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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2014

OR

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

For the transition period from to

Commission File Number 51018

The Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Delaware	23-3016517
(State or other jurisdiction of	(IRS Employer

incorporation or organization) Identification No.)

409 Silverside Road, Wilmington, DE 19809
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (302) 385-5000

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

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

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

Title of class

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller Reporting Company

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

THE BANCORP, INC.

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ON FORM 10-K

FORWARD-LOOKING STATEMENTS

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

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

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

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

- the risk factors discussed and identified in Item 1A of this report and in other of our public filings with the SEC;
- weak economic and slow growth conditions in the U.S. economy and significant dislocations in the credit markets have had, and may in the future have, significant adverse effects on our assets and operating results, including increases in payment defaults and other credit risks, decreases in the fair value of some assets and increases in our provision for loan losses;
- weak economic and credit market conditions may result in a reduction in our capital base, reducing our ability to maintain deposits at current levels;
- operating costs may increase;
- adverse governmental or regulatory policies may be promulgated;
- management and other key personnel may be lost;
- competition may increase;
- the costs of our interest-bearing liabilities, principally deposits, may increase relative to the interest received on our interest-bearing assets, principally loans, thereby decreasing our net interest income;
- loan and investment yields may decrease for various reasons resulting in a lower net interest margin;
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possible geographic concentration of certain of our loans could result in our loan portfolio being adversely affected by economic factors unique to the geographic area and not reflected in other regions of the country;

- the market value of real estate that secures certain of our loans has been, and may continue to be, adversely affected by recent economic and market conditions, and may be affected by other conditions outside of our control such as lack of demand for real estate of the type securing our loans, natural disasters, changes in neighborhood values, competitive overbuilding, weather, casualty losses, occupancy rates and other similar factors;
- we must satisfy our regulators with respect to Bank Secrecy Act, Anti-Money Laundering and other regulatory mandates to prevent additional restrictions on adding customers and to remove current restrictions on adding certain customers;
- the loans from our discontinued operations are now held for sale and were marked to fair value by an independent third party; however, the actual sales price could differ from those third party fair values. The reinvestment rate for the proceeds of those sales in investment securities depends on future market interest rates; and

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

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

EXPLANATORY NOTE

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

PART I

Item 1. Business.

Overview

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

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

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

Our Strategies

Our principal strategies are to:

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

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

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

Deposit Products and Services.

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

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

Lending Activities

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

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

Leases. We provide lease financing for commercial and government automobile fleets and, to a lesser extent, provide lease financing for other equipment. Our leases are either open end or closed end. An open end lease is one in which, at the end of the lease term, the lessee must pay us the difference between the amount at which we sell the leased asset and the stated "residual value." "Residual value" is a contractual value agreed to by the parties at the inception of a lease as to the value of the leased asset at the end of the lease term. A closed end lease is one in which no such payment is due on lease termination. In a closed end lease, the risk that the amount received on a sale of the leased asset will be less than the residual value is assumed by us, as lessor. While we do not have specific underwriting criteria for our lease financing, we analyze information we obtain about the lessee, including financial statements and credit reports, to determine the lessee's ability to perform its obligations.

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

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

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

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

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

Capital Markets: Loans Originated for Sale into Secondary Securities Markets.We originate loans for sale into secondary securities markets. These loans are typically collateralized by various types of commercial real estate, including retail space, office space, apartments and hotels, and are with recourse only to the properties securing the loans, are not guaranteed by the borrower and, accordingly, depend on cash reserves and cash generated by the underlying properties for repayment. Some of these loans are variable rate and, as a result, higher market rates will result in higher payments and greater cash flow requirements. Inadequate sales at retail properties and inadequate occupancy rates for office space, apartments and hotels may negatively impact loan repayment. Should cash flow and available cash reserves prove inadequate to cover debt service on these loans, repayment will depend upon the sales price of the property. Because these loans are being originated for resale, the underwriting criteria used are those that buyers in the capital markets indicate are the parameters under which they are willing to buy the loans, including interest rate, loan to value ratio and maturity; however, in the period during which we hold a loan prior to sale, property values may fall below appraised values and below the outstanding balance of the loan which would reduce the price at which we could sell the loan. Inadequate retail sales or occupancy, in addition to impacting repayment, may also result in a lower realizable sales price. While we historically have been successful in selling to these markets, adverse market conditions may delay, or possibly preclude, expected sales into the secondary market or cause losses upon any resale. To mitigate these risks, we establish guidelines for the maximum amounts of such loans we will hold on our balance sheet.

Affinity Banking

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

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

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

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

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

Other Operations

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

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

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

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

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

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

Sales and Marketing

Affinity Group Banking. Because of the national scope of our affinity group banking operation, we use a personal sales/targeted media advertising approach to market to existing and potential commercial affinity group organizations. The affinity group organizations with which we have a relationship perform marketing functions to ultimate individual customers. Our marketing program to affinity group organizations consists of:

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

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

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

Technology

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

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

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

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

Intellectual Property and Other Proprietary Rights

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

Competition

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

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

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

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

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

Regulation Under Banking Law

Overview

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

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

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

Federal Regulation

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

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

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

- the financial holding company has a class of securities registered under Section 12 of the Securities Exchange Act of 1934; or

- no other person will own or control a greater percentage of that class of voting securities immediately after the transaction.

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

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

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

Various federal and state statutory provisions limit the amount of dividends that subsidiary banks can pay to their holding companies without regulatory approval. The Bank is also subject to limitations under state law regarding the payment of dividends, including the requirement that dividends may be paid only out of net profits. See "Delaware Regulation" below. In addition to these explicit limitations, federal and state regulatory agencies are authorized to prohibit a banking subsidiary or financial holding company from engaging in unsafe or unsound banking practices. Depending upon the circumstances, the agencies could take the position that paying a dividend would constitute an unsafe or unsound banking practice. In August 2015, we consented to the issuance of a consent order amendment pursuant to which the payment of dividends by the Bank to us would require prior FDIC approval, and received a Federal Reserve supervisory letter pursuant to which any payment of dividends by us would require prior approval from the Federal Reserve. See “Risk Factors-Risks Relating to Our Business-The entry into the 2012 and 2014 Consent Orders, as amended, and a supervisory letter from the Federal Reserve have imposed certain restrictions and requirements on us and the Bank.”

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

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

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

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

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

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

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

In addition, the Federal Reserve and the FDIC have established minimum leverage ratio guidelines. The principal objective of these guidelines is to constrain the maximum degree to which a financial institution can leverage its equity capital base. It is intended to be used as a supplement to the risk-based capital guidelines. These guidelines provide for a minimum ratio of Tier 1 capital to adjusted average total assets of 3% for financial holding companies that meet certain specified criteria, including those having the highest regulatory rating. Other financial institutions generally must maintain a leverage ratio of at least 3% plus 100 to 200 basis points. The guidelines also provide that financial institutions experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above minimum supervisory levels, without significant reliance on intangible assets. Furthermore, the banking agencies have indicated that they may consider other indicia of capital strength in evaluating proposals for expansion or new activities. At December 31, 2014 we and the Bank had leverage ratios of 7.07% and 6.46%, respectively.

The federal banking agencies' standards provide that concentration of credit risk and certain risks arising from nontraditional activities, as well as an institution's ability to manage these risks, are important factors to be taken into account by them in assessing a financial institution's overall capital adequacy. The risk-based capital standards also provide for the consideration of interest rate risk in the agency's determination of a financial institution's capital adequacy. The standards require financial institutions to effectively measure and monitor their interest rate risk and to maintain capital adequate for that risk. These standards can be expected to be amended from time to time.

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

Basel III Capital Rules

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

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

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

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

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

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

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

In addition, under the current general risk-based capital rules, the effects of accumulated other comprehensive income or loss, or AOCI, items included in shareholders' equity (for example, marks-to-market of securities held in the available for sale portfolio) under U.S. GAAP are reversed for the purposes of determining regulatory capital ratios. Pursuant to the New Capital Rules, the effects of certain AOCI items are not excluded; however, non-advanced approaches banking organizations, including us and the Bank, may make a one-time permanent election to continue to exclude these items. This election must be made concurrently with the first filing of certain of our and the Bank's periodic regulatory reports in the beginning of 2015. We and the Bank made this election in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of our securities portfolio. The New Capital Rules also preclude certain hybrid securities, such as trust preferred securities, from inclusion in bank holding companies' Tier 1 capital, subject to grandfathering in the case of bank holding companies, such as us, that had less than $15 billion in total consolidated assets as of December 31, 2009. Implementation of the deductions and other adjustments to CET1 will begin on January 1, 2015 and will be phased-in over a 4-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter). The implementation of the capital conservation buffer will begin on January 1, 2016 at the 0.625% level and increase by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019.

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

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

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

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

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

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

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

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

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

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

The FDIC has implemented a risk-based assessment system under which FDIC-insured depository institutions pay annual premiums at rates based on their risk classification. A bank's risk classification is based on its capital levels and the level of supervisory concern the bank poses to the regulators. Institutions assigned to higher risk classifications (that is, institutions that pose a greater risk of loss to the DIF) pay assessments at higher rates than institutions that pose a lower risk. A decrease in the Bank's capital ratios or the occurrence of events that have an adverse effect on a bank's asset quality, management, earnings, liquidity or sensitivity to market risk could result in a substantial increase in deposit insurance premiums paid by the Bank, which would adversely affect earnings. In addition, the FDIC can impose special assessments in certain instances. The range of assessments in the risk-based system is a function of the reserve ratio in the DIF. Each insured institution is assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other factors. An institution's assessment rate depends upon the category to which it is assigned. Unlike the other categories, Risk Category I contains further risk differentiation based on the FDIC's analysis of financial ratios, examination component ratings and other information. Assessment rates are determined by the FDIC and, including potential adjustments to reflect an institution's risk profile, currently range from five to nine basis points for the healthiest institutions (Risk Category I) to 35 basis points of assessable liabilities for the riskiest (Risk Category IV). Rates may be increased an additional ten basis points depending on the amount of brokered deposits utilized. The above rates apply to institutions with assets under $10 billion. Other rates apply for larger or “highly complex” institutions. The FDIC may adjust rates uniformly from one quarter to the next, except that no single adjustment can exceed three basis points. At December 31, 2014, the Bank’s DIF assessment rate was 24 basis points. A reduction in the assessment rate will depend on future FDIC evaluations of the Bank.

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

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

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

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

The Dodd-Frank Act generally enhances the restrictions on transactions with affiliates under Section 23A and 23B of the Federal Reserve Act, including an expansion of the definition of “covered transactions” and an increase in the amount of time for which collateral requirements regarding covered credit transactions must be satisfied. Insider transaction limitations are expanded through the strengthening of loan restrictions to insiders and the expansion of the types of transactions subject to the various limits, including derivatives transactions, repurchase agreements, reverse repurchase agreements and securities lending or borrowing transactions. Restrictions are also placed on certain assets sales to and from an insider to an institution including requirements that such sales be on market terms and, in certain circumstances, approved by the institution's board of directors.

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

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

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

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

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

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

Bank Secrecy Act- Anti-Money Laundering and Related Regulations. The Bank Secrecy Act, which we refer to as BSA, requires the Bank to implement a risk-based compliance program in order to protect the Bank from being used as a conduit for financial or other illicit crimes including but not limited to money laundering and terrorist financing. These rules are administered by the Financial Crimes Enforcement Network, a bureau of the U.S. Treasury Department, which we refer to as FinCEN. Under the law, the Bank must have a board-approved written BSA-Anti-Money Laundering, which we refer to as AML, program which must contain the following key requirements: (1) appointing responsible persons to manage the program, including a BSA Officer; (2) ongoing training of all appropriate Bank staff and management on BSA-AML compliance; (3) developing a system of internal controls (including appropriate policies, procedures and processes); and (4) requiring independent testing to ensure effective implementation of the program and appropriate compliance. Under BSA regulations, the Bank is subject to various reporting requirements such as currency transaction reporting (CTR) for all cash transactions initiated by or on behalf of a customer which, when aggregated, exceed $10,000 per day. The Bank is also required to monitor customer activity and transactions and file a suspicious activity report, or SAR, when suspicious activity is observed and the applicable dollar threshold for the observed suspicious activity is met. The BSA also contains numerous recordkeeping requirements. For a description of a consent order with the FDIC under the BSA that imposes certain requirements on the Bank, see Item 7, " Management's Discussion and Analysis of Financial Condition and Results of Operations-Recent Developments" and "Risk Factors-Risks Relating to Our Business-The entry into the 2012 and 2014 Consent Orders, as amended, and a supervisory letter from the Federal Reserve have imposed certain restrictions and requirements on us and the Bank."

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

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

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

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

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

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

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

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

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

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

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

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

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

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

local government housing or revenue bonds.

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

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

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

Regulatory Reform

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Delaware Regulation

General. As a Delaware financial holding company, we are subject to the supervision of and periodic examination by the Delaware Office of the State Bank Commissioner and must comply with the reporting requirements of the Delaware Office of the State Bank Commissioner. The Bank, as a banking corporation chartered under Delaware law, is subject to comprehensive regulation by the Delaware Office of the State Bank Commissioner, including regulation of the conduct of its internal affairs, the extent and exercise of its banking powers, the issuance of capital notes or debentures, any mergers, consolidations or conversions, its lending and investment practices and its revolving and closed-end credit practices. The Bank also is subject to periodic examination by the Delaware Office of the State Bank Commissioner and must comply with the reporting requirements of the Delaware Office of the State Bank Commissioner. The Delaware Office of the State Bank Commissioner has the power to issue cease and desist orders prohibiting unsafe and unsound practices in the conduct of a banking business.

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

Gibraltar and European Union Regulation

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

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

Employees

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

Item 1A. Risk Factors

Risks Relating to Our Business

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

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

Like all financial institutions, the Bank maintains an allowance for loan losses to provide for probable losses inherent in its loan portfolio. At December 31, 2014, the ratio of the allowance for loan losses to loans was 0.42%. The Bank's allowance for loan losses may not be adequate to cover actual loan losses and future provisions for loan losses could materially and adversely affect the Bank's operating results. The Bank's allowance for loan losses is determined by management after analyzing historical loan losses, current trends in delinquencies and charge-offs, plans for problem loan resolution, changes in the size and composition of the loan portfolio and industry information. Also included in management's estimates for loan losses are considerations with respect to the impact of economic events, the outcome of which are uncertain. The determination by management of the allowance for loan losses involves a high degree of subjectivity and requires management to estimate current and future credit risk based on both qualitative and quantitative facts, each of which is subject to significant change. The amount of future loan losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates that may be beyond the Bank's control, and these loan losses may exceed current estimates. Bank regulatory agencies, as an integral part of their examination process, review the Bank's loans and allowance for loan losses. Although we believe that the Bank's allowance for loan losses is adequate to provide for probable losses and that the methodology used by the Bank to determine the amount of both the allowance and provision is effective, we cannot assure you that we will not need to increase the Bank's allowance for loan losses, change our methodology for determining our allowance and provision for loan losses or that our regulators will not require us to increase this allowance. Any of these occurrences could materially reduce our earnings and profitability and could result in our sustaining losses. For risks which are specific to the different types of loans we make and which could impact the allowance for loan losses, see Item 1," Business –Lending Activities."

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

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

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

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

We are subject to extensive government regulation and supervision.

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

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

The Bank entered into a Stipulation and Consent to the Issuance of a Consent Order effective August 7, 2012, which we refer to as the 2012 Consent Order. The Bank took this action without admitting or denying any charges of unsafe or unsound banking practices or violations of law or regulation. Under the 2012 Consent Order, the Bank agreed to increase its supervision of third party relationships, develop new written compliance and related internal audit compliance programs, develop a new third-party risk management program, and screen new third party relationships as provided in the Consent Order. The Consent Order also requires the Bank to provide certain materials and reports to the FDIC within allotted timeframes. Additionally, as part of the Consent Order, the Bank agreed to pay a civil money penalty in the amount of $172,000, which was paid in 2012.

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

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

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

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

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

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

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

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

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

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

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

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

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

The Bank has introduced, and in the future may introduce, new products and services to differing markets either alone or in conjunction with third parties. New lines of business, products or services could have a significant impact on the effectiveness of our system of internal controls or the controls of third parties and could reduce our revenues and potentially generate losses. There are material inherent risks and uncertainties associated with offering new products and services, especially when new markets are not fully developed or when the laws and regulations regarding a new product are not mature. New products and services, or entrance into new markets, may require substantial time, resources and capital, and profitability targets may not be achieved. Factors outside of our control, such as developing laws and regulations, regulatory orders, competitive product offerings and changes in commercial and consumer demand for products or services may also materially impact the successful launch and implementation of new products or services. Failure to manage these risks, or failure of any product or service offerings to be successful and profitable, could have a material adverse effect on our financial condition and results of operations.

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

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

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

We are subject to lending risks.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We operate in highly competitive markets.

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

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

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

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

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

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

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

Our lending limit may adversely affect our competitiveness.

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

Environmental liability associated with lending activities could result in losses.

