	3,420	461
Net amortization of investment securities discounts/premiums	7,448	4,660
Stock-based compensation expense	2,042	2,357
Loans originated for sale	(427,937)	(189,327)
Sale of loans originated for resale	375,194	215,092
Gain on sales of loans originated for resale	(13,468)	(12,665)
Gain (loss) on sale of fixed assets	(2)	1
Other than temporary impairment on securities held-to-maturity	-	20
Gain on sales of investment securities	(365)	(785)
Increase in accrued interest receivable	(2,525)	(2,944)
Decrease in interest payable	-	(30)
Decrease in other assets	(25,821)	(280)
Decrease (increase) in assets held for sale	156,534	(17,874)
Decrease in liabilities held for sale	(25,306)	(27,763)
Increase (decrease) in other liabilities	(15,127)	16,363
Net cash provided by operating activities	23,064	9,413
Investing activities		
Purchase of investment securities available-for-sale	(402,168)	(607,528)
Purchase of investment securities held-to-maturity	-	(52,899)
Proceeds from sale of investment securities available-for-sale	78,793	61,962
Proceeds from redemptions and prepayments of securities held-to-maturity	195	606
Proceeds from redemptions and prepayments of securities available-for-sale	144,051	174,895
Net increase in loans	(213,364)	(108,425)
Proceeds from sale of fixed assets	14	99
Purchases of premises and equipment	(5,250)	(6,649)
Net cash used in investing activities	(397,729)	(537,939)

Financing activities		
Net increase (decrease) in deposits	(366,182)	283,632
Net increase in securities sold under agreements to repurchase	275	3,509
Proceeds from issuance of common stock	-	1,629
Proceeds from the exercise of options	103	1,653
Net cash (used in) provided by financing activities	(365,804)	290,423
Net decrease in cash and cash equivalents	(740,469)	(238,103)
Cash and cash equivalents, beginning of period	1,235,949	966,588
Cash and cash equivalents, end of period	$ 495,480	$ 728,485
Supplemental disclosure:		
Interest paid	$ 8,104	$ 8,054
Taxes paid	$ 2,578	$ 11,445
Transfers of loans to other real estate owned	$ 725	$ -
Transfers of loans to held for sale	$ -	$ 27,316

9

Table of Contents

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

THE BANCORP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLDIATED FINANCIAL STATEMENTS

Note 1. Structure of Company

The Bancorp, Inc. (the Company) is a Delaware corporation and a registered financial holding company. Its primary subsidiary is The Bancorp Bank (the Bank) which is wholly owned by the Company. The Bank is a Delaware chartered commercial bank located in Wilmington, Delaware and is a Federal Deposit Insurance Corporation (FDIC) insured institution. Through the Bank, the Company provides banking services nationally, including prepaid debit cards, health savings accounts, institutional banking and private label banking. In Europe, the Company maintains three operational service subsidiaries and one subsidiary through which it offers prepaid card issuing services. The principal medium for the delivery of the Company's banking services is the Internet. The Bank is also engaged in specialty lending and offers Small Business Administration (" SBA") loans, leases and security backed lines of credit ("SBLOC") nationally. The Bank's commercial mortgage backed securities department originates loans nationally for sale into secondary markets.

Note 2. Significant Accounting Policies

Basis of Presentation

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

Note 3. Share-based Compensation

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

The Company did not grant stock options in the first nine months of 2014. In the first quarter of 2013, the Company granted 215,000 common stock options; 35,000 had a vesting period of one year and 180,000 had a vesting period of four years. The weighted-average fair value of the stock options issued was $4.85. There were 63,874 common stock options exercised in the nine month period ended September 30, 2014 and 605,494 common stock options exercised in the nine month period ended September 30, 2013. The total intrinsic value of the options exercised during the nine months ended September 30, 2014 and 2013 was $619,000 and $523,000, respectively.