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

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

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

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

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

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

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

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

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

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

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

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

We are subject to extensive federal and state banking regulation and supervision, which has increased in the past several years as a result of stresses the financial system has undergone for an extended period of years. The regulations are intended primarily to protect our depositors' funds, the federal deposit insurance funds and the safety and soundness of the Bank, not our shareholders. Regulatory requirements affect lending practices, product offerings, capital structure, investment practices, dividend policy and growth. A failure by either the Bank or us to meet regulatory capital requirements will result in the imposition of limitations on our operations and could, if capital levels drop significantly, result in our being required to cease operations. Regulatory capital requirements must also be satisfied such that mandated capital ratios are maintained as the Bank grows, or growth may be required to be curtailed. Moreover, a failure by either the Bank or us to comply with regulatory requirements regarding lending practices, investment practices, customer relationships, anti-money laundering detection and prevention, and other operational practices (see "Business--Regulation Under Banking Law") could result in regulatory sanctions and possibly third-party liabilities. Changes in governing law, regulations or regulatory practices could impose additional costs on us or impair our ability to obtain deposits or make loans and, as a consequence, our consolidated revenues and profitability.

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

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

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

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

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

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

It is difficult to predict at this time what specific impact many aspects of the Dodd-Frank Act and the yet to be written implementing rules and regulations will have on regional banks; however, we expect that at a minimum they will increase our operating and compliance costs and obligations, which could have a material adverse effect on our financial condition and results of operations.

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

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

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Potential acquisitions may disrupt our business and dilute stockholder value.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks related to ownership of our common stock.

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

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

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

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

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

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

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

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

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

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

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

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

Item 1B. Unresolved Staff Comments.

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

Item 2. Properties.

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

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

Minneapolis, Minnesota	2017	3,181	2,585
New York, New York	2015 - 2025	13,479	72,961
Orlando, Florida	2015	12,400	6,433
Philadelphia, Pennsylvania	2025	14,839	24,983
Sioux Falls, South Dakota	2022	38,611	54,674
Tampa, Florida	2020	10,303	15,621
Wilmington, Delaware	2025	62,136	121,301
Europe(1)			
Lozenetaz, Sofia Bulgaria	2016	4,413	5,182

Ocean Village, Gibraltar	2022	4,585	15,603

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

Item 3. Legal Proceedings.

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

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

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

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

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

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

2013

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

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

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

Performance graph

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

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

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

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

Item 6. Selected Financial Data.

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

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

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

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

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

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Net income (loss) per share - diluted	$ 1.49	$ (0.40)	$ (1.30)	$ 0.15	$ (0.39)
Balance Sheet Data:					
Total assets	$ 4,986,317	$ 4,593,588	$ 3,626,712	$ 2,997,513	$ 2,386,656
Total loans, net of unearned costs	874,593	636,001	535,141	365,395	292,861
Allowance for loan and lease losses	3,638	3,881	3,985	1,707	1,382
Total cash and cash equivalents	1,114,235	1,235,949	966,588	748,068	470,353
Deposits	4,621,784	4,272,989	3,313,221	2,682,551	2,024,097
Federal Home Loan Bank advances	-	-	-	-	87,000
Shareholders' equity	319,023	247,127	263,733	258,311	189,700
Selected Ratios:					
Return on average assets	1.28%	nm	nm	0.17%	nm
Return on average common equity	20.17%	nm	nm	2.15%	nm
Net interest margin	2.60%	2.44%	2.58%	2.96%	3.28%
Book value per common share	$ 8.46	$ 6.57	$ 7.10	$ 7.80	$ 7.25
Selected Capital and Asset Quality Ratios:					
Equity/assets	6.40%	5.38%	7.27%	8.62%	7.95%
Tier I capital to average assets	7.07%	6.09%	8.89%	8.26%	7.99%
Tier 1 capital to total risk-weighted assets	11.54%	10.55%	14.57%	13.91%	11.44%
	11.67%	11.87%	15.82%	15.16%	12.69%

Total capital to total risk-weighted assets					
Allowance for loan and lease losses to total loans	0.42%	0.61%	0.74%	0.47%	0.47%

nm = not meaningful

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

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

Critical Accounting Policies and Estimates

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

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

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

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

We periodically review our investment portfolio to determine whether unrealized losses on securities are temporary, based on evaluations of the creditworthiness of the issuers or guarantors, and underlying collateral, as applicable. In addition, we consider the continuing performance of the securities. We recognize credit losses through the consolidated statement of operations. If management believes market value losses are temporary and that we have the ability and intention to hold those securities to maturity, we recognize the reduction in other comprehensive income, through equity. We evaluate whether an other than temporary impairment exists by considering primarily the following factors: (a) the length of time and extent to which the fair value has been less than the amortized cost of the security, (b) changes in the financial condition, credit rating and near-term prospects of the issuer, (c) whether the issuer is current on contractually obligated interest and principal payments, (d) changes in the financial condition of the security's underlying collateral and (e) the payment structure of the security. If other than temporary impairment is determined, we estimate expected future cash flows to determine the credit loss amount with a quantitative and qualitative process that incorporates information received from third-party sources along with internal assumptions and judgments regarding the future performance of the security.

We account for our stock-based compensation plans based on the fair value of the awards made, which include stock options, restricted stock, and performance based shares. To assess the fair value of the awards made, management makes assumptions as to expected stock price volatility, option terms, forfeiture rates and dividend rates. All of these estimates and assumptions may be susceptible to significant change that may impact earnings in future periods.

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

Overview

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

Recent Developments

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

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

We have adjusted our financial statement presentation for items related to discontinued operations. Separately, we have restated our financial statements for periods from 2010 through September 30, 2014, the last date through which financial statements previously had been filed prior to this Form 10-K. The restatement reflected the recognition of provisions for loan losses and loan charge-offs for discontinued operations in periods earlier than those in which those charges were initially recognized. The majority of these loan charges were originally recognized in 2014, primarily in the third quarter, when commercial lending operations were discontinued. Approximately $28.5 million of discontinued operations losses that were not previously reported were included during these periods. Also, $12.7 million of losses incurred in 2015 related to loans that were resolved before the issuance date of our financial statements and were reflected in our 2014 financial statements. Significant losses incurred related to the loan portfolio prior to the filing of the Form 10-K, are generally required to be included in the financial statements of that 10-K. In Note C and Note T to the financial statements, we restated the annual and quarterly financial statements which are shown with applicable restatement adjustments. Substantially all of the losses and corresponding restatement adjustments resulted from the discontinued commercial loan operations.

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

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

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

Until the Bank submits to the FDIC a BSA report summarizing the completion of certain corrective action, the 2014 Consent Order places some restrictions on certain activities: the Bank is restricted from signing and boarding new independent sales organizations, issuing new non-benefit related reloadable prepaid card programs, establishing new distribution channels for existing non-benefit reloadable prepaid card programs and originating Automated Clearing House transactions for new merchant-related payments. Until such time as we receive the FDIC's approval, restrictions in these specific areas may potentially impact their growth. We do not believe that these restrictions will have a material impact on current revenue levels. The Bank has utilized one primary consultant related to its BSA-AML program refinement and one primary consultant related to conducting a lookback review of historical transactions to confirm that suspicious activity was properly identified and reported in accordance with applicable law. Subsequent to December 31, 2014 the primary BSA-AML consultant performed services resulting in $638,000 in billings reflected as expense in 2015, with no additional billings expected. The primary consultant for the lookback performed services resulting in $5.2 million in billings and expense in the first quarter of 2015. In the second quarter of 2015 the lookback consultant exceeded the estimates in the related contract for both the time and cost required, resulting in an additional $9.1 million in billings. We cannot now estimate expenses for remaining lookback services; however, we expect that the lookback will be completed in the second quarter of 2016.

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

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

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

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

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

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

Results of Operations

Overview: Net interest income continued its upward trend in 2014 and 2013 as a result of higher loan and securities balances, notwithstanding historically low market interest rates resulting from continuing Federal Reserve actions to maintain low rates for extended periods. As a result of continued low rates, loan and securities yields declined to a greater degree than deposit rates which are now minimally in excess of 0%. Net interest income grew primarily because of loan growth in targeted specialty lending segments and a strategy to significantly expand the investment securities portfolio. Non-interest income increased in 2014, reflecting increased numbers of accounts and transactions in our prepaid card and card payments businesses. Additional personnel for BSA and other regulatory compliance, especially for prepaid cards, and additional staffing expense for the CMBS division were, with other infrastructure costs, reflected in higher non-interest expense. In 2014, the Bank discontinued its regional Philadelphia commercial loan division to focus on its national specialty lending lines of business. We anticipate selling the approximate $867 million of related loans and using the proceeds to acquire investment securities and to provide liquidity to fund growth in our continuing specialty lending lines. We have begun the process of selling our portfolio and have sold loans with a book value of approximately $342.2 million, of the approximately $1.1 billion in book value of loans in that portfolio as of the September 30, 2014 date of discontinuance of operations. The $342.2 million of loans sold had a face value of approximately $417.1 million. These sales were comprised of the following: Loans with an approximate face and book value of $267.6 million and $192.7 million, respectively, were sold in the fourth quarter of 2014 to a private securitization entity. The securitization is managed by an independent investor, which contributed $16 million of equity to that entity. The balance of the sale was financed by the Bank and is reflected on the balance sheet as investment in unconsolidated subsidiary. After $74.9 million of loan charges reflected in the difference between the face value and book value of the loans sold to the securitization, we recognized a gain on sale of $17.0 million. In the second quarter of 2015, an additional $149.6 million of loans were sold at a gain of approximately $2.2 million. At December 31, 2014 our continuing specialty lending total loans amounted to $874.6 million, an increase of $238.6 million over the $636.0 balance at December 31, 2013. Our investment securities available for sale increased $240.5 million to $1.49 billion from $1.25 billion between those respective dates.

Net Income: 2014 compared to 2013. Income from continuing operations before income taxes was $7.3 million in 2014 compared to $20.3 million in 2013. While in 2014 there was a $4.4 million increase in non-interest income (excluding securities gains and other-than-temporary impairment (OTTI) charges), and a $19.0 million increase in net interest income, these increases were more than offset by an $847,000 increase in the provision for loan and lease losses, $8.8 million of BSA related consulting expenses and a $25.4 million increase in other non-interest expense. Of that $25.4 million increase, $8.3 million resulted from higher salary and employee benefits expense primarily as a result of staff additions, with the balance of the increase resulting from other expenses including higher FDIC insurance and data processing expense. The staff additions were made to our BSA and regulatory compliance functions due to increased regulatory requirements and for prepaid card and commercial loan sales departments to accommodate their growth. Data processing and software expense categories increased $3.7 million as a result of an increased number of accounts and transaction volume and for prepaid card and other software to improve efficiency and scalability. FDIC insurance expense increased $3.1 million, reflecting deposit growth and the reclassification of the majority of the Bank's deposits as brokered, with reductions in future assessment rates dependent on future FDIC evaluations of the Bank. Depreciation, rent and other occupancy costs increased $1.7 million reflecting additional main office operations and compliance space and new Florida office space for BSA staff. The $4.4 million increase in non-interest income (excluding securities gains and OTTI charges) reflected: a $5.9 million increase in prepaid card fees which reflected higher volumes of transactions and accounts; a $4.7 million decrease in gain on sale of loans resulting from lower spreads; a $1.4 million increase in both service fees on deposits and card payment income and increases in other non-interest income categories. Higher net interest income resulted primarily from higher securities and loan balances. Reflecting a tax benefit resulting from the reversal of valuation allowances, income tax benefit for continuing operations increased to $14.5 million in 2014 compared to expense of $6.8 million in 2013. Reflecting the tax benefit, net income from continuing operations amounted to $21.8 million in 2014, compared to $13.5 million in 2013, or a continuing operations income per diluted share of $.57 compared to continuing operations income per diluted share of $.35 in 2013. Net income from discontinued operations was $35.3 million for 2014 compared to net loss of $27.9 million for 2013. Net income in 2014 reflected the reversal of loan charges restated back to prior periods including 2013, which resulted in a loss in that year (See Notes C and T to the financial statements). Including discontinued operations, diluted income per share was $1.49 for 2014 compared to diluted loss per share of $0.40 for 2013 on net income of $57.1 million and net loss of $14.4 million, respectively.

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

Net Interest Income: 2014 compared to 2013. Our net interest income for 2014 increased to $59.4 million, an increase of $19.0 million or 47.2%, from $40.4 million for 2013, reflecting a $19.6 million or 38.3% increase in interest income to $70.7 million from $51.2 million for 2013. The increase in net interest income resulted primarily from higher balances of securities and loans. Our average loans and leases increased 43.4% to $921.1 million in 2014 from $642.4 million for 2013, while related interest income increased $8.8 million on a tax equivalent basis. Our average investment securities increased 42.6% to $1.51 billion for 2014 from $1.06 billion for 2013, while related interest income increased $14.8 million on a tax equivalent basis. We increased our investment portfolio in 2014 to increase yields earned on funds which would otherwise be invested in lower yielding overnight investments. The impact of the reductions in rates by the Federal Reserve which began in the second half of 2007 continued as rates remained at historic lows in 2014. Interest expense increased by $527,000 in 2014 compared to 2013, reflecting higher deposit balances.

Our net interest margin (calculated by dividing net interest income by average interest-earning assets) for 2014 increased 16 basis points to 2.60% from 2.44% for 2013. The increase in net interest margin resulted primarily from deploying balances at the Federal Reserve into higher yielding loans and investments. Deposits invested at the Federal Reserve bore interest at only 25 basis points. For 2014, the average yield on our interest-earning assets increased to 2.42% from 2.03% for 2013, an increase of 39 basis points. The cost of total deposits decreased to 0.26% for 2014 from 0.27% for 2013, a decrease of 1 basis point. The cost of total deposits and interest bearing liabilities decreased to 0.27% in 2014 compared to 0.29% in 2013, a decrease of 2 basis points. In 2014, average demand and interest checking deposits amounted to $3.75 billion, compared to $3.19 billion in 2013, an increase of 17.6%. The increase primarily reflected increased balances in prepaid card and card payment processing deposits. In 2014, average total deposits increased 11.3% to $4.12 billion, compared to $3.70 billion in 2013. Average savings and money market balances were lower in 2014 reflecting the exit of higher cost deposits.

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

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

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

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

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

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

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

	Year ended December 31, 2012 (restated)		
	Average balance	Interest	Average rate
		(dollars in thousands)	
Assets:			

Interest-earning assets:			
Loans net of unearned fees and costs **	$ 461,308	$ 20,309	4.40%
Leases - bank qualified*	13,571	826	6.09%
Investment securities-taxable	482,463	13,378	2.77%
Investment securities-nontaxable*	103,900	4,331	4.17%
Interest earning deposits at Federal Reserve Bank	974,762	2,433	0.25%
Federal funds sold and securities sold under agreements to resell	425	7	1.65%
Net interest earning assets	2,036,429	41,284	2.03%
Allowance for loan and lease losses	(1,971)		
Assets held for sale	1,307,517	57,376	4.39%
Other assets	116,283		
	$ 3,458,258		
Liabilities and Shareholders' Equity:			
Deposits:			
Demand and interest checking	$ 2,666,493	$ 7,691	0.29%
Savings and money market	455,860	2,401	0.53%
Time	26,624	356	1.34%

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

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

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

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

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

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

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

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

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

Non-Interest Expense. Total non-interest expense in 2014 was $136.0 million, an increase of $34.2 million or 33.6% over the $101.8 million in 2013. The increase reflected $8.8 million of BSA and lookback consulting expenses. Lookback expenses are being incurred to analyze historical transactions for potential BSA exceptions as required by the 2014 Consent Order. Salaries and employee benefits amounted to $60.5 million in 2014, an increase of $8.3 million or 15.8% over the $52.2 million in 2013. The increase reflected staff additions and related expense for BSA compliance, commercial loan sales and infrastructure. The increase included $1.2 million of supplemental executive retirement expense reflecting the release of new actuarial assumptions in October, 2014 and the former Chief Executive Officer's retirement on December 31, 2014. The former Chief Executive Officer was the sole executive covered by a retirement plan of any type. Depreciation and amortization increased $829,000 to $4.5 million, or 22.4%, from $3.7 million in 2013, which reflected additional leasehold improvements and equipment for staff additions and information technology upgrades to existing equipment. Rent and occupancy increased $836,000 to $4.7 million, or 21.7%, from $3.9 million in 2013, which reflected additional main office operations and compliance space and new Florida office space for BSA staff. Data processing expense increased to $13.2 million, an increase of approximately $2.3 million or 21.3% from $10.9 million in 2013, reflecting increased account and transaction volume. Printing and supplies increased $631,000 or 39.5% to $2.2 million from $1.6 million in 2013. Professional fees, primarily audit related, decreased $14,000 or 1.0% to $1.4 million from $1.4 million in 2013. Legal expense increased $54,000, or 2.6%, to $2.1 million from $2.0 million in 2013. FDIC insurance increased $3.1 million or 84.8% to $6.8 million from $3.7 million for 2013. The increase resulted primarily from a higher assessment rate and increased average deposits. In December, 2014, the FDIC issued new guidance which reclassified the Bank's prepaid card deposits and most of its other deposits as brokered, which resulted in a 10 basis point increase in the fourth quarter assessment, or approximately a $1.0 million increase in FDIC expense for that quarter. A reduction in the assessment rate will depend on future FDIC evaluations of the Bank. Software expense increased $1.4 million or 38.1% to $4.9 million from $3.5 million in 2013. The increase included software for prepaid cards and for information technology to improve efficiency and scalability. Insurance expense increased $389,000 or 29.7% to $1.7 million from $1.3 million in 2013. The increase reflected the impact of additional coverage for prepaid cards. Telecom and information technology network communications increased $1.0 million or 70.7% to $2.5 million from $1.5 million in 2013 reflecting costs associated with the new Florida location for BSA staff and increased costs for European IT operations. Securitization and servicing expense increased $1.1 million or 140.3% to $1.8 million from $767,000 in 2013. The increase primarily reflects an increased volume of loans sold in 2014 compared to the prior year. Consulting increased $1.8 million or 103.1% to $3.5 million from $1.7 million in 2013. The increase reflected increased information technology costs and CMBS consulting fees. Other non-interest expense increased $3.6 million or 29.3% to $16.0 million from $12.4 million in 2013. The $3.6 million increase primarily reflected increases as follows: $500,000 for a legal settlement, $400,000 in lodging, $495,000 in prepaid card losses, $185,000 in association fees, $176,000 in postage, $167,000 in recruitment fees and $135,000 in correspondent bank fees.

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

Income Tax Benefit and Expense

Income tax benefit for continuing operations was $14.5 million for 2014 versus $6.8 million of expense for 2013 and a benefit of $3.5 million for 2012. The tax benefit in 2014 primarily resulted from the reversal of the valuation allowances. The effective tax rate for 2013 was 33.3% compared to a 37.7% benefit rate in 2012. The effective tax rate in 2013 reflected the impact of higher amounts of tax exempt municipal securities income.

Liquidity and Capital Resources

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

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

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

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

As a result of the discontinuance of our commercial loan operations we have received and expect to continue to receive during 2015, substantial cash proceeds. We currently anticipate that these proceeds will be deployed into investment securities. We have begun the process of selling our portfolio and have sold loans with a book value of approximately $342.2 million, of the approximately $1.1 billion in book value of loans in that portfolio as of the September 30, 2014 date of discontinuance of operations. The $342.2 million of loans sold had a face value of approximately $417.1 million. These sales were comprised of the following: Loans with an approximate face and book value of $267.6 million and $192.7 million, respectively, were sold in the fourth quarter of 2014 to a private securitization entity. The securitization is managed by an independent investor, which contributed $16 million of equity to that entity. The balance of the sale was financed by the Bank and is reflected on the consolidated balance sheet as investment in unconsolidated subsidiary. After $74.9 million of loan charges reflected in the difference between the face value and book value of the loans sold to the securitization, we recognized a gain on sale of $17.0 million. In the second quarter of 2015, an additional $149.6 million of loans were sold at a gain of approximately $2.2 million.

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

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

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

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

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

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

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

	Tier 1 capital to average assets ratio	Tier 1 capital to risk-weighted assets ratio	Total capital to risk-weighted assets ratio
As of December 31, 2014			

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

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

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

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

Asset and Liability Management

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

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

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

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

Both interest rate sensitivity modeling and gap analysis are done at a specific point in time and involve a variety of significant estimates and assumptions. Interest rate sensitivity modeling requires, among other things, estimates of how much and when yields and costs on individual categories of interest-earning assets and interest-bearing liabilities will respond to general changes in market rates, future cash flows and discount rates. Gap analysis requires estimates as to when individual categories of interest-sensitive assets and liabilities will reprice, and assumes that assets and liabilities assigned to the same repricing period will reprice at the same time and in the same amount. Gap analysis does not account for the fact that repricing of assets and liabilities is discretionary and subject to competitive and other pressures. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds interest rate sensitive assets. During a period of falling interest rates, a positive gap would tend to adversely affect net interest income, while a negative gap would tend to result in an increase in net interest income, all else equal.   During a period of rising interest rates, a positive gap would tend to result in an increase in net interest income while a negative gap would tend to affect net interest income adversely.

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

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

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

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

We believe that the assumptions utilized in evaluating our estimated net interest income are reasonable; however, the interest rate sensitivity of our assets, liabilities and off-balance sheet financial instruments as well as the estimated effect of changes in interest rates on estimated net interest income could vary substantially if different assumptions are used or actual experience differs from presumed behavior of various deposit and loan categories. The following table shows the effects of interest rate shocks on our MVPE and net interest income. Rate shocks assume that current interest rates change immediately and sustain parallel shifts. For interest rate increases or decreases of 100 and 200 basis points, our policy includes a guideline that our MVPE ratio should not decrease more than 10% and 15%, respectively, and that net interest income should not decrease more than 10% and 15%, respectively. While the percentage change of 17.87% in the down 200 basis point scenario, exceeds the 15% guideline, the fact that short term rates are approximately .25% implies that a 200 basis point decrease is not currently realistic. As illustrated in the following table, we complied with our asset/liability policy at December 31, 2014. While our modeling suggests an increase in market rates will have a positive impact on margin (as shown in the table below), the amount of such increase cannot be determined, and there can be no assurance any increase will be realized.

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

If we should experience a mismatch in our desired gap ranges or an excessive decline in our MVPE subsequent to an immediate and sustained change in interest rate, we have a number of options available to remedy such a mismatch. We could restructure our investment portfolio through the sale or purchase of securities with more favorable repricing attributes. We could also emphasize loan products with appropriate maturities or repricing attributes, or we could emphasize deposits or obtain borrowings with desired maturities.

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

Financial Condition

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

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

Investment portfolio. The Financial Accounting Standards Board Accounting Standards Codification (ASC) 320, Investments—Debt and Equity Securities, requires that debt and equity securities classified as available-for-sale be reported at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Accordingly, marking an available-for-sale portfolio to market results in fluctuations in the level of shareholders' equity and equity-related financial ratios as market interest rates and market demand for such securities cause the fair value of fixed-rate securities to fluctuate. Debt securities which we have the positive intent and ability to hold to maturity are classified as held-to-maturity and are carried at amortized cost.

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

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

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

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

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

Single issuer	Book value	Fair value	Unrealized gain/(loss)	Credit rating
Security A	$ 1,897	$ 2,000	$ 103	Not rated
Security B	8,964	5,144	(3,820)	Not rated

Class: All of the above are trust preferred securities.

The following table provides additional information related to our pooled trust preferred securities as of December 31, 2014:

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

* There is no excess subordination for these securities.

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

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

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

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

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

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

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

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

Available-for-sale	Zero to one year	Average yield	After one to five years	Average yield	After five to ten years	Average yield	Over ten years	Av yie
U.S. Government agency securities	$ -	-	$ -	-	$ 2,140	3.73%	$ 14,421	2.0
Federally insured student loan securities	-	-	-	-	75,302	1.37%	50,710	1.2
Tax-exempt obligations of states and political subdivisions*	36,934	0.68%	99,633	1.18%	214,070	2.61%	200,632	3.4
Taxable obligations of states and political subdivisions	12,409	2.09%	18,949	1.18%	5,322	4.64%	24,699	5.4
Residential mortgage-backed securities	3,244	3.30%	4,562	2.02%	27,317	2.63%	387,006	1.8
Commercial mortgage-backed securities	39,742	1.27%	52,898	2.02%	-	-	30,599	4.0
Foreign debt securities	3,074	1.89%	55,687	1.91%	6,971	2.65%	1,146	5.5
Corporate and other debt securities	9,425	2.61%	76,507	2.23%	39,343	1.95%	897	1.0
Total	$ 104,828		$ 308,236		$ 370,465		$ 710,110	

Weighted average yield	1.61%	1.60%	2.35%	2.19%

* The yield shown, if adjusted to its taxable equivalent, would approximately 1.05%, 1.82%, 4.02% and 5.31% for zero to one year, one to five years, five to ten years and over ten years, respectively.

Held-to-maturity	Zero to one year	Average yield	After one to five years	Average yield	After five to ten years	Average yield	Over ten years	Ave yiel
Corporate and other debt securities	$ -	-	$ 7,048	3.22%	$ -	-	$ 86,717	1.57
Total	$ -		$ 7,048		$ -		$ 86,717	
Weighted average yield				3.22%				1.57

Loan Portfolio. We have developed a detailed credit policy for our lending activities and we utilize loan committees to oversee the lending function. SBLOC and other consumer loans, SBA, Leases and CMBS each have their own loan committee. The Chief Executive Officer, Chief Credit Officer and the Bank's Senior Credit Officer serve on all committees. Each committee also includes lenders from that particular type of specialty lending. The Chief Credit Officer is responsible for both regulatory compliance and adherence to our internal credit policy. Key committee members have lengthy experience and certain of them have had similar positions at substantially larger institutions.

We originate substantially all of our portfolio loans, although from time to time we purchase lease pools. If a proposed loan should exceed our lending limit, we would sell a participation in the loan to another financial institution. The following table summarizes our loan portfolio, not including loans held for sale, by loan category for the periods indicated (in thousands):

	December 31, 2014	December 31, 2013 (restated)	December 31, 2012 (restated)	December 31, 2011 (restated)	December 31, 2010 (restated)
SBA non real estate	$ 62,425	$ 45,875	$ 50,059	$ 16,829	$ 2,159
SBA commercial mortgage	82,317	69,730	30,824	10,338	-
SBA construction	20,392	51	7,411	4,118	-
Total SBA loans	165,134	115,656	88,294	31,285	2,159
Direct lease financing	194,464	175,610	156,697	129,682	103,289
SBLOC	421,862	293,109	235,184	144,668	127,487
Other specialty lending	48,625	1,588	1,212	1,165	1,091
Other consumer loans	36,168	45,152	50,893	57,411	58,520
	866,253	631,115	532,280	364,211	292,546
Unamortized loan fees and costs	8,340	4,886	2,861	1,184	315
Total loans, net of deferred loan costs	$ 874,593	$ 636,001	$ 535,141	$ 365,395	$ 292,861

The following table presents selected loan categories by maturity for the periods indicated (in thousands):

	December 31, 2014 Within one year (in thousands)	One to five years	After five years	Total
SBA non real estate	$ 58	$ 4,975	$ 57,392	$ 62,425
SBA commercial mortgage	5,022	-	77,295	82,317

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SBA construction	4,279	1,481	14,632	20,392
	$ 9,359	$ 6,456	$ 149,319	$ 165,134
Loans at fixed rates		$ -	$ -	$ -
Loans at variable rates		6,456	149,319	155,775
Total		$ 6,456	$ 149,319	$ 155,775

Allowance for Loan and Lease Losses. We review the adequacy of our allowance for loan and lease losses on at least a quarterly basis to determine a provision for loan losses in an amount necessary to maintain our allowance at a level that is appropriate, based on management's estimate of inherent losses. Our estimates of loan and lease losses are intended to, and, in management's opinion, do meet the criteria for accrual of loss contingencies in accordance with ASC 450, Contingencies, and ASC 310, Receivables. The process of evaluating this adequacy has two basic elements: first, the identification of problem loans or leases based on current financial information and the fair value of the underlying collateral; and second, a methodology for estimating general loss reserves. For loans or leases classified as "special mention," "substandard" or "doubtful," we reserve all estimated losses at the time we classify the loan or lease. This "specific" portion of the allowance is the total of potential, although unconfirmed, losses for individually classified loans. In this process, we establish specific reserves based on an analysis of the most probable sources of repayment and liquidation of collateral. While each impaired loan is individually evaluated, not every loan requires a reserve when the collateral value and estimated cash flows exceed the current balance.

The second phase of our analysis represents an allocation of the allowance. This methodology analyzes pools of loans that have similar characteristics and applies historical loss experience and other factors for each pool including management's experience with similar loan and lease portfolios at other institutions, the historic loss experience of our peers and a review of statistical information from various industry reports to determine the allocable portion of the allowance. This estimate is intended to represent the potential unconfirmed and inherent losses within the portfolio. Individual loan pools are created for major loan categories: SBLOCs, SBA loans, direct lease financing and other specialty lending and consumer loans. We augment historical experience for each loan pool by accounting for such items as current economic conditions, current loan portfolio performance, loan policy or management changes, loan concentrations, increases in our lending limit, average loan size and other factors as appropriate. Our Chief Risk Officer, who reports directly to our audit committee, oversees the loan review department processes and measures the adequacy of the allowance for loan and lease losses independently of management. The loan review department's oversight parameters include borrower relationships over $3.0 million, whether they are performing or not, and loans that are 90 days or more past due or which have been previously adversely classified. At December 31, 2014, approximately 45% of the continuing loan portfolio was reviewed. The loan review policy guideline specifies a minimum of 60% of total loan balances are reviewed annually and such coverage was maintained as of December 31, 2013 and December 2012. As of December 31, 2014 that percentage was maintained based upon the total of discontinued and continuing operations loans. As a result of transferring loans into "Discontinued Operations", management is currently assessing the review scope for the remaining portfolio for appropriate coverage levels for its continuing loan portfolio. In 2014, the loan review department performed additional loan review procedures for commercial loans which were partially or fully subject to charge off in 2012, 2013 and 2014, all criticized loans (loans classified as special mention, substandard and doubtful) and loans which had been assigned a potential loss allocation by an independent third party loan review consultant. In 2014 that loan review consultant reviewed all commercial loan relationships greater than $2 million and non accrual loans and continues to update such coverage on a quarterly basis.

The following table presents delinquencies by type of loan for December 31, 2014 and 2013 (in thousands):

December 31, 2014	30-59 Days past due	60-89 Days past due	Greater than 90 days	Non accrual	Total past due	Current	Total loans
SBA non real estate	$ -	$ -	$ -	$ -	$ -	$ 62,425	$ 62,425
SBA commercial mortgage	-	-	-	-	-	82,317	82,317
SBA construction	-	-	-	-	-	20,392	20,392
Direct lease financing	5,083	1,832	149	-	7,064	187,400	194,464
SBLOC	-	-	-	-	-	421,862	421,862
Other specialty lending	-	-	-	-	-	48,625	48,625

Consumer - other	9		-	-	9	8,654	8,663
Consumer - home equity	-	457	-	1,907	2,364	25,141	27,505
Unamortized loan fees and costs	-	-	-	-	-	8,340	8,340
	$ 5,092	$ 2,289	$ 149	$ 1,907	$ 9,437	$ 865,156	$ 874,593
December 31, 2013 (restated)							
SBA non real estate	$ -	$ -	$ -	$ 168	$ 168	$ 45,707	$ 45,875
SBA commercial mortgage	-	-	-	-	-	69,730	69,730
SBA construction	-	-	-	-	-	51	51
Direct lease financing	3,427	1,293	110	-	4,830	170,780	175,610
SBLOC	-	-	-	-	-	293,109	293,109
Other specialty lending	-	-	-	-	-	1,588	1,588
Consumer - other	425	-	-	1,356	1,781	8,793	10,574
Consumer - home equity	18	-	-	-	18	34,560	34,578
Unamortized loan fees and costs	-	-	-	-	-	4,886	4,886
	$ 3,870	$ 1,293	$ 110	$ 1,524	$ 6,797	$ 629,204	$ 636,001

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

The following table presents an allocation of the allowance for loan and lease losses among the types of loans or leases in our portfolio at December 31, 2014, 2013, 2012, 2011 and 2010 (in thousands):

	December 31, 2014	December 31, 2013	December 31, 2012

			(restated)		(restated)	
	Allowance	% Loan type to total loans	Allowance	% Loan type to total loans	Allowance	% Loan type to total loans
SBA non real estate	$ 385	7.21%	$ 419	7.27%	$ 193	9.40%
SBA commercial mortgage	461	9.50%	496	11.05%	104	5.79%
SBA construction	114	2.35%	-	0.01%	42	1.39%
Direct lease financing	836	22.45%	311	27.83%	239	29.44%
SBLOC	562	48.70%	293	46.44%	236	44.18%
Other specialty lending	66	5.61%	1	0.25%	-	0.23%
Consumer loans	1,181	4.18%	2,361	7.15%	3,171	9.57%
Unallocated	33	-	-	-	-	-
	$ 3,638	100.00%	$ 3,881	100.00%	$ 3,985	100.00%

	December 31, 2011 (restated)		December 31, 2010 (restated)	
	Allowance	% Loan type to total loans	Allowance	% Loan type to total loans
SBA non real estate	$ 54	4.62%	$ 5	0.74%
SBA commercial mortgage	43	2.84%	-	0.00%
SBA construction	8	1.13%	-	0.00%
Direct lease financing	256	35.61%	164	35.31%

SBLOC	73	39.72%	81	43.59%
Other specialty lending	-	0.32%	-	0.37%
Consumer loans	1,273	15.77%	1,132	20.00%
Unallocated	-	-	-	-
	$ 1,707	100.00%	$ 1,382	100.00%

Summary of Loan and Lease Loss Experience. The following tables summarize our credit loss experience for each of the periods indicated (in thousands):

	SBA non real estate	SBA commercial mortgage	SBA construction	Direct lease financing	SBLOC	Other specialty lending	Other c loans
December 31, 2014							
Beginning balance (restated)	$ 419	$ 496	$ -	$ 311	$ 293	$ 1	$
Charge-offs	(307)	-	-	(323)	(3)	-	(871)
Recoveries	12	-	-	25	-	-	22
Provision (credit)	261	(35)	114	823	272	65	(331)
Ending balance	$ 385	$ 461	$ 114	$ 836	$ 562	$ 66	$
Ending balance: Individually evaluated for impairment	$ 40	$ -	$ -	$ -	$ -	$ -	$
Ending balance: Collectively evaluated for impairment	$ 345	$ 461	$ 114	$ 836	$ 562	$ 66	$
Loans: Ending balance	$ 62,425	$ 82,317	$ 20,392	$ 194,464	$ 421,862	$ 48,625	$
Ending balance:	$ 197	$ -	$ -	$ -	$ -	$ -	$