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

	September 30,	
	2014	2013
Risk-free interest rate	-	1.86%
Expected dividend yield	-	-
Expected volatility	-	49.71%-56.81%

10

Table of Contents

Expected lives (years)	-	4.03-4.22

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

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

	Shares	Weighted average exercise price		Weighted-average remaining contractual term (years)	Aggregate intrinsic value	
	(in thousands, except per share data)					
Outstanding at January 1, 2014	2,620,874	$	9.70			
Granted	-	-		-	-	
Exercised	(63,874)	9.27		-	-	
Expired	-	-		-	-	
Forfeited	-	-		-	-	
Outstanding at September 30, 2014	2,557,000	$	9.71	5.56	$	-
Exercisable at September 30, 2014	1,996,500	$	9.92	5.08	$	-

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

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

	Shares	Weighted-average grant date fair value	Average remaining contractual term (years)
Outstanding at January 1, 2014	197,841	$ 10.46	2.3
Granted	-	-	-
Vested	(49,460)	-	-
Expired/forfeited	-	-	-
Outstanding at September 30, 2014	148,381		

As of September 30, 2014, there was a total of $3.0 million of unrecognized compensation cost related to unvested awards under share-based plans. This cost is expected to be recognized over a weighted average period of 1.0 year. Related compensation expense for the nine months ended September 30, 2014 and 2013 was $2.0 million and $2.5 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.

Table of Contents

Diluted earnings per share takes into account the potential dilution that could occur if securities or other contracts to issue common stock were exercised and converted into common stock.

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

	For the three months ended September 30, 2014		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except per share data)		
Basic earnings per share from continuing operations			
Net income available to common shareholders	$ 1,490	37,708,862	$ 0.04
Effect of dilutive securities			
Common stock options	-	395,110	-
Diluted earnings per share			
Net income available to common shareholders	$ 1,490	38,103,972	$ 0.04

	For the three months ended September 30, 2014		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except per share data)		
Basic loss per share from discontinued operations			
Net loss available to common shareholders	$ (18,295)	37,708,862	$ (0.49)
Effect of dilutive securities			
Common stock options	-	-	-
Diluted loss per share			
Net loss available to common shareholders	$ (18,295)	37,708,862	$ (0.49)

	For the three months ended September 30, 2014				
	Income (numerator)		Shares (denominator)	Per share amount	
	(dollars in thousands except per share data)				
Basic earnings per share					
Net loss available to common shareholders	$	(16,805)	37,708,862	$	(0.45)
Effect of dilutive securities					
Common stock options	-		-	-	
Diluted loss per share					
Net loss available to common shareholders	$	(16,805)	37,708,862	$	(0.45)

Stock options for 2,557,000 shares, exercisable at prices between $7.81and $25.43 per share, were outstanding at September 30, 2014 but were not included in dilutive shares because the the Company had a net loss available to common shareholders.

	For the nine months ended September 30, 2014				
	Income (numerator)		Shares (denominator)	Per share amount	
	(dollars in thousands except per share data)				
Basic earnings per share from continuing operations					
Net income available to common shareholders	$	9,302	37,698,759	$	0.25

Table of Contents

Effect of dilutive securities					
Common stock options	-		730,443	-	
Diluted earnings per share					
Net income available to common shareholders	$	9,302	38,429,202	$	0.25

	For the nine months ended September 30, 2014				
	Income (numerator)		Shares (denominator)	Per share amount	
	(dollars in thousands except per share data)				
Basic loss per share from discontinued operations					
Net loss available to common shareholders	$	(25,471)	37,698,759	$	(0.68)
Effect of dilutive securities					
Common stock options	-		-	-	
Diluted loss per share					
Net loss available to common shareholders	$	(25,471)	37,698,759	$	(0.68)

	For the nine months ended September 30, 2014				
	Income (numerator)		Shares (denominator)	Per share amount	
	(dollars in thousands except per share data)				
Basic loss per share					
Net loss available to common shareholders	$	(16,169)	37,698,759	$	(0.43)
Effect of dilutive securities					
Common stock options	-		-	-	
Diluted loss per share					
Net loss available to common shareholders	$	(16,169)	37,698,759	$	(0.43)

Stock options for 2,557,000 shares exercisable at prices between $7.36 and $25.43 per share, were outstanding at September 30, 2014 but were not included in dilutive shares because the the Company had a net loss available to common shareholders.