Individually evaluated for impairment													
Ending balance: Collectively evaluated for impairment	$	62,228	$	82,317	$	20,392	$	194,464	$	421,862	$	48,625	$
December 31, 2013 (restated)													
Beginning balance	$	193	$	104	$	42	$	239	$	236	$	-	$
Charge-offs	(44)		-		-		(29)		-		-		(447)
Recoveries	-		-		-		8		-		-		53
Provision (credit)	270		392		(42)		93		57		1		(416)
Ending balance	$	419	$	496	$	-	$	311	$	293	$	1	$
Ending balance: Individually evaluated for impairment	$	95	$	-	$	-	$	-	$	-	$	-	$
Ending balance: Collectively evaluated for impairment	$	324	$	496	$	-	$	311	$	293	$	1	$
Loans: Ending balance	$	45,875	$	69,730	$	51	$	175,610	$	293,109	$	1,588	$
Ending balance: Individually evaluated for impairment	$	385	$	-	$	-	$	-	$	-	$	-	$

Ending balance: Collectively evaluated for impairment	$	45,490	$	69,730	$	51	$	175,610	$	293,109	$	1,588	$

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December 31, 2012 (restated)														
Beginning balance	$	54	$	43	$	8	$	256	$	73	$	-	$	
Charge-offs	-		-		-		(87)		-		-		(4,290)	
Recoveries	-		-		-		13		-		-		-	
Provision (credit)	139		61		34		57		163		-		6,188	
Ending balance	$	193	$	104	$	42	$	239	$	236	$	-	$	
Ending balance: Individually evaluated for impairment	$	-	$	-	$	-	$	-	$	-	$	-	$	
Ending balance: Collectively evaluated for impairment	$	193	$	104	$	42	$	239	$	236	$	-	$	
Loans: Ending balance	$	50,059	$	30,824	$	7,411	$	156,697	$	235,184	$	1,212	$	
Ending balance: Individually evaluated for impairment	$	-	$	-	$	-	$	-	$	-	$	-	$	
Ending balance: Collectively evaluated for impairment	$	50,059	$	30,824	$	7,411	$	156,697	$	235,184	$	1,212	$	
December 31, 2011 (restated)														

Beginning balance	$	5	$	-	$	-	$	164	$	81	$	-	$
Charge-offs	-		-		-		(39)		(1)		-		(1,279)
Recoveries	-		-		-		-		-		-		6
Provision (credit)	49		43		8		131		(7)		-		1,414
Ending balance	$	54	$	43	$	8	$	256	$	73	$	-	$
Ending balance: Individually evaluated for impairment	$	-	$	-	$	-	$	-	$	-	$	-	$
Ending balance: Collectively evaluated for impairment	$	54	$	43	$	8	$	256	$	73	$	-	$
Loans: Ending balance	$	16,829	$	10,338	$	4,118	$	129,682	$	144,668	$	1,165	$
Ending balance: Individually evaluated for impairment	$	-	$	-	$	-	$	-	$	-	$	-	$
Ending balance: Collectively evaluated for impairment	$	16,829	$	10,338	$	4,118	$	129,682	$	144,668	$	1,165	$
December 31, 2010 (restated) Beginning balance	$	-	$	-	$	-	$	151	$	159	$	-	$
Charge-offs	-		-		-		(3)		-		-		(619)
Recoveries	-		-		-		10		-		-		6
	5		-		-		6		(78)		-		1,444

Provision (credit)													
Ending balance	$	5	$	-	$	-	$	164	$	81	$	-	$

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Ending balance: Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$
Ending balance: Collectively evaluated for impairment	$ 5	$ -	$ -	$ 164	$ 81	$ -	$
Loans: Ending balance	$ 2,159	$ -	$ -	$ 103,289	$ 127,487	$ 1,091	$
Ending balance: Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$
Ending balance: Collectively evaluated for impairment	$ 2,159	$ -	$ -	$ 103,289	$ 127,487	$ 1,091	$

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

	As of or for the years ended December 31, 2014	2013 (restated)
Ratio of the allowance for loan losses to total loans	0.42%	0.61%
Ratio of the allowance for loan losses to nonperforming loans (1)	176.95%	237.52%
Ratio of nonperforming assets to total assets (1)	0.04%	0.04%
Ratio of net charge-offs to average loans	0.16%	0.07%

(1) Nonperforming loans are defined as nonaccrual loans and loans 90 days past due and still accruing interest and are both included in our ratios.

The ratio of the allowance for loan and lease losses to total loans decreased to 0.42% at December 31, 2014 from 0.61% at December 31, 2013, reflecting loan growth which did not result in a proportionately higher allowance as a result of our allowance for loan loss methodology. That methodology includes the measurement of historical net charge-offs by loan category. The resulting ratios are applied against current outstanding balances for each loan category. Those computed reserves are added to reserves on specific loans and, with an allocation for economic and other factors, comprise the required level of the allowance for loan losses (see "Allowance for Loan and Lease Losses"). In the year ended December 31, 2014, the fastest growing segment of the loan portfolio was SBLOC, which has historically experienced low levels of losses as a result of the marketable securities collateralizing these loans and related loan to value requirements (see Item 1. "Business-Lending-SBA Loans"). The ratio of the allowance for loan losses to non-performing loans decreased to 176.95% at December 31, 2014 from 237.52% reflecting an increase in non performing loans to $2.1 million compared to $1.6 million at December 31, 2013. The ratio of non performing-assets to total assets was relatively flat between those two dates. The ratio of net charge-offs to average loans was 0.16% for 2014 compared to 0.07% for the prior year, primarily as result of increased net charge-offs in 2014.

Net charge-offs. Net charge-offs of $1.4 million for 2014 increased $986,000 over net charge-offs for 2013. The increase in net charge-offs reflected $871,000 million of other consumer loan charge-offs in 2014, primarily home equity lines of credit.

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

	December 31, 2014 (in thousands)	2013 (restated)	2012 (restated)	2011 (restated)	2010 (restated)
Non-accrual loans					
SBA non real estate	$ -	$ 168	$ -	$ -	$ -
Consumer	1,907	1,356	927	1,252	960
Total non-accrual loans	1,907	1,524	927	1,252	960
Loans past due 90 days or more	149	110	6	745	60
Total non-performing loans	2,056	1,634	933	1,997	1,020
Other real estate owned	-	-	-	-	-
Total non-performing assets	$ 2,056	$ 1,634	$ 933	$ 1,997	$ 1,020

The loans that were modified during the years ended December 31, 2014 and 2013 and considered troubled debt restructurings are as follows (in thousands):

	December 31, 2014			December 31, 2013 (restated)		
	Number	Pre-modification recorded investment	Post-modification recorded investment	Number	Pre-modification recorded investment	Post-modification recorded investment
Commercial	1	$ 197	$ 197	1	$ 217	$ 217
Consumer	1	346	346	-	-	-
Total	2	$ 543	$ 543	1	$ 217	$ 217

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

	December 31, 2014			December 31, 2013 (restated)		
	Adjusted interest rate	Extended maturity	Combined rate and maturity	Adjusted interest rate	Extended maturity	Combined rate and maturity
Commercial	$ -	$ 197	$ -	$ -	$ 217	$ -

Consumer	-	346	-	-	-	-
Total	$ -	$ 543	$ -	$ -	$ 217	$ -

None of the loans that were restructured within the last 12 months have subsequently defaulted.

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

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

SBA non real estate	$ -	$ -	$ -	$ -	$ -
Consumer - other	346	346	-	139	-
Consumer - home equity	827	927	-	1,043	-
With an allowance recorded					
SBA non real estate	197	197	40	967	-
Consumer - other	-	-	-	369	-
Consumer - home equity	1,080	1,080	271	885	-
Total					
SBA non real estate	197	197	40	967	-
Consumer - other	346	346	-	508	-
Consumer - home equity	1,907	2,007	271	1,928	-
December 31, 2013 (restated)					
Without an allowance recorded					
SBA non real estate	$ -	$ -	$ -	$ -	$ -
Consumer - other	-	-	-	-	-
Consumer - home equity	927	927	-	927	-
With an allowance recorded					
SBA non real estate	385	385	95	251	-
Consumer - other	-	-	-	-	-
Consumer - home equity	429	429	135	190	-
Total					
SBA non real estate	385	385	95	251	-
Consumer - other	-	-	-	-	-
Consumer - home equity	1,356	1,356	135	1,117	-

We had $1.9 million of non-accrual loans at December 31, 2014 compared to $1.5 million of non-accrual loans at December 31, 2013. The increase in non-accrual loans reflects $4.8 million of loans placed on non-accrual status, partially offset by $1.8 million of loan charge-offs, $725,000 of transfers to other real estate owned, or OREO, $878,000 of loans sold and $1.0 million of loan payments. Included within the non-accrual loans at December 31, 2014 are two troubled debt restructured loans with a balance of $543,000. Loans past due 90 days or more still accruing interest amounted to $149,000 and $110,000 at December 31, 2014 and December 31, 2013, respectively. The $39,000 increase reflected $679,000 of loans transferred to non-accrual status, partially offset by $542,000 of loan payments and $98,000 of transfers to repossessed assets. We had no OREO at December 31, 2014 and December 31, 2013.

We evaluate 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):

December 31, 2014	Pass	Special mention	Substandard	Doubtful	Loss	Unrated subject to review *	Unrated nc subject to r *
SBA non real estate	$ 49,214	$ -	$ 197	$ -	$ -	$ 669	$ 1
SBA commercial mortgage	59,086	-	-	-	-	965	22,266
SBA construction	18,911	-	-	-	-	-	1,481
Direct lease financing	58,994	-	99	-	-	-	135,371

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SBLOC	142,286	-	-	-	-	57,360	222,216
Other specialty lending	46,990	-	-	-	-	-	1,635
Consumer	14,196	346	1,907	-	-	73	19,646
Unamortized loan fees and costs	-	-	-	-	-	-	8,340
	$ 389,677	$ 346	$ 2,203	$ -	$ -	$ 59,067	$ 42
December 31, 2013 (restated)							
SBA non real estate	$ 51,645	$ -	$ 385	$ -	$ -	$ 643	$ (
SBA commercial mortgage	57,162	-	-	-	-	6,619	5,949
SBA construction	-	-	-	-	-	51	-
Direct lease financing	58,545	-	-	-	-	2,244	114,821
SBLOC	94,487	-	-	-	-	500	198,122
Other specialty lending	67	-	-	-	-	-	1,521
Consumer	15,013	1,348	1,356	-	-	24	27,411
Unamortized loan fees and costs	-	-	-	-	-	-	4,886
	$ 276,919	$ 1,348	$ 1,741	$ -	$ -	$ 10,081	$ 34

*The loan review scope does not encompass performing loans in the absence of negative characteristics or which fell below the dollar threshold requiring review. Accordingly, such loans are not rated and not subject to review. The loan portfolio review coverage was approximately 45% at December 31, 2014 and approximately 44% at December 31, 2013. This review is performed by the loan review department, which is independent of the loan departments and reports directly to the audit committee. All classified loans are reviewed by our independent loan review function. Potential problem loans which are identified by either the independent loan review department or line management are also reviewed. Loans are subject to review by their relationship manager and senior loan personnel. As a result of transferring loans into "Discontinued Operations", management is currently reassessing the review scope for the continuing operations portfolio.

Investment in Unconsolidated Subsidiary On December 30, 2014, the Bancorp Bank (the "Bank"), a wholly owned subsidiary of the Company, entered into an agreement for, and closed on, the sale of a portion of its commercial loan portfolio, which the Company had previously disclosed it was in the process of selling. The purchaser of the loan portfolio was a newly formed entity, Walnut Street 2014-1 Issuer, LLC ("Walnut Street"). The price paid to the Bank for the loan portfolio with 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 comprise the balance of the investment in unconsolidated subsidiary.

Deposits. A primary source of funding is deposit acquisition. We offer a variety of deposit accounts with a range of interest rates and terms, including demand and money market accounts. Our primary strategic focus is growing these accounts through affinity groups. At December 31, 2014, we had total deposits of $4.62 billion compared to $4.27 billion at December 31, 2013, which reflected an increase of $348.8 million or 8.2% between 2014 and 2013. The following table presents the average balance and rates paid on deposits for the periods indicated (in thousands):

	December 31, 2014		December 31, 2013		December 31, 2012	
	Average balance	Average rate	Average balance	Average rate	Average balance	Average rate
Demand and interest checking *	$ 3,746,958	0.24%	$ 3,185,919	0.25%	$ 2,666,493	0.29%
Savings and money market	366,160	0.43%	500,113	0.43%	455,860	0.53%
Time	7,974	1.20%	17,443	1.04%	26,624	1.34%
Total deposits	$ 4,121,092	0.26%	$ 3,703,475	0.27%	$ 3,148,977	0.33%

* Non-interest bearing demand accounts are not paid interest. The amount shown as interest reflects the fees paid to affinity groups, which are based upon a rate index, and therefore classified as interest expense.

Borrowings. We had no outstanding advances from the FHLB at December 31, 2014. The Bank also has several lines of credit, which we discuss in "Liquidity and Capital Resources". We used these lines minimally in 2014, as a result of deposit growth. We had no outstanding balances on the Bank's lines of credit at December 31, 2014. We do not have any policy prohibiting us from incurring debt.

	As of or for the year ended December 31,		
	2014	2013	2012
	(dollars in thousands)		
Securities sold under repurchase agreements			
Balance at year-end	$ 19,414	$ 21,221	$ 18,548
Average during the year	17,497	18,442	22,508
Maximum month-end balance	21,496	22,523	30,964
Weighted average rate during the year	0.29%	0.29%	0.42%
Rate at December 31	0.29%	0.28%	0.37%

	As of or for the year ended December 31,		
	2014	2013	2012
	(dollars in thousands)		
Short-term borrowings and federal funds purchased			
Balance at year-end	$ -	$ -	$ -
Average during the year	-	-	-
Maximum month-end balance	-	-	-
Weighted average rate during the year	0.00%	0.00%	0.00%
Rate at December 31	0.27%	0.25%	0.25%

As of December 31, 2014, we have two established statutory business trusts: The Bancorp Capital Trust II and The Bancorp Capital Trust III; which we refer to as the Trusts. In each case, we own all the common securities of the Trust. These Trusts issued preferred capital securities to investors and invested the proceeds in us through the purchase of junior subordinated debentures issued by us. These debentures are the sole assets of the trusts. The $10.3 million of debentures issued to The Bancorp Capital Trust II on November 28, 2007, mature on March 15, 2038 and bear interest equal to 3-month LIBOR plus 3.25%. The $3.1 million of debentures issued to The Bancorp Capital Trust III on November 28, 2007 mature on March 15, 2038, and bear interest at a floating annual rate equal to 3-month LIBOR plus 3.25%.

Shareholders' Equity

At December 31, 2014, we had $319.0 million in shareholders' equity. In December 2012, we issued 4,000,000 shares of our common stock, par value $1.00, at a public offering price of $11.00 per share in an underwritten public offering. The sale of the common stock resulted in net proceeds to us, after underwriting discounts, commissions and expenses, of approximately $41.7 million.

Discontinued Operations

As of December 31, 2014 "Assets Held For Sale" reflected the $887.9 million balance of discontinued operations assets, which included $867.4 million of loans and $17.7 of other real estate owned. To dispose of our discontinued commercial loan portfolio, we have engaged several intermediaries which are in the business of selling loans, primarily to other financial institutions, to assist in completing loan sales. A total of approximately $267.6 million par value of loans were sold in the fourth quarter of 2014 as described in "Investment in Unconsolidated Subsidiary" above. In the second quarter of 2015, $150 million of loans were sold at a net gain of $2.2 million. (See Note W to the financial statements.)

Off-balance Sheet Commitments

We are party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in our consolidated financial statements.

Credit risk is defined as the possibility of sustaining a loss due to the failure of the other parties to a financial instrument to perform in accordance with the terms of the contract. The maximum exposure to credit loss under commitments to extend credit and standby letters of credit is represented by the contractual amount of these instruments. We use the same underwriting standards and policies in making credit commitments as we do for on-balance sheet instruments.

Financial instruments whose contract amounts represent potential credit risk for us at December 31, 2014, were our commitments to extend credit, which were approximately $709.1 million, and standby letters of credit, which were approximately $22.1 million, at December 31, 2014.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and many require the payment of a fee. Standby letters of credit are conditional commitments issued that guarantee the performance of a customer to a third party. Since we expect that many of the commitments or letters of credit we issue will not be fully drawn upon, the total commitment or letter of credit amounts do not necessarily represent future cash requirements. We evaluate each customer's creditworthiness on a case-by-case basis. We base the amount of collateral we obtain when we extend credit on our credit evaluation of the customer. Collateral held varies but may include real estate, marketable securities, pledged deposits, equipment and accounts receivable.

Contractual Obligations and Other Commitments

The following table sets forth our contractual obligations and other commitments, including off-balance sheet commitments, representing required and potential cash outflows as of December 31, 2014:

	Total	Less than one year	One to three years	Three to five years	After five years
	(in thousands)				
Minimum annual rentals on noncancellable operating leases	$ 37,524	$ 3,997	$ 7,543	$ 7,564	$ 18,420
Remaining contractual maturities of time deposits	14,225	11,212	2,982	31	-
Loan commitments	709,080	69,024	41,044	13,005	586,007
Subordinated debenture	13,401	-	-	-	13,401
Interest expense on subordinated debenture (1)	10,619	458	915	915	8,331
Standby letters of credit	22,057	20,373	1,684	-	-
Total	$ 806,906	$ 105,064	$ 54,168	$ 21,515	$ 626,159

(1) Presentation assumes a weighted average interest rate of 3.52%

Impact of Inflation

The primary impact of inflation on our operations is on our operating costs. Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the price of goods and services. While we anticipate that inflation will affect our future operating costs, we cannot predict the timing or amounts of any such effects.

Recently Issued Accounting Standards

Information on recent accounting pronouncements is set forth in Note B, item 19, to the consolidated financial statements included in this report and is incorporated herein by this reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Information with respect to quantitative and qualitative disclosures about market risk is included under the section entitled "Asset and Liability Management" in Part 2 Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

The Bancorp, Inc.

We have audited the accompanying consolidated balance sheets of The Bancorp, Inc. (a Delaware corporation) and subsidiaries (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Bancorp, Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note C to the consolidated financial statements, the Company has restated its consolidated financial statements to correct an error.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014, based on criteria established in the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated September 25, 2015 expressed an adverse opinion.

/s/ GRANT THORNTON LLP

Philadelphia, Pennsylvania

September 25, 2015

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THE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2014	December 31, 2013 (restated)
	(in thousands)	
ASSETS		
Cash and cash equivalents		
Cash and due from banks	$ 8,665	$ 31,890
Interest earning deposits at Federal Reserve Bank	1,059,320	1,196,515
Securities purchased under agreements to resell	46,250	7,544
Total cash and cash equivalents	1,114,235	1,235,949
Investment securities, available-for-sale, at fair value	1,493,639	1,253,117
Investment securities, held-to-maturity (fair value $91,914 and $95,030, respectively)	93,765	97,205
Commercial loans held for sale	217,080	69,904
Loans, net of deferred loan fees and costs	874,593	636,001
Allowance for loan and lease losses	(3,638)	(3,881)
Loans, net	870,955	632,120
Federal Home Loan and Atlantic Central Bankers Bank stock	1,002	3,209
Premises and equipment, net	17,697	15,659
Accrued interest receivable	11,251	8,522
Intangible assets, net	6,228	7,612
Deferred tax asset, net	33,673	59,836
Investment in unconsolidated entity, at fair value	193,595	-
Assets held for sale	887,929	1,179,277
Other assets	45,268	31,178
Total assets	$ 4,986,317	$ 4,593,588
LIABILITIES		
Deposits		
Demand and interest checking	$ 4,289,586	$ 3,722,602
Savings and money market	330,798	536,162
Time deposits	1,400	9,773
Time deposits, $100,000 and over	-	4,452
Total deposits	4,621,784	4,272,989
Securities sold under agreements to repurchase	19,414	21,221
Subordinated debenture	13,401	13,401
Other liabilities	12,695	38,850
Total liabilities	4,667,294	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 December 31, 2014 and December 31, 2013, respectively	37,809	37,721
Treasury stock, at cost (100,000 shares)	(866)	(866)
Additional paid-in capital	297,987	294,576
Retained earnings	(28,242)	(84,862)
Accumulated other comprehensive income	12,335	558
Total shareholders' equity	319,023	247,127
Total liabilities and shareholders' equity	$ 4,986,317	$ 4,593,588

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

THE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the year ended December 31,		
	2014	2013 (restated)	2012 (restated)
	(in thousands, except per share data)		
Interest income			
Loans, including fees	$ 36,459	$ 27,640	$ 20,846
Interest on investment securities:			
Taxable interest	20,662	15,999	13,378
Tax-exempt interest	11,345	4,758	2,815
Federal funds sold/securities purchased under agreements to resell	462	425	7
Interest earning deposits	1,792	2,328	2,433
	70,720	51,150	39,479
Interest expense			
Deposits	10,767	10,166	10,447
Securities sold under agreements to repurchase	50	54	95
Subordinated debenture	478	548	869
	11,295	10,768	11,411
Net interest income	59,425	40,382	28,068
Provision for loan and lease losses	1,202	355	6,642
Net interest income after provision for loan and lease losses	58,223	40,027	21,426
Non-interest income			
Service fees on deposit accounts	6,339	4,977	3,548
Card payment and ACH processing fees	5,402	4,046	2,977
Prepaid card fees	51,287	45,339	33,311
Gain on sale of loans	12,542	17,225	1,885
Gain on sale of investment securities	450	1,889	661
Other than temporary impairment on securities held-to-maturity	-	(20)	(202)
Leasing income	2,899	2,560	2,954
Debit card income	1,679	892	482
Affinity fees	2,596	2,986	2,794
Other	1,855	2,179	1,091
Total non-interest income	85,049	82,073	49,501
Non-interest expense			
Salaries and employee benefits	60,509	52,248	39,907
Depreciation and amortization	4,523	3,694	2,762
Rent and related occupancy cost	4,694	3,858	3,025
Data processing expense	13,207	10,888	9,938

Printing and supplies	2,229	1,598	1,637
Professional fees	1,427	1,441	1,145
Legal expense	2,102	2,048	1,711
Amortization of intangible assets	1,211	1,142	1,001
FDIC Insurance	6,805	3,682	3,172
Software	4,908	3,553	2,351
Insurance	1,700	1,311	976
Telecom and IT network communications	2,531	1,483	1,181
Securitization and servicing expense	1,843	767	98
Consulting	3,452	1,700	1,123
Bank Secrecy Act and lookback consulting expenses	8,801	-	-
Other	16,038	12,404	10,161

Total non-interest expense	135,980	101,817	80,188
Income (loss) from continuing operations before income taxes	7,292	20,283	(9,261)
Income tax (benefit) provision	(14,523)	6,767	(3,492)
Net income (loss) from continuing operations	$ 21,815	$ 13,516	$ (5,769)
Discontinued operations			
Income (loss) from discontinued operations before income taxes	54,625	(11,669)	(57,557)
Income tax (benefit) provision	19,331	16,269	(20,173)
Income (loss) from discontinued operations, net of tax	35,294	(27,938)	(37,384)
Net income (loss) available to common shareholders	$ 57,109	$ (14,422)	$ (43,153)
Net income (loss) per share from continuing operations - basic	$ 0.58	$ 0.36	$ (0.17)
Net income (loss) per share from discontinued operations - basic	$ 0.94	$ (0.75)	$ (1.13)
Net income (loss) per share - basic	$ 1.52	$ (0.39)	$ (1.30)
Net income (loss) per share from continuing operations - diluted	$ 0.57	$ 0.35	$ (0.17)
Net income (loss) per share from discontinued operations - diluted	$ 0.92	$ (0.75)	$ (1.13)
Net income (loss) per share - diluted	$ 1.49	$ (0.40)	$ (1.30)

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

THE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the year ended December 31,					
	2014		2013 (restated)		2012 (restated)	
	(in thousands)					
Net income (loss)	$	57,109	$	(14,422)	$	(43,153)
Other comprehensive income (loss), net of reclassifications into net income:						
Other comprehensive income (loss)						
Change in net unrealized gain/(loss) during the period	18,710		(12,905)		6,198	
Reclassification adjustments for gains included in income	(450)		(1,889)		(661)	
Reclassification adjustment for called securities	-		(133)		297	
Amortization of (gains)/losses previously held as available-for-sale	(141)		30		30	
Net unrealized gain/(loss) on investment securities	18,119		(14,897)		5,864	
Deferred tax expense (benefit)						
Change in net unrealized gain/(loss) during the period	6,549		(4,517)		2,169	
Reclassification adjustments for gains included in income	(158)		(661)		(232)	
Reclassification adjustment for called securities	-		(47)		104	
Amortization of (gains)/losses previously held as available-for-sale	(49)		11		11	
Income tax expense (benefit) related to items of other comprehensive income	6,342		(5,214)		2,052	
Other comprehensive income (loss), net of tax and reclassifications into net income	11,777		(9,683)		3,812	
Comprehensive income (loss)	$	68,886	$	(24,105)	$	(39,341)

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

THE BANCORP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2014, 2013 and 2012

(in thousands except share data)

	Common stock shares	Common stock	Treasury stock	Additional paid-in capital	Retained earnings/ (accumulated deficit)	Accumulated other comprehensiv income
Balance at January 1, 2012, as reported	33,196,281	$ 33,196	$ (866)	$ 241,997	$ (9,277)	$ 6
Restatement adjustments	-	-	-	-	(13,168)	-
Balance at January 1, 2012, as restated	33,196,281	$ 33,196	$ (866)	$ 241,997	$ (22,445)	$ 6
Net loss, as restated					(43,153)	
Common stock issued from option exercises, net of tax benefits	50,374	51	-	403	-	-
Issuance of common stock	4,000,000	4,000	-	37,713	-	-
Stock-based compensation	-	-	-	2,595	-	-
Other comprehensive income, net of reclassification adjustments and tax	-	-	-	-	-	3,812
Balance at December 31, 2012, as restated	37,246,655	37,247	(866)	282,708	(65,598)	10,241

Net loss, as restated					(14,422)	
Issuance of common stock	175,790	176	-	1,453	-	
Common stock issued from option exercises, net of tax benefits	158,272	158	-	1,495	-	-
Common stock issued from cashless option exercises, net of tax benefits	140,228	140	-	4,702	(4,842)	-
Stock-based compensation	-	-	-	3,157	-	-
Stock-based income tax benefit	-	-	-	1,061	-	-
Other comprehensive loss, net of reclassification adjustments and tax	-	-	-	-	-	(9,683)
Balance at December 31, 2013, as restated	37,720,945	$ 37,721	$ (866)	$ 294,576	$ (84,862)	$
Net income					57,109	
Common stock issued from option exercises, net of tax benefits	9,249	9	-	94	-	
Common stock issued from cashless option exercises, net of tax benefits	29,208	30	-	459	(489)	-
Common stock issued from vested stock, net of tax benefits	49,375	49	-	(49)	-	-
Stock-based compensation	-	-	-	2,641	-	-
	-	-	-	266	-	-

Stock-based income tax benefit											
Other comprehensive income, net of reclassification adjustments and tax	-		-		-		-		-		11,777
Balance at December 31, 2014	37,808,777	$	37,809	$	(866)	$	297,987	$	(28,242)	$	12

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

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THE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands except per share data)

	Year ended December 31,		
	2014	2013 (restated)	2012 (restated)
Operating activities			
Net income (loss) from continuing operations	$ 21,815	$ 13,516	$ (5,769)
Net income (loss) from discontinued operations, net of tax	35,294	(27,938)	(37,384)
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	5,734	4,836	3,763
Provision for loan and lease losses	1,202	355	6,642
Net amortization of investment securities discounts/premiums	14,059	6,811	2,090
Stock-based compensation expense	2,641	3,157	2,595
Loans originated for sale	(630,165)	(276,562)	(28,876)
Sale of loans originated for resale	495,531	268,019	19,420
Gain on sales of loans originated for resale	(12,542)	(17,225)	(1,885)
Deferred income tax	(13,590)	(200)	(1,188)
Gain on sale of fixed assets	(14)	(24)	(31)
Other than temporary impairment on securities held-to-maturity	-	20	202
Gain on sales of investment securities	(450)	(1,889)	(661)
Increase in accrued interest receivable	(2,729)	(3,553)	(1,574)
Decrease (increase) in other assets	21,966	(222)	(42,056)
Decrease (increase) in discontinued assets held for sale	37,410	(23,390)	(2,310)
Increase (decrease) in other liabilities	(26,155)	15,284	7,739
Net cash (used in) provided by operating activities	(49,993)	(39,005)	(79,283)
Investing activities			
Purchase of investment securities available-for-sale	(533,168)	(884,050)	(473,828)
Purchase of investment securities held-to-maturity	-	(52,899)	-
Proceeds from sale of investment securities available-for-sale	109,322	106,243	26,209
Proceeds from redemptions and prepayments of securities held-to-maturity	3,022	963	2,076
Proceeds from redemptions and prepayments of securities available-for-sale	188,252	233,262	154,246
Net increase in loans	(240,036)	(134,114)	(174,110)

Net decrease in discontinued loans held for sale	253,938	82,199	109,743
Proceeds from sale of fixed assets	64	137	357
Purchases of premises and equipment	(6,611)	(9,098)	(5,098)
Investment in unconsolidated entity	(193,595)	-	-
Net cash used in investing activities	(418,812)	(657,357)	(360,405)
Financing activities			
Net increase in deposits	348,795	959,768	630,670
Net increase (decrease) in securities sold under agreements to repurchase	(1,807)	2,673	(14,629)
Proceeds from issuance of common stock	-	1,629	41,713
Proceeds from the exercise of options	103	1,653	454
Net cash provided by financing activities	347,091	965,723	658,208

Net (decrease) increase in cash and cash equivalents	(121,714)		269,361		218,520	
Cash and cash equivalents, beginning of year	1,235,949		966,588		748,068	
Cash and cash equivalents, end of year	$	1,114,235	$	1,235,949	$	966,588
Supplemental disclosure:						
Interest paid	$	10,768	$	10,792	$	11,431
Taxes paid	$	2,578	$	17,602	$	11,049
Transfers of loans to other real estate owned	$	725	$	-	$	-
Transfer of loans to held for sale	$	-	$	32,795	$	-

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

THE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A—Organization and Nature of Operations

The Bancorp, Inc. (the Company) is a Delaware corporation and a registered financial holding company. Its primary subsidiary is a wholly owned subsidiary bank, The Bancorp Bank (the Bank). The Bank is a Delaware chartered commercial bank located in Wilmington, Delaware and is a Federal Deposit Insurance Corporation (FDIC) insured institution. In its continuing operations, the Bank has four primary lines of specialty lending: security 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 and health savings accounts. European operations are comprised of three operational service subsidiaries, Transact Payment Services Group Limited, Transact Payment Services Limited and Transact Payment Services Group-Bulgaria EOOD and one subsidiary, Transact Payments Limited, which 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 B—Summary of Significant Accounting Policies

1. Basis of Presentation

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America (US GAAP) and predominant practices within the banking industry. The consolidated financial statements include the accounts of the Company and all its subsidiaries. All inter-company balances have been eliminated.

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The principal estimates that are particularly susceptible to a significant change in the near term relate to the allowance for loan and lease losses, investment other than temporary impairment (OTTI) and deferred income taxes.

The Company periodically reviews its 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, it considers the continuing performance of the securities. Credit losses are recognized in the consolidated statement of operations. If management believes market value losses are temporary and it believes the Company has the ability and intention to hold those securities to maturity, for available for sale securities the reduction in value is recognized in other comprehensive income, through equity and for held to maturity securities the securities are held at the amortized cost.

Deferred tax assets are recorded on the consolidated balance sheet at their net realizable value. The Company performs an assessment each reporting period to evaluate the amount of deferred tax asset it is more likely than not to realize. Realization of deferred tax assets is dependent upon the amount of taxable income expected in future periods, as tax benefits require taxable income to be realized. If a valuation allowance is required, the deferred tax asset on the consolidated balance sheet is reduced via a corresponding income tax expense in the consolidated statement of operations.

2. Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand and amounts due from banks with an original maturity of three months or less and federal funds sold. The Company at times maintains balances in excess of insured limits at various financial institutions including the FRB, the FHLB and other private institutions. The Company does not believe these instruments carry a significant risk of loss, but cannot provide assurances that no losses could occur if these institutions were to become insolvent.

3. Investment Securities

Investments in debt securities which the Company has both the ability and intent to hold to maturity are carried at cost, adjusted for the amortization of premiums and accretion of discounts computed by the effective interest method. Investments in debt and equity securities which management believes may be sold prior to maturity due to changes in interest rates, prepayment risk, liquidity requirements, or other factors, are classified as available-for-sale. Net unrealized gains for such securities, net of tax effect, are reported as other comprehensive income and excluded from the determination of net income. The unrealized losses for both the held-to-maturity and available-for-sale securities are evaluated to determine first if the impairment is other than temporary then to determine the amount of other than temporary impairment that is attributable to credit loss versus non-credit loss. If a credit loss is determined, an other than temporary charge is recorded within the consolidated statement of operations. The Company does not engage in securities trading. Gains or losses on disposition of investment securities are based on the net proceeds and the adjusted carrying amount of the securities sold using the specific identification method.

The Company evaluates whether an other than temporary impairment exists by considering primarily the following factors: (a) the length of time and extent to which the fair value has been less than the amortized cost of the security, (b) changes in the financial condition, credit rating and near-term prospects of the issuer, (c) whether the issuer is current on contractually obligated interest and principal payments, (d) changes in the financial condition of the security's underlying collateral and (e) the payment structure of the security. The Company's best estimate of expected future cash flows used to determine the amount of other than temporary impairment attributable to credit loss is a quantitative and qualitative process that incorporates information received from third-party sources along with certain internal assumptions and judgments regarding the future performance of the security. The Company's best estimate of future cash flows 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. These assumptions require the use of significant management judgment and include the probability of issuer default and estimates regarding timing and amount of expected recoveries which may include estimating the underlying collateral value. In addition, projections of expected future cash flows from a debt security may change based upon new information regarding the performance of the issuer and/or underlying collateral such as changes in the projections of the underlying property value estimates. The Company recognized other than temporary impairment charges of $0 in 2014, $20,000 in 2013 and $202,000 in 2012. The $20,000 charge in 2013 resulted from the write-down of the amortized cost to the present value of the cash flows expected to be collected for one pooled trust preferred security. The $202,000 charge in 2012 resulted from the write-down of the amortized cost to the present value of the cash flows expected to be collected for one pooled trust preferred security.

4. Loans and Allowance for Loan and Lease Losses

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at the amount of unpaid principal and are net of unearned discounts, unearned loan fees and an allowance for loan and lease losses. The allowance for loan and lease losses is established through a provision for loan and lease losses charged to expense. Loan principal considered to be uncollectible by management is charged against the allowance for loan and lease losses. The allowance is an amount that management believes will be adequate to absorb probable losses on existing loans that may become uncollectible based upon an evaluation of known and inherent risks in the loan portfolio. The evaluation takes into consideration such factors as changes in the nature and size of the loan portfolio, overall portfolio quality, specific problem loans and current economic conditions which may affect the borrowers' ability to pay. The evaluation also details historical losses by loan category, the resulting loss rates for which are projected at current loan total amounts. Loss estimates for specified problem loans are also detailed.