	For the three months ended September 30, 2013		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except per share data)		
Basic earnings per share from continuing operations			
Net income available to common shareholders	$ 2,154	37,440,838	$ 0.06
Effect of dilutive securities			
Common stock options	-	842,479	-
Diluted earnings per share			
Net income available to common shareholders	$ 2,154	38,283,317	$ 0.06

	For the three months ended September 30, 2013		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except per share data)		
Basic earnings per share from discontinued operations			

13

Table of Contents

Net income available to common shareholders	$ 2,634	37,440,838	$ 0.07
Effect of dilutive securities			
Common stock options	-	842,479	-
Diluted earnings per share			
Net income available to common shareholders	$ 2,634	38,283,317	$ 0.07

	For the three months ended September 30, 2013		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except per share data)		
Basic earnings per share			
Net income available to common shareholders	$ 4,788	37,440,838	$ 0.13
Effect of dilutive securities			
Common stock options	-	842,479	-
Diluted earnings per share			
Net income available to common shareholders	$ 4,788	38,283,317	$ 0.13

Stock options for 13,000 shares, exercisable at prices between $20.98 and $25.43 per share, were outstanding at September 30, 2013 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, 2013		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except per share data)		
Basic earnings per share from continuing operations			
Net income available to common shareholders	$ 9,999	37,359,230	$ 0.27
Effect of dilutive securities			
Common stock options	-	618,878	(0.01)
Diluted earnings per share			
Net income available to common shareholders	$ 9,999	37,978,108	$ 0.26

	For the nine months ended September 30, 2013				
	Income (numerator)		Shares (denominator)	Per share amount	
	(dollars in thousands except per share data)				
Basic earnings per share from discontinued operations					
Net income available to common shareholders	$	7,787	37,359,230	$	0.21
Effect of dilutive securities					
Common stock options	-		618,878	-	
Diluted earnings per share					
Net income available to common shareholders	$	7,787	37,978,108	$	0.21

For the nine months ended September 30, 2013		
Income (numerator)	Shares (denominator)	Per share amount
(dollars in thousands except per share data)		

14

Table of Contents

Basic earnings per share				
Net income available to common shareholders	$	17,786	37,359,230	$ 0.48
Effect of dilutive securities				
Common stock options	-		618,878	(0.01)
Diluted earnings per share				
Net income available to common shareholders	$	17,786	37,978,108	$ 0.47

Stock options for 473,750 shares, exercisable at prices between $15.94 and $25.43 per share, were outstanding at September 30, 2013 but were not included in dilutive shares because the exercise share price was greater than the average market price.

Note 5. Investment Securities

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

Available-for-sale	September 30, 2014			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Government agency securities	$ 16,731	$ 35	$ -	$ 16,766
Federally insured student loan securities	127,384	1,061	(67)	128,378
Tax-exempt obligations of states and political subdivisions	531,925	13,945	(155)	545,715
Taxable obligations of states and political subdivisions	60,311	2,238	(158)	62,391
Residential mortgage-backed securities	363,986	2,669	(1,168)	365,487
Commercial mortgage-backed securities	134,447	1,384	(1,268)	134,563
Corporate and other debt securities	188,795	506	(552)	188,749
	$ 1,423,579	$ 21,838	$ (3,368)	$ 1,442,049

Held-to-maturity	September 30, 2014			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Other debt securities - single issuers	$ 21,041	$ 500	$ (4,162)	$ 17,379
Other debt securities - pooled	75,910	1,600	-	77,510
	$ 96,951	$ 2,100	$ (4,162)	$ 94,889

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

Held-to-maturity	December 31, 2013			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Other debt securities - single issuers	$ 21,027	$ 367	$ (4,222)	$ 17,172

Table of Contents

Other debt securities - pooled	76,178	1,680	-	77,858
	$ 97,205	$ 2,047	$ (4,222)	$ 95,030

Investments in Federal Home Loan and Atlantic Central Bankers Bank stock are recorded at cost and amounted to $3.4 million and $3.2 million, respectively, at September 30, 2014 and December 31, 2013.

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

	Available-for-sale		Held-to-maturity	
	Amortized cost	Fair value	Amortized cost	Fair value
Due before one year	$ 88,539	$ 88,761	$ -	$ -
Due after one year through five years	338,095	339,616	7,021	7,420
Due after five years through ten years	296,632	302,644	3,172	2,889
Due after ten years	700,313	711,028	86,758	84,580
	$ 1,423,579	$ 1,442,049	$ 96,951	$ 94,889

At September 30, 2014 and December 31, 2013, investment securities with a book value of approximately $24.2 million and $29.1 million, respectively, were pledged to secure securities sold under repurchase agreements as required or permitted by law.

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

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

Available-for-sale		Less than 12 months		12 months or longer		Total
	Number of securities	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value
Description of Securities						
Federally insured student loan securities	3	-	-	21,625	(67)	21,625
Tax-exempt obligations of states and political subdivisions	45	9,558	(60)	21,629	(95)	31,187
Taxable obligations of states and political subdivisions	18	5,979	(27)	14,463	(131)	20,442
Residential mortgage-backed securities	33	75,281	(512)	43,206	(656)	118,487
Commercial mortgage-backed securities	30	93,270	(1,088)	7,774	(180)	101,044
Corporate and other debt securities	77	69,492	(299)	31,271	(253)	100,763
Total temporarily impaired investment securities	206	$ 253,580	$ (1,986)	$ 139,968	$ (1,382)	$ 393

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						
Single issuers	2	$ -	$ -	$ 7,960	$ (4,162)	$ 7,960
Total temporarily impaired						

16

Table of Contents

investment securities	2	$	-	$	-	$	7,960	$	(4,162)	$	7,960	$

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

Available-for-sale		Less than 12 months		12 months or longer		Total
	Number of securities	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value
Description of Securities						
Federally insured student loan securities	4	$ 3,300	$ -	$ -	$ -	$ 3,3
Tax-exempt obligations of states and political subdivisions	9	50,498	(676)	6,202	(44)	56,700
Taxable obligations of states and political subdivisions	229	169,995	(1,951)	-	-	169,995
Residential mortgage-backed securities	52	46,888	(737)	1,808	(9)	48,696
Commercial mortgage-backed securities	38	147,717	(1,656)	55,064	(606)	202,781
Corporate and other debt securities	26	76,668	(399)	405	(11)	77,073
Other equity securities	101	97,904	(1,024)	4,255	(196)	102,159
Total temporarily impaired investment securities	459	$ 592,970	$ (6,443)	$ 67,734	$ (866)	$ 660,7

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						
Single issuers	2	$ -	$ -	$ 7,887	$ (4,222)	$ 7,887
Total temporarily impaired investment securities	2	$ -	$ -	$ 7,887	$ (4,222)	$ 7,887

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

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

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

The following table provides additional information related to the Company’s single issuer trust preferred securities as of September 30, 2014 (in thousands):

Single issuer	Book value	Fair value	Unrealized gain/(loss)	Credit rating
Security A	$ 1,897	$ 2,000	$ 103	Not rated
Security B	3,172	2,889	(283)	Not rated
Security C	8,950	5,071	(3,879)	Not rated

Class: All of the above are trust preferred securities.

The following table provides additional information related to the Company's pooled trust preferred securities as of September 30, 2014:

Pooled issue	Class	Book value	Fair value	Unrealized gain/(loss)	Credit rating	Subordination

17

Table of Contents

Pool A (7 performing issuers)	Mezzanine *	$ 174	$ 260	$ 86	CAA1	**

* The actual deferrals and defaults as a percentage of the original collateral were 20.27%. Assumed losses resulting from expected deferrals and defaults as a percentage of remaining collateral is .75% annually with 15% recovery with a two year lag.
** There is no excess subordination in these securities.
The Company has evaluated the securities in the above tables and has concluded that none of these securities has impairment that is other-than-temporary. The Company evaluates whether a credit impairment exists by considering primarily the following factors: (a) the length of time and extent to which the fair value has been less than the amortized cost of the security, (b) changes in the financial condition, credit rating and near-term prospects of the issuer, (c) whether the issuer is current on contractually obligated interest and principal payments, (d) changes in the financial condition of the security's underlying collateral and (e) the payment structure of the security. The Company's best estimate of expected future cash flows which is used to determine the credit loss amount is a quantitative and qualitative process that incorporates information received from third-party sources along with internal assumptions and judgments regarding the future performance of the security. The Company concluded that most of the securities that are in an unrealized loss position are in a loss position because of changes in interest rates after the securities were purchased. The securities that have been in an unrealized loss position for 12 months or longer include other securities whose market values are sensitive to interest rates and changes in credit quality. The Company's unrealized loss for 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 and the resultant 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 originates loans for sale to other financial institutions which issue commercial mortgage backed securities or to secondary government guaranteed loan markets. The Company has elected fair value treatment for these loans to better reflect the economics of the transactions. At September 30, 2014 the Company had $136.1 million of loans held for sale, which were originated for sale either to institutions which issue commercial mortgage backed securities or to secondary government guaranteed loan markets. During the nine months ended September 30, 2014, the Company recognized a related fair value gain of $840,000. In the nine months ended September 30, 2014 the Company recognized $13.1 million in gains upon the sale of loans.