Interest income is accrued as earned on a simple interest basis. Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful. The Company recognizes income on impaired loans when they are placed into non-accrual status on a cash basis when the loans are both current and the collateral on the loan is sufficient to cover the outstanding obligation to the Company. If these factors do not exist, the Company will not recognize income on such loans.

When a loan is placed on non-accrual status, all accumulated accrued interest receivable applicable to periods prior to the current year is charged off to the allowance for loan and lease losses. Interest that had accrued in the current year is reversed out of current period income. Loans reported as having missed four or more consecutive monthly payments and still accruing interest must have both principal and accruing interest adequately secured and must be in the process of collection. Such loans are reported as 90 days delinquent and still accruing. For all loan types, the Company uses the method of reporting delinquencies which considers a loan past due or delinquent if a monthly payment has not been received by the close of business on the loan's next due date. In the Company's reporting, two missed payments are reflected as 30 to 59 day delinquencies and three missed payments are reflected as 60 to 89 day delinquencies.

The allowance for loan losses represents management's estimate of losses inherent in the loan and lease portfolio as of the consolidated balance sheet date and is recorded as a reduction to loans and leases. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Because all identified losses are immediately charged off, no portion of the allowance for loan losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

The evaluation of the adequacy of the allowance for loan and lease losses includes, among other factors, an analysis of historical loss rates and environmental factors by category, applied to current loan totals. However, actual losses may be higher or lower than historical trends, which vary. Actual losses on specified problem loans, which also are provided for in the evaluation, may vary from those estimated loss percentages, which are established based upon a limited number of potential loss classifications.

Management performs a quarterly evaluation of the adequacy of the allowance, which is based on the Company's past loan loss experience, known and inherent risks in the portfolio, the volume and mix of the existing loan and lease portfolios, including the volume and severity of non-performing and adversely classified credits, an analysis of net charge-offs experienced on previously classified credits, the trend in loan and lease growth, including any rapid increase in loan and lease volume within a relatively short time period, general and local economic conditions affecting the collectability of the Company's loans and leases, previous loan and lease experience by type, including net charge-offs, as a percentage of average loans and leases over the past several years and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans and leases that are classified as impaired. For such loans and leases, an allowance is established when the discounted cash flows, or collateral value, or observable market price of the impaired loan is lower than the carrying value of that loan. Regardless of the measurement method, a creditor must measure impairment based on the fair value of the collateral when the creditor determines that foreclosure is probable.

The allowance calculation methodology includes further segregation of loan classes into regulatory risk rating categories of special mention, substandard, doubtful and loss. Loans classified as special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans rated as special mention and substandard are reserved for based on the average charge-off history for loans and leases previously classified in those categories. Loans classified as doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are included in the general component of the reserve calculation.

The general component covers pools of loans by loan type. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for relevant qualitative factors. Separate qualitative adjustments are made for higher-risk criticized loans that are not impaired. These qualitative risk factors include:

· Changes in lending policies or procedures;
· Changes in economic conditions;
· Portfolio growth;
· Changes in the nature or volume of the portfolio;
· Changes in management’s experience;

- Past due volume;
- Non-accrual volume;
- Adversely classified loans;
- Quality of the loan review system;
- Changes in the value of underlying collateral;
- Concentrations of credit; and
- External factors.

Applicable factors are considered based on management's best judgment using relevant information available at the time of the evaluation. An unallocated component is also maintained to cover additional uncertainties that could affect management's estimate of probable losses.

A loan is considered impaired when, based on current information and events, it is probable that the loan will not be collected according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for all impaired loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of substantially all of the Company's impaired loans are measured based on the estimated fair value of the loan's collateral.

For SBA commercial loans secured by real estate, estimated fair values are determined primarily through third-party appraisals or evaluations. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

For SBA commercial and industrial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable agings or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

Loans originated from continuing operations and intended for sale in the secondary market are carried at estimated fair value. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. The Company originates specific commercial mortgage loans for sale in secondary markets. These loans are accounted for under the fair value option and amounted to $217.1 million at December 31, 2014 and $69.9 million at December 31, 2013. These loans were classified as held for sale.

Loans from discontinued operations intended for sale primarily to other financial institutions are carried at the lower of cost or market on the balance sheet, determined by loan type or, for larger loans, on an individual loan basis. See Note W to the financial statements.

5. Premises and Equipment

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Premises and equipment, including leasehold improvements, are stated at cost less accumulated depreciation. Depreciation expense is computed on the straight-line method over the useful lives of the assets. Leasehold improvements are depreciated over the shorter of the estimated useful lives of the improvements or the terms of the related leases.

6. Internal Use Software

The Company capitalizes costs associated with internally developed and/or purchased software systems for new products and enhancements to existing products that have reached the application stage and meet recoverability tests. Capitalized costs include external direct costs of materials and services utilized in developing or obtaining internal use software, payroll and payroll related expenses for employees who are directly associated with and devote time to the internal use software project and interest costs incurred, if material, while developing internal use software. Capitalization of such costs begins when the preliminary project stage is complete and ceases no later than the point at which the project is substantially complete and ready for its intended purpose.

The carrying value of the Company's software is periodically reviewed and a loss is recognized if the value of the estimated undiscounted cash flow benefit related to the asset falls below the unamortized cost. Amortization is provided using the straight-line method over the estimated useful life of the related software, which is generally seven years. As of December 31, 2014 and 2013, the Company had net capitalized software costs of approximately $5.4 million and $4.2 million, respectively. The Company recorded amortization expense of approximately $1.2 million, $907,000 and $669,000 for the years ended December 31, 2014, 2013 and 2012, respectively.

7. Income Taxes

The Company accounts for income taxes under the liability method whereby deferred tax assets and liabilities are determined based on the difference between their carrying values on the consolidated financial statements and their tax basis 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.

The Company recognizes the benefit of a tax position in the consolidated financial statements only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the consolidated financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. For these analyses, the Company may engage attorneys to provide opinions related to the positions. The Company applies this policy to all tax positions for which the statute of limitations remain open, but this application does not materially impact the Company's consolidated balance sheet or statement of operations. Any interest and penalties related to uncertain tax positions are recognized in income tax (benefit) expense in the consolidated statement of operations.

8. Share-Based Compensation

The Company recognizes compensation expense for stock options in accordance with 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 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.

9. Other Real Estate Owned

Other real estate owned is recorded at estimated fair market value less cost of disposal; which establishes a new cost basis or carrying value. When property is acquired, the excess, if any, of the loan balance over fair market value is charged to the allowance for loan and lease losses. Periodically thereafter, the asset is reviewed for subsequent declines in the estimated fair market value against the carrying value. Subsequent declines, if any, and holding costs, as well as gains and losses on subsequent sale, are included in the consolidated statements of operations.

10. Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs amounted to $621,000, $706,000 and $393,000 for the years ended December 31, 2014, 2013 and 2012, respectively.

11. 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 take 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:

	Year ended December 31, 2014				
	Income (numerator)		Shares (denominator)	Per share amount	
	(dollars in thousands except per share data)				
Basic earnings (loss) per share from continuing operations					
Net income (loss) available to common shareholders	$	21,815	37,701,306	$	0.58
Effect of dilutive securities					
Common stock options	-		628,438	(0.01)	
Diluted earnings (loss) per share					
Net income (loss) available to common shareholders	$	21,815	38,329,744	$	0.57

	Year ended December 31, 2014				
	Income (numerator)		Shares (denominator)	Per share amount	
	(dollars in thousands except per share data)				
Basic earnings (loss) per share from discontinued operations					
Net income (loss) available to common shareholders	$	35,294	37,701,306	$	0.94
Effect of dilutive securities					
Common stock options	-		628,438	(0.02)	
Diluted (loss) earnings per share					
Net income (loss) available to common shareholders	$	35,294	38,329,744	$	0.92

	Year ended December 31, 2014		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except per share data)		
Basic earnings (loss) per share			
Net income (loss) available to common shareholders	$ 57,109	$ 37,701,306	$ 1.52
Effect of dilutive securities			

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Common stock options	-		628,438	(0.03)	
Diluted (loss) earnings per share					
Net income (loss) available to common shareholders	$	57,109	38,329,744	$	1.49

Stock options for 505,250 shares, exercisable at prices between $9.82 and $25.43 per share, were outstanding at December 31, 2014 but were not included in the dilutive earnings per share computation because the exercise price per share was greater than the average market price.

	Year ended December 31, 2013				
	Income (numerator) (restated)		Shares (denominator) (restated)	Per share amount (restated)	
	(dollars in thousands except per share data)				
Basic earnings (loss) per share from continuing operations					
Net income (loss) available to common shareholders	$	13,516	37,425,197	$	0.36
Effect of dilutive securities					
Common stock options	-		695,887	(0.01)	
Diluted earnings (loss) per share					
Net income (loss) available to common shareholders	$	13,516	38,121,084	$	0.35

	Year ended December 31, 2013				
	Income (numerator) (restated)		Shares (denominator) (restated)	Per share amount (restated)	
	(dollars in thousands except per share data)				
Basic earnings (loss) per share from discontinued operations					
Net income (loss) available to common shareholders	$	(27,938)	37,425,197	$	(0.75)
Effect of dilutive securities					
Common stock options	-		-	-	
Diluted (loss) earnings per share					
Net income (loss) available to common shareholders	$	(27,938)	37,425,197	$	(0.75)

Year ended December 31, 2013

	Income (numerator) (restated)		Shares (denominator) (restated)		Per share amount (restated)	
	(dollars in thousands except per share data)					
Basic earnings (loss) per share						
Net income (loss) available to common shareholders	$	(14,422)	$	37,425,197	$	(0.39)
Effect of dilutive securities						
Common stock options	-		-		(0.01)	
Diluted (loss) earnings per share						
Net income (loss) available to common shareholders	$	(14,422)	37,425,197		$	(0.40)

Stock options for 13,000 shares, exercisable at prices between $20.98 and $25.43 per share, were outstanding at December 31, 2013, but were not included in the dilutive earnings per share computation because the Company had a net loss available to common shareholders.

	Year ended December 31, 2012					
	Income (numerator) (restated)		Shares (denominator) (restated)	Per share amount (restated)		
	(dollars in thousands except per share data)					
Basic loss per share from continuing operations						
Net loss available to common shareholders	$	(5,769)	33,227,755	$	(0.17)
Effect of dilutive securities					
Common stock options	-		-	-	
Diluted loss per share					
Net loss available to common shareholders	$	(5,769)	33,227,755	$	(0.17)

	Year ended December 31, 2012				
	Income (numerator) (restated)		Shares (denominator) (restated)	Per share amount (restated)	
	(dollars in thousands except per share data)				
Basic loss per share from discontinued operations					
Net loss available to common shareholders	$	(37,384)	33,227,755	$	(1.13)
Effect of dilutive securities					
Common stock options	-		-	-	
Diluted loss per share					
Net loss available to common shareholders	$	(37,384)	33,227,755	$	(1.13)

	Year ended December 31, 2012					
	Income (numerator) (restated)		Shares (denominator) (restated)		Per share amount (restated)	
	(dollars in thousands except per share data)					
Basic loss per share						
Net loss available to common shareholders	$	(43,153)	$	33,227,755	$	(1.30)
Effect of dilutive securities						
Common stock options	-		-		-	
Diluted loss per share						
Net loss available to common shareholders	$	(43,153)	33,227,755		$	(1.30)

Stock options for 2,401,493 shares, exercisable at prices between $7.36 and $25.43 per share, were outstanding at December 31, 2012 but were not included in the diluted earnings per share because the Company had a net loss available to common shareholders.

12. Other Comprehensive Income

Other comprehensive income consists of revenues, expenses, gains and losses that bypass the statement of operations and are reported directly in a separate component of equity.

	For the year ended December 31,		
	2014	2013 (restated)	2012 (restated)
	(in thousands)		
Other comprehensive income (loss)			
Change in net unrealized gain/(loss) during the period	$ 18,710	$ (12,905)	$ 6,198
Reclassification adjustments for gains included in income	(450)	(1,889)	(661)
Reclassification adjustment for called securities	-	(133)	297
Amortization of (gains)/losses previously held as available-for-sale	(141)	30	30
Net unrealized gain/(loss) on investment securities	18,119	(14,897)	5,864
Deferred tax expense (benefit)			
Securities available-for-sale:			
Change in net unrealized gain/(loss) during the period	6,549	(4,517)	2,169
Reclassification adjustments for gains included in income	(158)	(661)	(232)
Reclassification adjustment for called securities	-	(47)	104
Amortization of (gains)/losses previously held as available-for-sale	(49)	11	11
Income tax expense (benefit) related to items of other comprehensive income	6,342	(5,214)	2,052
Other comprehensive income (loss), after tax and net of reclassifications into net income	$ 11,777	$ (9,683)	$ 3,812

13. Restrictions on Cash and Due from Banks

The Bank is required to maintain reserves against customer demand deposits by keeping cash on hand or balances with the Federal Reserve Bank. The amount of those required reserves at December 31, 2014 and 2013 was approximately $280.4 million and $238.7 million, respectively.

14. Other Identifiable Intangible Assets

On November 29, 2012, the Company acquired certain software rights and personnel of a prepaid program manager in Europe for approximately $1.8 million to establish a European prepaid card presence. The Company allocated the majority of the $1.8 million acquisition cost to software used for fraud monitoring and other utilities for its prepaid card business, with related services provided by its European data processing subsidiary. The software is being amortized over eight years.

The Company accounts for its customer list in accordance with ASC 350, Intangibles—Goodwill and Other. The acquisition of the Stored Value Solutions division of Marshall Bank First in 2007 resulted in a customer list intangible of $12.0 million which is being amortized over a 12 year period. Amortization expense is $1.0 million per year ($5.0 million over the next five years).

The gross carrying value and accumulated amortization related to the Company's intangible items at December 31, 2014 and 2013 are presented below.

December 31,			
2014		2013	
Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization

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	(in thousands)			
Customer list intangible	$ 12,006	$ 7,003	$ 12,006	$ 6,003
Software intangible	1,817	592	1,817	208
Total	$ 13,823	$ 7,595	$ 13,823	$ 6,211

The approximate future annual amortization of both the Company's intangible items are as follows (in thousands):

Year ending December 31,	
2015	$ 1,189
2016	1,189
2017	1,189
2018	1,189
2019	1,189
Thereafter	283
	$ 6,228

15. Reclassifications

Certain reclassifications have been made to the 2013 and 2012 restated consolidated financial statements to conform to the 2014 presentation, separate from the restatement of the financial statements and discontinued operations. Reclassifications relating to discontinued operations are presented in Note W.

16. Prepaid Card Fees

The Company recognizes prepaid card fees in the periods in which they are earned by performance of the related services. The majority of fees the Company earns result from contractual transaction fees paid by third party sponsors to the Company and monthly service fees. Additionally, the Company earns interchange fees paid through settlement associations such as Visa, which are also determined on a per transaction basis. The Company records this revenue net of costs such as association fees and interchange transaction charges.

17. Common Stock Repurchase Program

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

18. Derivative Financial Instruments

The Company utilizes derivatives to hedge interest rate risk on the loans it originates for sale into commercial mortgage backed securities markets. These derivatives are recorded on the consolidated balance sheet at fair value. Changes in the fair value of these derivatives are designated as fair value hedges, which are recorded in earnings together and in the same consolidated income statement line item with, changes in the fair value of the related hedged item. All derivatives are utilized to hedge against interest rate changes between the time commercial mortgages are funded and sold. Accordingly such derivatives serve as a hedge against interest rate movements which might otherwise decrease sales proceeds.

19. Recent Accounting Pronouncements

In January 2014, FASB Accounting Standards Update (ASU) No. 2014-04, amended ASC Sub-Topic 310-40 “Receivables—Troubled Debt Restructurings by Creditors.” The amendments clarify that an in substance repossession or foreclosure occurs, and the

Company is considered to have received physical possession of residential real estate property collateralizing a mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The amendments in this update are effective for the annual periods beginning on or after December 15, 2014 and an entity can elect to adopt the amendments in this update using either a modified retrospective transition method or a prospective transition method as allowed in ASU No. 2014-04. The adoption of ASU No. 2014-04 did not have a material effect on the Company's consolidated financial statements.

In April 2014, the FASB issued ASU No. 2014-08 (ASU 2014-08), "Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360)". ASU 2014-08 amends the requirements for reporting discontinued operations and requires additional disclosures about discontinued operations. Under the new guidance, only disposals representing a strategic shift in operations or that have a major effect on the Company's operations and financial results should be presented as discontinued operations. This new accounting guidance is effective for annual periods beginning after December 15, 2014. The Company adopted ASU 2014-08 as presented in the Consolidated Balance Sheets, Consolidated Statements of Operations, Consolidated Statements of Cash Flows and Note W, Discontinued Operations.

In May 2014, the FASB issued 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 principal 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 June 2014, the FASB issued ASU 2014-11, "Transfers and Servicing". The amendments in this update require that repurchase-to-maturity transactions be accounted for as secured borrowings consistent with the accounting for other repurchase agreements. In addition, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty (a repurchase financing), which will result in secured borrowing accounting for the repurchase agreement. The amendments require an entity to disclose information about transfers accounted for as sales in transactions that are economically similar to repurchase agreements, in which the transferor retains substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. In addition the amendments require disclosure of the types of collateral pledged in repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions and the tenor of those transactions. The guidance in this ASU was effective for annual and interim periods beginning after December 15, 2014. The Company does not expect this ASU to have a significant impact on its financial condition or results of operations.