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

	September 30, 2014	December 31, 2013
SBA non real estate and student loan commercial	$ 96,079	$ 53,391
SBA commercial mortgage	95,492	75,666
SBA construction	16,472	51
Total commercial loans	208,043	129,108
Direct lease financing	201,825	175,610
Consumer and other loans	448,497	345,703
	858,365	650,421
Unamortized loan fees and costs	8,400	4,899
Total loans, net of deferred loan costs	$ 866,765	$ 655,320

Included in the table above are demand deposit overdrafts reclassified as loan balances totaling $3.6 million and $2.0 million at September 30, 2014 and December 31, 2013, respectively. Overdraft charge-offs and recoveries are reflected in the allowance for loan and lease losses.

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

Table of Contents

	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment	Interest income recognized
September 30, 2014					
Without an allowance recorded					
Commercial	$ -	$ -	$ -	$ -	$ -
Consumer - home equity	2,055	2,155	-	1,184	-
With an allowance recorded					
Commercial	1,263	1,263	307	1,159	-
Consumer - home equity	1,730	1,730	921	1,298	-
Total					
Commercial	1,263	1,263	307	1,159	-
Consumer - home equity	3,785	3,885	921	2,482	-

	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment	Interest income recognized
December 31, 2013					
Without an allowance recorded					
Commercial	$ -	$ -	$ -	$ -	$ -
Consumer - home equity	927	927	-	927	-
With an allowance recorded					
Commercial	385	385	95	251	-
Consumer - home equity	429	429	135	190	-
Total					
Commercial	385	385	95	251	-
Consumer - home equity	1,356	1,356	135	1,117	-

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, 2014, September 30, 2013, or December 31, 2013 (in thousands):

	September 30, 2014		September 30, 2013		December 31, 2013	
Non-accrual loans						
Commercial	$	1,060	$	345	$	168
Consumer	3,435		1,257		1,356	
Total non-accrual loans	4,495		1,602		1,524	
Loans past due 90 days or more	264		204		110	
Total non-performing loans	4,759		1,806		1,634	
Other real estate owned	725		-		-	
Total non-performing assets	$	5,484	$	1,806	$	1,634

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

September 30, 2014			December 31, 2013		
Number	Pre-modification recorded investment	Post-modification recorded investment	Number	Pre-modification recorded investment	Post-modification recorded investment

Table of Contents

Commercial	1	$ 203	$ 203	1	$ 217	$ 217
Consumer	1	350	350	-	-	-
Total	2	$ 553	$ 553	1	$ 217	$ 217

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

	September 30, 2014			December 31, 2013		
	Adjusted interest rate	Extended maturity	Combined rate and maturity	Adjusted interest rate	Extended maturity	Combined rate and maturity
Commercial	$ -	$ 203	$ -	$ -	$ 217	$ -
Consumer	-	350	-	-	-	-
Total	$ -	$ 553	$ -	$ -	$ 217	$ -

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

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

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

	Commercial	Commercial mortgage	Construction	Consumer	Direct lease financing	Unallocated	Tota
Nine months ended September 30, 2014							
Beginning balance	$ 417	$ 499	$ -	$ 936	$ 311	$ -	$
Charge-offs	(42)	-	-	(846)	(323)		(1,2
Recoveries	-	-	-	18	-		18
Provision (credit)	329	74	99	2,019	801	98	3,42

Ending balance	$	704	$	573	$	99	$	2,127	$	789	$	98	$
Ending balance: Individually evaluated for impairment	$	307	$	-	$	-	$	921	$	-	$	-	$
Ending balance: Collectively evaluated for impairment	$	397	$	573	$	99	$	1,206	$	789	$	98	$
Loans: Ending balance	$	96,079	$	95,492	$	16,472	$	448,497	$	201,825	$	8,400	$
Ending balance: Individually evaluated for impairment	$	1,263	$	-	$	-	$	3,785	$	-	$	-	$
Ending balance: Collectively evaluated for impairment	$	94,816	$	95,492	$	16,472	$	444,712	$	201,825	$	8,400	$

Twelve months ended December 31, 2013	Commercial	Commercial mortgage	Construction	Consumer	Direct lease financing	Unallocated	Tota
Beginning balance	$ 170	$ 136	$ 33	$ 1,799	$ 239	$ 4	$
Charge-offs	(44)	-	-	(446)	(30)	-	(52(
Recoveries	-	-	-	53	8	-	61
	291	363	(33)	(470)	94	(4)	241

Provision (credit)													
Ending balance	$	417	$	499	$	-	$	936	$	311	$	-	$
Ending balance: Individually evaluated for impairment	$	95	$	-	$	-	$	135	$	-	$	-	$

20

Table of Contents

Ending balance: Collectively evaluated for impairment	$	322	$	499	$	-	$	801	$	311	$	-	$
Loans: Ending balance	$	53,391	$	75,666	$	51	$	345,703	$	175,610	$	4,899	$
Ending balance: Individually evaluated for impairment	$	385	$	-	$	-	$	1,356	$	-	$	-	$
Ending balance: Collectively evaluated for impairment	$	53,006	$	75,666	$	51	$	344,347	$	175,610	$	4,899	$

Nine months ended September 30, 2013	Commercial		Commercial mortgage		Construction		Consumer		Direct lease financing		Unallocated		Tota
Beginning balance	$	170	$	136	$	33	$	1,799	$	239	$	4	$
Charge-offs	(2)		-		-		(354)		-				(356
Recoveries	-		-		-		22		8				30
Provision (credit)	293		336		(33)		(215)		84		(4)		461
Ending balance	$	461	$	472	$	-	$	1,252	$	331	$	-	$
Ending balance:													

Individually evaluated for impairment	$	85	$	-	$	-	$	36	$	-	$	-	$
Ending balance: Collectively evaluated for impairment	$	376	$	472	$	-	$	1,216	$	331	$	-	$
Loans: Ending balance	$	59,325	$	62,911	$	-	$	331,697	$	177,797	$	4,308	$
Ending balance: Individually evaluated for impairment	$	345	$	-	$	-	$	1,257	$	-	$	-	$
Ending balance: Collectively evaluated for impairment	$	58,980	$	62,911	$	-	$	330,440	$	177,797	$	4,308	$

The Company did not have loans acquired with deteriorated credit quality at either September 30, 2014 or December 31, 2013.

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

September 30, 2014	30-59 Days past due		60-89 Days past due		Greater than 90 days		Non-accrual		Total past due		C
Commercial	$	351	$	319	$	-	$	1,060	$	1,730	$
	-		-		-		-		-		9

Commercial mortgage						
Construction	-	-	-	-	-	1
Direct lease financing	1,783	1,352	264	-	3,399	1
Consumer - other	-	-	-	3,435	3,435	4
Consumer - home equity	327	9	-	-	336	4
Unamortized loan fees and costs	-	-	-	-	-	8
	$ 2,461	$ 1,680	$ 264	$ 4,495	$ 8,900	$

December 31, 2013	30-59 Days past due	60-89 Days past due	Greater than 90 days	Non-accrual	Total past due	Current	Total loans

21

Table of Contents

Commercial	$ -	$ -	$ -	$ 168	$ 168	$
Commercial mortgage	-	-	-	-	-	75,
Construction	-	-	-	-	-	51
Direct lease financing	3,427	1,293	110	-	4,830	17
Consumer - other	425	-	-	1,356	1,781	30
Consumer - home equity	18	-	-	-	18	43,
Unamortized loan fees and costs	-	-	-	-	-	4,8
	$ 3,870	$ 1,293	$ 110	$ 1,524	$ 6,797	$