In August 2014, the FASB issued ASU 2014-14, “Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure”. The guidance in this ASU affects creditors that hold government-guaranteed mortgage loans, including those guaranteed by the Federal Home Administration (FHA) and the Veterans Administration (VA). It requires that a mortgage loan be derecognized and a separate other receivable be recognized upon foreclosure if the following conditions are met:

1. The loan has a government guarantee that is not separable from the loan before foreclosure.
2. At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under the claim.
3. At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed.

Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The guidance in this ASU was effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The guidance may be applied using a prospective transition method in which a reporting entity applies the guidance to foreclosures that occur after the date of adoption, or a modified retrospective transition using a cumulative-effect adjustment (through a reclassification to a separate other receivable) as of the beginning of the annual period of adoption. Prior periods should not be adjusted. A reporting entity must apply the same method of transition as elected under ASU 2014-04. The Company does not expect this ASU to have a significant impact on its financial condition or results of operations.

Note C— Restatement of Previously Issued Financial Statements

In this Note C and subsequent Note T, and prior to the discontinued operations, the financial statements reflect applicable restatement adjustments for periods from 2010 through September 30, 2014, the last date through which financial statements previously had been issued. The restatement reflected the recognition of provisions for loan losses and loan charge-offs for discontinued operations in periods earlier than those in which those charges were initially recognized. The majority of these loan charges were originally recognized in 2014, primarily in the third quarter when commercial loan operations were discontinued. Approximately $28.5 million of losses that were not previously reported were restated. Also, $12.7 million of losses related to loans made before December 31, 2014 that were resolved after that date but before the issuance date of these financial statements, were recognized in the 2014 financial statements. Substantially all of the losses and corresponding restatement adjustments resulted from the discontinued commercial loan operations. The Company performed a strategic evaluation of its businesses in the third quarter of 2014 and decided to discontinue its commercial lending operations and will focus on its specialty finance lending. The loans which constitute the commercial loan portfolio are in the process of disposition to independent purchasers. As such, financial results of the commercial lending operations are presented as separate from continuing operations on the consolidated statements of operations, and the commercial lending operations loans to be disposed are presented as assets held for sale on the consolidated balance sheets.

	December 31, 2013			
	As previously reported (in thousands)	Restatement adjustments	Discontinued operations adjustments	As restated
ASSETS				
Cash and cash equivalents				
Cash and due from banks	$ 33,883	$ -	$ (1,993)	$ 31,890
Interest earning deposits at Federal Reserve Bank	1,196,515	-	-	1,196,515
Securities purchased under agreements to resell	7,544	-	-	7,544

Total cash and cash equivalents	1,237,942	-	(1,993)	1,235,949
Investment securities, available-for-sale, at fair value	1,253,117	-	-	1,253,117
Investment securities, held-to-maturity (fair value $95,030)	97,205	-	-	97,205
Commercial loans held for sale	69,904	-	-	69,904
Loans, net of deferred loan fees and costs	1,958,445	(113,653)	(1,208,791)	636,001
Allowance for loan and lease losses	(38,182)	(28,245)	62,546	(3,881)
Loans, net	1,920,263	(141,898)	(1,146,245)	632,120
Federal Home Loan and Atlantic Central Bankers Bank stock	3,209	-	-	3,209
Premises and equipment, net	15,659	-	-	15,659
Accrued interest receivable	13,131	-	(4,609)	8,522
Intangible assets, net	7,612	-	-	7,612
Other real estate owned	26,295	-	(26,295)	0
Deferred tax asset, net	30,415	29,421	-	59,836
Assets held for sale	-	-	1,179,277	1,179,277
Other assets	31,313	-	(135)	31,178
Total assets	$ 4,706,065	$ (112,477)	$ 0	$ 4,593,588
LIABILITIES				
Deposits				

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Demand and interest checking	$ 3,722,602	$ -	$ -	$ 3,722,602
Savings and money market	536,162	-	-	536,162
Time deposits	9,773	-	-	9,773
Time deposits, $100,000 and over	4,452	-	-	4,452
Total deposits	4,272,989	-	-	4,272,989
Securities sold under agreements to repurchase	21,221	-	-	21,221
Subordinated debenture	13,401	-	-	13,401
Other liabilities	38,850	-	-	38,850
Total liabilities	4,346,461	-	-	4,346,461
SHAREHOLDERS' EQUITY				
Common stock - authorized, 50,000,000 shares of $1.00 par value: 37,720,945 shares issued at December 31, 2013	37,721	-	-	37,721
Treasury stock, at cost (100,000 shares)	(866)	-	-	(866)
Additional paid-in capital	294,576	-	-	294,576
Retained earnings	27,615	(112,477)	-	(84,862)
Accumulated other comprehensive income	558	-	-	558
Total shareholders' equity	359,604	(112,477)	-	247,127
Total liabilities and shareholders' equity	$ 4,706,065	$ (112,477)	$ -	$ 4,593,588

	December 31, 2012			
	As previously reported (in thousands)	Restatement adjustments	Discontinued operations adjustments	As restated
ASSETS				
Cash and cash equivalents				
Cash and due from banks	$ 19,981	$ -	$ (1,504)	$ 18,477
Interest earning deposits at Federal Reserve Bank	948,111	-	-	948,111
Total cash and cash equivalents	968,092	-	(1,504)	966,588
Investment securities, available-for-sale, at fair value	718,065	-	-	718,065
Investment securities, held-to-maturity (fair value $41,008)	45,179	-	-	45,179
Commercial loans held for sale	11,341	-	-	11,341
Loans, net of deferred loan fees and costs	1,902,854	(85,729)	(1,281,984)	535,141
Allowance for loan and lease losses	(33,040)	(25,848)	54,904	(3,984)
Loans, net	1,869,814	(111,577)	(1,227,080)	531,157
Federal Home Loan and Atlantic Central Bankers Bank stock	3,621	-	-	3,621
Premises and equipment, net	10,368	-	-	10,368
Accrued interest receivable	9,857	-	(4,888)	4,969

Intangible assets, net	7,004	-	-	7,004
Other real estate owned	4,241	-	(4,241)	(0)
Deferred tax asset, net	22,789	38,632	-	61,421
Assets held for sale	-	-	1,238,086	1,238,086
Other assets	29,287	-	(373)	28,915
Total assets	$ 3,699,659	$ (72,945)	$ (0)	$ 3,626,714

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LIABILITIES				
Deposits				
Demand and interest checking	$ 2,775,207	$ -	$ -	$ 2,775,207
Savings and money market	517,098	-	-	517,098
Time deposits	12,582	-	-	12,582
Time deposits, $100,000 and over	8,334	-	-	8,334
Total deposits	3,313,221	-	-	3,313,221
Securities sold under agreements to repurchase	18,548	-	-	18,548
Subordinated debenture	13,401	-	-	13,401
Other liabilities	17,812	-	-	17,812
Total liabilities	3,362,982	-	-	3,362,982
SHAREHOLDERS' EQUITY				
Common stock - authorized, 50,000,000 shares of $1.00 par value: 37,246,655 shares issued at December 31, 2012	37,247	-	-	37,247
Treasury stock, at cost (100,000 shares)	(866)	-	-	(866)
Additional paid-in capital	282,708	-	-	282,708
Retained earnings	7,347	(72,945)	-	(65,598)
Accumulated other comprehensive income	10,241	-	-	10,241
Total shareholders' equity	336,677	(72,945)	-	263,732
Total liabilities and shareholders' equity	$ 3,699,659	$ (72,945)	$ -	$ 3,626,714

	Year ended December 31, 2013			
	As previously reported	Restatement adjustments	Discontinued operations adjustments	As restated
	(in thousands, except per share data)			
Interest income				
Loans, including fees	$ 83,040	$ (1,428)	$ (53,972)	$ 27,640

Interest on investment securities:				
Taxable interest	15,999	-	-	15,999
Tax-exempt interest	4,758	-	-	4,758
Federal funds sold/securities purchased under agreements to resell	425	-	-	425
Interest earning deposits	2,328	-	-	2,328
	106,550	(1,428)	(53,972)	51,150
Interest expense				
Deposits	10,166	-	-	10,166
Securities sold under agreements to repurchase	54	-	-	54
Subordinated debenture	548	-	-	548
	10,768	-	-	10,768
Net interest income	95,782	(1,428)	(53,972)	40,382
Provision for loan and lease losses	29,500	28,894	(58,039)	355
Net interest income after provision for loan and lease losses	66,282	(30,322)	4,067	40,027
Non-interest income				
Service fees on deposit accounts	4,977	-	-	4,977
Card payment and ACH processing fees	4,046	-	-	4,046
Prepaid card fees	45,339	-	-	45,339
Gain on sale of loans	17,225	-	-	17,225
Gain on sale of investment securities	1,889	-	-	1,889

Other than temporary impairment on securities held-to-maturity	(20)	-	-	(20)
Leasing income	2,560	-	-	2,560
Debit card income	892	-	-	892
Affinity fees	2,986	-	-	2,986
Other	3,536	-	(1,357)	2,179
Total non-interest income	83,430	-	(1,357)	82,073
Non-interest expense				
Salaries and employee benefits	53,086	-	(838)	52,248
Depreciation and amortization	3,694	-	-	3,694
Rent and related occupancy cost	4,073	-	(215)	3,858
Data processing expense	11,193	-	(305)	10,888
Printing and supplies	1,660	-	(62)	1,598
Professional fees	1,441	-	-	1,441
Legal expense	5,717	-	(3,669)	2,048
Amortization of intangible assets	1,142	-	-	1,142
Loss on sale and write-downs on other real estate owned	1,461	-	(1,461)	-
FDIC Insurance	3,682	-	-	3,682
Software	3,621	-	(68)	3,553
Other real estate owned	840	-	(840)	-
Insurance	1,311	-	-	1,311
Telecom and IT network communications	1,570	-	(87)	1,483
Securitization and servicing expense	767	-	-	767
Consulting	1,700	-	-	1,700
Other	13,819	-	(1,415)	12,404
Total non-interest expense	110,777	-	(8,960)	101,817
Income from continuing operations before income taxes	38,935	(30,322)	11,670	20,283
Income tax provision	13,825	9,211	(16,269)	6,767
Net income from continuing operations	25,110	(39,533)	27,939	13,516
Discontinued operations				
Loss from discontinued operations before income taxes	-	-	(11,670)	(11,670)
Income tax provision	-	-	16,269	16,269
Loss from discontinued operations, net of tax	-	-	(27,939)	(27,939)
Net income (loss) available to common shareholders	$ 25,110	$ (39,533)	$ -	$ (14,423)
Net income per share from continuing operations - basic	$ 0.67	$ (1.06)	$ 0.75	$ 0.36
Net loss per share from discontinued operations - basic	$ -	$ -	$ (0.75)	$ (0.75)
Net income (loss) per share - basic	$ 0.67	$ (1.06)	$ -	$ (0.39)
Net income per share from continuing operations - diluted	$ 0.66	$ (1.06)	$ 0.75	$ 0.35
	$ -	$ -	$ (0.75)	$ (0.75)

Net loss per share from discontinued operations - diluted				
Net income (loss) per share - diluted	$ 0.66	$ (1.06)	$ -	$ (0.40)

	Year ended December 31, 2012			
	As previously reported	Restatement adjustments	Discontinued operations adjustments	As restated
	(in thousands, except per share data)			
Interest income				
Loans, including fees	$ 78,222	$ (747)	$ (56,629)	$ 20,846
Interest on investment securities:				

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Taxable interest	13,378	-	-	13,378
Tax-exempt interest	2,815	-	-	2,815
Federal funds sold/securities purchased under agreements to resell	7	-	-	7
Interest earning deposits	2,433	-	-	2,433
	96,855	(747)	(56,629)	39,479
Interest expense				
Deposits	10,447	-	-	10,447
Securities sold under agreements to repurchase	95	-	-	95
Subordinated debenture	869	-	-	869
	11,411	-	-	11,411
Net interest income	85,444	(747)	(56,629)	28,068
Provision for loan and lease losses	22,438	90,489	(106,285)	6,642
Net interest income after provision for loan and lease losses	63,006	(91,236)	49,656	21,426
Non-interest income				
Service fees on deposit accounts	3,548	-	-	3,548
Card payment and ACH processing fees	2,977	-	-	2,977
Prepaid card fees	33,311	-	-	33,311
Gain on sale of loans	1,885	-	-	1,885
Gain on sale of investment securities	661	-	-	661
Other than temporary impairment on securities held-to-maturity	(202)	-	-	(202)
Leasing income	2,954	-	-	2,954
Debit card income	482	-	-	482
Affinity fees	2,794	-	-	2,794
Other	1,188	-	(97)	1,091
Total non-interest income	49,598	-	(97)	49,501
Non-interest expense				
Salaries and employee benefits	40,057	-	(150)	39,907
Depreciation and amortization	2,762	-	-	2,762
Rent and related occupancy cost	3,352	-	(327)	3,025
Data processing expense	10,231	-	(293)	9,938
Printing and supplies	1,721	-	(84)	1,637
Professional fees	1,145	-	-	1,145
Legal expense	3,888	-	(2,177)	1,711
Amortization of intangible assets	1,001	-	-	1,001
Loss on sale and write-downs on other real estate owned	2,508	-	(2,508)	-
FDIC Insurance	3,172	-	-	3,172
Software	2,351	-	-	2,351
Other real estate owned	560	-	(560)	-
Insurance	976	-	-	976
Telecom and IT network communications	1,452	-	(271)	1,181
Securitization and servicing expense	98	-	-	98
Consulting	1,123	-	-	1,123
Other	11,789	-	(1,628)	10,161

Total non-interest expense	88,186	-	(7,998)	80,188
Income (loss) from continuing operations before income taxes	24,418	(91,236)	57,557	(9,261)
Income tax provision (benefit)	7,794	(31,459)	20,173	(3,492)
Net income (loss) from continuing operations	16,624	(59,777)	37,384	(5,769)
Discontinued operations				
Loss from discontinued operations before income taxes	-	-	(57,557)	(57,557)
Income tax benefit	-	-	(20,173)	(20,173)
Loss from discontinued operations, net of tax	-	-	(37,384)	(37,384)
Net income (loss) available to common shareholders	$ 16,624	$ (59,777)	$ -	$ (43,153)

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Net income (loss) per share from continuing operations - basic	$	0.50	$	(1.80)	$	1.13	$	(0.17)
Net loss per share from discontinued operations - basic	$	-	$	-	$	(1.13)	$	(1.13)
Net income (loss) per share - basic	$	0.50	$	(1.80)	$	-	$	(1.30)
Net income (loss) per share from continuing operations - diluted	$	0.50	$	(1.80)	$	1.13	$	(0.17)
Net loss per share from discontinued operations - diluted	$	-	$	-	$	(1.13)	$	(1.13)
Net income (loss) per share - diluted	$	0.50	$	(1.80)	$	-	$	(1.30)

	Year ended December 31, 2013							
	As previously reported		Restatement adjustments		Discontinued operations adjustments		As restated	
	(in thousands, except per share data)							
Operating activities								
Net income from continuing operations	$	25,110	$	(21,177)	$	9,583	$	13,516
Net loss from discontinued operations	-		-		(27,938)		(27,938)	
Adjustments to reconcile net income to net cash provided by operating activities								
Depreciation and amortization	4,836		-		-		4,836	
Provision for loan and lease losses	29,500		31,037		(60,182)		355	
Net amortization of investment securities discounts/premiums	6,811		-		-		6,811	
Stock-based compensation expense	3,157		-		-		3,157	
Loans originated for sale	(276,562)		-		-		(276,562)	
Sale of loans originated for resale	268,019		-		-		268,019	
Gain on sales of loans originated for resale	(17,225)		-		-		(17,225)	
Deferred income tax benefit	(199)		(13,502)		13,501		(200)	
Gain on sale of fixed assets	(24)		-		-		(24)	
Other than temporary impairment on securities held-to-maturity	20		-		-		20	
Losses on sale and write downs on other real estate owned	1,461		-		(1,461)		-	

Gain on sales of investment securities	(1,889)	-	-	(1,889)
Increase in accrued interest receivable	(3,274)	-	(279)	(3,553)
(Increase) decrease in other assets	(9,197)	2,214	6,761	(222)
Increase in discontinued assets held for sale	-	-	(23,390)	(23,390)
Increase in other liabilities	15,284	-	-	15,284
Net cash provided by operating activities	45,828	(1,428)	(83,405)	(39,005)
Investing activities				
Purchase of investment securities available-for-sale	(884,050)	-	-	(884,050)
Purchase of investment securities held-to-maturity	(52,899)	-	-	(52,899)
Proceeds from sale of investment securities available-for-sale	106,243	-	-	106,243
Proceeds from redemptions and prepayments of securities held-to-maturity	963	-	-	963
Proceeds from redemptions and prepayments of securities available-for-sale	233,262	-	-	233,262
Proceeds from sale of other real estate owned	2,373	-	(2,373)	-
Net increase in loans	(138,632)	1,428	3,090	(134,114)
Net decrease in discontinued loans held for sale	-	-	82,199	82,199
Proceeds from sale of fixed assets	137	-	-	137
Purchases of premises and equipment	(9,098)	-	-	(9,098)
Net cash used in investing activities	(741,701)	1,428	82,916	(657,357)
Financing activities				
Net increase in deposits	959,768	-	-	959,768