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):

	Commercial 9/30/2014	12/31/2013	Construction 9/30/2014	12/31/2013	Commercial mortgage 9/30/2014	12/31/2013	Co 9/3
Risk Rating							
Pass	$ 84,708	$ 52,717	$ 16,472	$ -	$ 73,300	$ 56,157	$
Special Mention	-	-	-	-	-	-	35
Substandard	1,262	385	-	-	-	-	2,7
Doubtful	-	-	-	-	-	-	65
Loss	-	-	-	-	-	-	-
Unrated subject to review *	-	241	-	51	-	6,619	10
Unrated not subject to review *	10,109	48	-	-	22,192	12,890	26
Total	$ 96,079	$ 53,391	$ 16,472	$ 51	$ 95,492	$ 75,666	$

	Direct lease financing 9/30/2014	12/31/2013	Unamortized costs 9/30/2014	12/31/2013	Total 9/30/2014	12/31/2013
Risk Rating						
Pass	$ 67,971	$ 58,545	$ -	$ -	$ 410,640	$ 283,711

Special Mention	-	-	-	-	350	1,348
Substandard	98	-	-	-	4,145	1,741
Doubtful	-	-	-	-	650	-
Loss	-	-	-	-	-	-
Unrated subject to review *	3,133	2,244	-	-	13,477	9,679
Unrated not subject to review *	130,623	114,821	8,400	4,899	437,503	358,841
Total	$ 201,825	$ 175,610	$ 8,400	$ 4,899	$ 866,765	$ 655,320

* Unrated loans consist of performing loans which did not exhibit any negative characteristics which would require the loan to be evaluated, or fell below the dollar threshold requiring review under the Bank's internal policy and are not loans otherwise selected in ongoing portfolio evaluation. The scope of the Bank's loan review policy encompasses commercial and construction loans and leases which singly, or in aggregate for loans to related borrowers, exceed $3.0 million. The loan portfolio review coverage was approximately 48% at September 30, 2014 and approximately 44% at December 31, 2013. As a result of transferring loans into "Discontinued Operations" (see Note 15), management is currently assessing the review scope for the remaining portfolio to ensure appropriate coverage levels are maintained. This review is performed by the loan review department, which is independent of the loan origination department and reports directly to the audit committee. Potential problem loans, which are identified by either the independent loan review department or line management, are reviewed. Adversely classified loans are reviewed quarterly by the independent loan review function of the Bank. Additionally, all loans are subject to ongoing monitoring by portfolio managers and loan officers. Also, many of the Bank's loans are relatively short term, and are subject to reconsideration with a full review in loan committee between one and three years after the loan is made and after the prior review.

Note 7. Transactions with Affiliates

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

Table of Contents

Officer of the Company. The Chief Executive Officer of Resource America, Inc. is the brother of the Chairman of the Board and the son of the Chief Executive Officer of the Company. Rent expense is 50% of the fixed rent, real estate tax payment and the base expense charges. Rent expense was $85,000 for the nine months ended September 30, 2014 and $77,000 for the nine months ended September 30, 2013.

The Company entered into a space sharing agreement for office space in New York, New York with Atlas Energy, L.P. commencing in May 2012. The Company pays only its proportionate share of the lease rate to a lessor which is an unrelated third party. The Chairman of the Board of the general partner of Atlas Energy, L.P. is the brother of the Chairman of the Board and the son of the Chief Executive Officer of the Company. The Chief Executive Officer and President of Atlas Energy, L.P. is the father of the Chairman of the Board and the spouse of the Chief Executive Officer of the Company. Rent expense is 50% of the fixed rent, real estate tax payment and the base expense charges. Rent expense was $78,000 for the nine months ended September 30, 2014 and 2013, respectively.

The Bank maintains deposits for various affiliated companies totaling approximately $21.9 million and $36.7 million as of September 30, 2014 and December 31, 2013, respectively.

The Bank has entered into lending transactions in the ordinary course of business with directors, executive officers, principal stockholders and affiliates of such persons on the same terms as those prevailing for comparable transactions with other borrowers. At September 30, 2014, these loans were current as to principal and interest payments and did not involve more than normal risk of collectability. At September 30, 2014, loans to these related parties included in other assets held for sale amounted to $31.3 million at September 30, 2014 and $28.5 million at December 31, 2013. In addition to these lending transactions, the Bank periodically purchases securities under agreements to resell and engages in other securities transactions as follows.

The Company executed transactions through PrinceRidge Group LLC, now know as 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. For the nine months ended September 30, 2014, the Company purchased $3.4 million of AAA rated SBA loans for Community Reinvestment Act purposes through JVB. The Company had no security purchases from JVB for the nine months ended September 30, 2014. From time to time, the Company may also purchase securities under agreements to resell through JVB primarily consisting of G.N.M.A. certificiates 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, 2014 and had complied with all terms for all prior repurchase agreements. A total of $46.3 million of such agreements were outstanding at September 30, 2014 and $6.4 million were outstanding at December 31, 2013.

Note 8. Fair Value Measurements

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

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

Cash and cash equivalents, which are comprised of cash and due from banks, the Company's balance at the Federal Reserve Bank and securities purchased under agreements to resell, had recorded values of $495.5 million and $1.24 billion as of September 30, 2014 and December 31, 2013, respectively, which approximated fair values.

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

The net loan portfolio at September 30, 2014 and December 31, 2013 has been valued using the present value of discounted cash flow where market prices were not available. The discount rate used in these calculations is the estimated current market rate adjusted for credit risk. The carrying value of accrued interest receivable approximates fair value.

Table of Contents

Assets held for sale at September 30, 2014 have been valued based upon an independent third party review. The third party reviewed the majority of the credit portfolio and determined fair value for each specific loan that was reviewed. Based on that review, weighted average fair values were applied to the loans not specifically reviewed. Assets held for sale at December 31, 2013 have been valued using the present value of discounted cash flow where market prices were not available. The discount rate used in these calculations is the estimated current market rate adjusted for credit risk. The carrying value of accrued interest receivable approximates fair value.

The estimated fair values of demand deposits (comprising interest-and noninterest-bearing checking accounts, savings, and certain types of demand and money market accounts) are equal to the amount payable on demand at the reporting date (generally, their carrying amounts). Liabilities held for sale primarily consist of deposit accounts with fair values approximating carrying values. The fair values of securities sold under agreements to repurchase and short term borrowings are equal to their carrying amounts as they are overnight borrowings.

The fair values of 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 values of certificates of deposit and subordinated debentures are estimated using a discounted cash flow calculation that applies current interest rates to discounted expected cash flows. Based upon time deposit maturities at September 30, 2014, the carrying values approximate their fair values. The carrying amount of accrued interest payable approximates its fair value. The following tables provide information regarding carrying amounts and estimated fair values (in thousands):

	September 30, 2014				
	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	$ 1,442,049	$ 1,442,049	$ 52,519	$ 1,389,530	$
Investment securities held-to-maturity	96,951	94,889	7,420	-	87,469
Securities purchased under agreements to resell	55,450	55,450	55,450	-	-
Federal Home Loan and Atlantic	3,409	3,409	-	-	3,409

Central Bankers Bank stock					
Commercial loans held for sale	136,115	136,115	-	-	136,115
Loans, net	866,765	864,321	-	-	864,321
Assets held for sale	1,143,380	1,143,380	-	-	1,143,380
Demand and interest checking	3,412,593	3,412,593	3,412,593	-	-
Savings and money market	241,518	241,518	241,518	-	-
Time deposits	24	24	-	-	24
Subordinated debenture	13,401	7,987	-	-	7,987
Securities sold under agreements to repurchase	21,496	21,496	21,496	-	-
Interest rate swaps	54	54	-	54	-
Liabilities held for sale	227,898	227,898	-	-	227,898

	December 31, 2013				
	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	$ 1,253,117	$ 1,253,117	$ 64,971	$ 1,187,595	$
Investment securities held-to-maturity	97,205	95,030	7,286	-	87,744
Securities purchased under agreements to resell	7,544	7,544	7,544	-	-
Federal Home Loan and Atlantic Central Bankers Bank stock	3,209	3,209	-	-	3,209

Commercial loans held for sale	69,904	69,904	-	-	69,904
Loans, net	655,320	649,783	-		