Net increase in securities sold under agreements to repurchase	2,673	-	-	2,673
Proceeds from issuance of common stock	1,629	-	-	1,629
Proceeds from the exercise of options	1,653	-	-	1,653
Net cash provided by financing activities	965,723	-	-	965,723
Net increase in cash and cash equivalents	269,850	-	(489)	- 269,361
Cash and cash equivalents, beginning of period	968,092	-	(1,504)	966,588
Cash and cash equivalents, end of period	$ 1,237,942	$ -	$ (1,993)	$ 1,235,949
Supplemental disclosure:				
Interest paid	$ 10,792	$ -	$ -	$ 10,792
Taxes paid	$ 17,602	$ -	$ -	$ 17,602
Transfers of loans to held for sale	$ 32,795	$ -	$ -	$ 32,795

	Year ended December 31, 2012			
	As previously reported	Restatement adjustments	Discontinued operations adjustments	As restated
	(in thousands, except per share data)			
Operating activities				
Net income (loss) from continuing operations	$ 16,624	$ (53,531)	$ 31,138	$ (5,769)
Net loss from discontinued operations	-	-	(37,384)	(37,384)
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation and amortization	3,763	-	-	3,763
Provision for loan and lease losses	22,438	80,831	(96,627)	6,642
Net amortization of investment securities discounts/premiums	2,090	-	-	2,090
Stock-based compensation expense	2,595	-	-	2,595
Loans originated for sale	(28,876)	-	-	(28,876)
Sale of loans originated for resale	19,420	-	-	19,420
Gain on sales of loans originated for resale	(1,885)	-	-	(1,885)
Deferred income tax benefit	(2,899)	(25,978)	27,689	(1,188)

Gain on sale of fixed assets	(31)	-	-	(31)
Other than temporary impairment on securities held-to-maturity	202	-	-	202
Losses on sale and write downs on other real estate owned	2,508	-	(2,508)	-
Gain on sales of investment securities	(661)	-	-	(661)
Increase in accrued interest receivable	(1,381)	-	(193)	(1,574)
Increase in other assets	(8,561)	(2,070)	(31,425)	(42,056)
Decrease in discontinued assets held for sale	-	-	(2,310)	(2,310)
Increase in other liabilities	7,739	-	-	7,739
Net cash provided by operating activities	33,085	(748)	(111,620)	(79,283)
Investing activities				
Purchase of investment securities available-for-sale	(473,828)	-	-	(473,828)
Proceeds from sale of investment securities available-for-sale	26,209	-	-	26,209
Proceeds from redemptions and prepayments of securities held-to-maturity	2,076	-	-	2,076
Proceeds from redemptions and prepayments of securities available-for-sale	154,246	-	-	154,246
Proceeds from sale of other real estate owned	5,535	-	(5,535)	-
Net increase in loans	(181,872)	748	7,014	(174,110)
Net decrease in discontinued loans held for sale	-	-	109,743	109,743
Proceeds from sale of fixed assets	357	-	-	357

Purchases of premises and equipment	(5,098)	-	-	(5,098)
Net cash used in investing activities	(472,375)	748	111,222	(360,405)
Financing activities				
Net increase in deposits	630,670	-	-	630,670
Net decrease in securities sold under agreements to repurchase	(14,629)	-	-	(14,629)
Proceeds from issuance of common stock	41,713	-	-	41,713
Proceeds from the exercise of options	454	-	-	454
Net provided by in financing activities	658,208	-	-	658,208
Net increase in cash and cash equivalents	218,918	-	(398)	- 218,520
Cash and cash equivalents, beginning of period	749,174	-	(1,106)	748,068
Cash and cash equivalents, end of period	$ 968,092	$ -	$ (1,504)	$ 966,588
Supplemental disclosure:				
Interest paid	$ 11,431	$ -	$ -	$ 11,431
Taxes paid	$ 11,049	$ -	$ -	$ 11,049

Note D— Subsequent Events

The Company evaluated its December 31, 2014 consolidated financial statements for subsequent events through the date the consolidated financial statements were issued. In the second quarter of 2015, approximately $150 million of loans from discontinued operations were sold at a net gain of approximately $2.2 million.

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. 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. 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, 2015. Future payments are subject to future approval by the Federal Reserve.

Note E—Investment Securities

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

Available-for-sale	December 31, 2014	
	Gross	Gross

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	Amortized cost	unrealized gains	unrealized losses	Fair value
U.S. Government agency securities	$ 16,519	$ 42	$ -	$ 16,561
Federally insured student loan securities	125,789	613	(390)	126,012
Tax-exempt obligations of states and political subdivisions	535,622	16,027	(380)	551,269
Taxable obligations of states and political subdivisions	58,868	2,614	(103)	61,379
Residential mortgage-backed securities	419,503	3,504	(878)	422,129
Commercial mortgage-backed securities	123,519	1,220	(1,500)	123,239
Foreign debt securities	67,094	130	(346)	66,878
Corporate and other debt securities	126,610	225	(663)	126,172
	$ 1,473,524	$ 24,375	$ (4,260)	$ 1,493,639

Held-to-maturity	December 31, 2014			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Other debt securities - single issuers	$ 17,882	$ 531	$ (3,820)	$ 14,593
Other debt securities - pooled	75,883	1,438	-	77,321
	$ 93,765	$ 1,969	$ (3,820)	$ 91,914

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
Foreign debt securities	72,729	90	(618)	72,202
Corporate and other debt securities	121,281	699	(602)	121,377
	$ 1,251,262	$ 9,164	$ (7,309)	$ 1,253,117

Held-to-maturity December 31, 2013

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

The amortized cost and fair value of the Company's investment securities at December 31, 2014, by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may 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	$ 104,938	$ 104,828	$ -	$ -

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Due after one year through five years	307,415	308,236	7,048	7,448
Due after five years through ten years	363,759	370,465	-	-
Due after ten years	697,412	710,110	86,717	84,466
	$ 1,473,524	$ 1,493,639	$ 93,765	$ 91,914

At December 31, 2014 and 2013, investment securities with a fair value of approximately $25.7 million and $29.1 million, respectively, were pledged to secure securities sold under repurchase agreements as required or permitted by law. Gross gains on sales of securities were $657,000, $2.1 million and $661,000 for the years ended December 31, 2014, 2013 and 2012, respectively. Gross losses on sales of securities were $207,000, $182,000 and $0 for the years ended December 31, 2014, 2013 and 2012, respectively.

Available-for-sale securities fair values are based on a fair market value supplied by a third-party market data provider while held-to-maturity securities are based on the present value of cash flows, which discounts expected cash flows from principal and interest using yield to maturity at the measurement date. The Company periodically reviews its investment portfolio to determine whether unrealized losses are other than temporary, based on 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 recognized other-than-temporary impairment charges of $0 in 2014, $20,000 in 2013 and $202,000 in 2012, for securities in its held-to-maturity portfolio. The amount of the credit impairment was calculated by estimating the discounted cash flows for those securities.

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

The table below indicates the length of time individual securities had been in a continuous unrealized loss position at December 31, 2014 (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	9	$ 28,435	$ (169)	$ 34,274	$ (221)	$ 62,709
Tax-exempt obligations of states and political subdivisions	97	21,458	(134)	46,412	(245)	67,870
Taxable obligations of states and						

political subdivisions	24	499	(1)	21,088	(102)	21,587
Residential mortgage-backed securities	29	43,946	(231)	67,023	(647)	110,969
Commercial mortgage-backed securities	30	41,231	(883)	47,549	(617)	88,780
Foreign debt securities	53	24,681	(203)	14,943	(144)	39,624
Corporate and other debt securities	61	62,984	(568)	16,609	(95)	79,593
Total temporarily impaired investment securities	303	$ 223,234	$ (2,189)	$ 247,898	$ (2,071)	$ 471,132

Held-to-maturity		Less than 12 months		12 months or longer		Total	
	Number of securities	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Unre losse
Description of Securities							
Single issuers	1	$ -	$ -	$ 5,144	$ (3,820)	$ 5,144	$
Total temporarily impaired investment securities	1	$ -	$ -	$ 5,144	$ (3,820)	$ 5,144	$

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

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Available-for-sale		Less than 12 months		12 months or longer		Total	
Description of Securities	Number of securities	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Ur lo
U.S. Government agency securities	4	$ 3,300	$ -	$ -	$ -	$ 3,300	$
Federally insured student loan securities	9	50,498	(676)	6,202	(44)	56,700	(7
Tax-exempt obligations of states and political subdivisions	229	169,995	(1,951)	-	-	169,995	(1
Taxable obligations of states and political subdivisions	52	46,888	(737)	1,808	(9)	48,696	(7
Residential mortgage-backed securities	38	147,717	(1,656)	55,064	(606)	202,781	(2
Commercial mortgage-backed securities	26	76,668	(399)	405	(11)	77,073	(4
Foreign debt securities	47	50,589	(618)	-	-	50,589	(6
Corporate and other debt securities	54	47,315	(406)	4,255	(196)	51,570	(6
Total temporarily impaired investment securities	459	$ 592,970	$ (6,443)	$ 67,734	$ (866)	$ 660,704	$

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

The following table provides additional information related to the Company's single issuer trust preferred securities as of December 31, 2014:

Single issuer	Book value	Fair value	Unrealized gain/(loss)	Credit rating
Security A	$ 1,897	$ 2,000	$ 103	Not rated
Security B	8,964	5,144	(3,820)	Not rated

Class: All of the above are trust preferred securities.

The following table provides additional information related to our pooled trust preferred securities as of December 31, 2014:

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

* There is no excess subordination for these securities.

The Company has evaluated the securities in the above tables as of December 31, 2014 and has concluded that none of these securities has impairment that is other-than-temporary. The Company evaluates whether an other than temporary impairment exists by considering primarily the following factors: (a) the length of time and extent to which the fair value has been less than the amortized cost of the security, (b) changes in the financial condition, credit rating and near-term prospects of the issuer, (c) whether the issuer is current on contractually obligated interest and principal payments, (d) changes in the financial condition of the security's underlying collateral and (e) the payment structure of the security. If other than temporary impairment is determined, the Company estimates expected future cash flows to determine the credit loss amount with a quantitative and qualitative process that incorporates information received from third-party sources along with internal assumptions and judgments regarding the future performance of the security. Based upon this evaluation, the Company concluded that most of the securities that are in an unrealized loss position are in a loss position because of changes in interest rates after the securities were purchased. The securities that have been in an unrealized loss position for 12 months or longer include other securities whose market values are sensitive to interest rates and changes in credit quality. The Company's unrealized loss for the debt securities, which includes two single issuer trust preferred securities and one pooled trust preferred security, is primarily related to general market conditions and the resultant lack of liquidity in the market. The severity of the impairments in relation to the carrying amounts of the individual investments is consistent with market developments. The Company's analysis for each investment is performed at the security level. As a result of its review, the Company concluded that other-than-temporary impairment did not exist due to the Company's ability and intention to hold these securities to recover their amortized cost basis.

Note F—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 the fair value option for the balance of these loans classified as commercial loans held for sale to better reflect the economics of the transactions. At December 31, 2014 and 2013, the fair value of these loans was $217.1 million and $69.9 million and the unpaid principal balance was $212.8 million and $67.5 million, respectively. Included in gain on sale of loans in the Statement of Operations were gains recognized from changes in fair value of $1.9 million and $2.4 million during the years ended December 31, 2014 and 2013, respectively. There were no amounts of changes in fair value related to instrument-specific credit risk. Interest earned on loans held for sale during the period held are recorded in Interest Income – Loans, including fees on the Statement of Operations.

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 the loan amount to estimated collateral value in making its credit determinations.

Major classifications of loans are as follows (in thousands):

	December 31, 2014	December 31, 2013 (restated)
SBA non real estate	$ 62,425	$ 45,875
SBA commercial mortgage	82,317	69,730
SBA construction	20,392	51
Total SBA loans	165,134	115,656
Direct lease financing	194,464	175,610

SBLOC	421,862	293,109
Other specialty lending	48,625	1,588
Other consumer loans	36,168	45,152
	866,253	631,115
Unamortized loan fees and costs	8,340	4,886
Total loans, net of deferred loan costs	$ 874,593	$ 636,001

Included in the table above are demand deposit overdrafts reclassified as loan balances totaling $1.8 million and $2.0 million at December 31, 2014 and 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 December 31, 2014 and 2013 (in thousands):

Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment	Interest income recognized

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December 31, 2014					
Without an allowance recorded					
SBA non real estate	$ -	$ -	$ -	$ -	$ -
Consumer - other	346	346	-	139	-
Consumer - home equity	827	927	-	1,043	-
With an allowance recorded					
SBA non real estate	197	197	40	967	-
Consumer - other	-	-	-	369	-
Consumer - home equity	1,080	1,080	271	885	-
Total					
SBA non real estate	197	197	40	967	-
Consumer - other	346	346	-	508	-
Consumer - home equity	1,907	2,007	271	1,928	-
December 31, 2013 (restated)					
Without an allowance recorded					
SBA non real estate	$ -	$ -	$ -	$ -	$ -
Consumer - other	-	-	-	-	-
Consumer - home equity	927	927	-	927	-
With an allowance recorded					
SBA non real estate	385	385	95	251	-
Consumer - other	-	-	-	-	-
Consumer - home equity	429	429	135	190	-
Total					
SBA non real estate	385	385	95	251	-
Consumer - other	-	-	-	-	-
Consumer - home equity	1,356	1,356	135	1,117	-

The following table summarizes the Company's non-accrual loans, loans past due 90 days and other real estate owned at December 31, 2014 and 2013, respectively (the Company had no non-accrual leases at December 31, 2014 or December 31, 2013):

	December 31, 2014	2013 (restated)
	(in thousands)	

Non-accrual loans		
SBA non real estate	$ -	$ 168
Consumer	1,907	1,356
Total non-accrual loans	1,907	1,524
Loans past due 90 days or more	149	110
Total non-performing loans	2,056	1,634
Other real estate owned	-	-
Total non-performing assets	$ 2,056	$ 1,634

The Company’s loans that were modified during the years ended December 31, 2014 and 2013 and considered troubled debt restructurings are as follows (in thousands):

	December 31, 2014			December 31, 2013 (restated)		
	Number	Pre-modification recorded investment	Post-modification recorded investment	Number	Pre-modification recorded investment	Post-modification recorded investment
Commercial	1	$ 197	$ 197	1	$ 217	$ 217
Consumer	1	346	346	-	-	-
Total	2	$ 543	$ 543	1	$ 217	$ 217

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

	December 31, 2014			December 31, 2013 (restated)		
	Adjusted interest rate	Extended maturity	Combined rate and maturity	Adjusted interest rate	Extended maturity	Combined rate and maturity
Commercial	$ -	$ 197	$ -	$ -	$ 217	$ -
Consumer	-	346	-	-	-	-
Total	$ -	$ 543	$ -	$ -	$ 217	$ -

As of December 31, 2014 and December 31, 2013, the Company has no commitments to lend additional funds to loan customers whose terms have been modified in troubled debt restructurings. There were no loans that were restructured within the last 12 months that have subsequently defaulted.

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	Other c loans
December 31, 2014							
Beginning balance (restated)	$ 419	$ 496	$ -	$ 311	$ 293	$ 1	$
Charge-offs	(307)	-	-	(323)	(3)	-	(871)
Recoveries	12	-	-	25	-	-	22
Provision (credit)	261	(35)	114	823	272	65	(331)
Ending balance	$ 385	$ 461	$ 114	$ 836	$ 562	$ 66	$
Ending balance: Individually evaluated for impairment	$ 40	$ -	$ -	$ -	$ -	$ -	$
Ending balance: Collectively evaluated for impairment	$ 345	$ 461	$ 114	$ 836	$ 562	$ 66	$
Loans: Ending balance	$ 62,425	$ 82,317	$ 20,392	$ 194,464	$ 421,862	$ 48,625	$

Ending balance: Individually evaluated for impairment	$ 197	$ -	$ -	$ -	$ -	$ -	$
Ending balance: Collectively evaluated for impairment	$ 62,228	$ 82,317	$ 20,392	$ 194,464	$ 421,862	$ 48,625	$
December 31, 2013 (restated)							
Beginning balance	$ 193	$ 104	$ 42	$ 239	$ 236	$ -	$
Charge-offs	(44)	-	-	(29)	-	-	(447)
Recoveries	-	-	-	8	-	-	53
Provision (credit)	270	392	(42)	93	57	1	(416)
Ending balance	$ 419	$ 496	$ -	$ 311	$ 293	$ 1	$
Ending balance: Individually evaluated for impairment	$ 95	$ -	$ -	$ -	$ -	$ -	$
Ending balance: Collectively evaluated for impairment	$ 324	$ 496	$ -	$ 311	$ 293	$ 1	$
Loans: Ending balance	$ 45,875	$ 69,730	$ 51	$ 175,610	$ 293,109	$ 1,588	$
Ending balance: Individually evaluated for	$ 385	$ -	$ -	$ -	$ -	$ -	$

impairment							
Ending balance: Collectively evaluated for impairment	$ 45,490	$ 69,730	$ 51	$ 175,610	$ 293,109	$ 1,588	$

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

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

December 31, 2014	30-59 Days past due	60-89 Days past due	Greater than 90 days	Non accrual	Total past due	Current	Total loans
SBA non real estate	$ -	$ -	$ -	$ -	$ -	$ 62,425	$ 62,425
SBA commercial mortgage	-	-	-	-	-	82,317	82,317
SBA construction	-	-	-	-	-	20,392	20,392
Direct lease financing	5,083	1,832	149	-	7,064	187,400	194,464
SBLOC	-	-	-	-	-	421,862	421,862
Other specialty lending	-	-	-	-	-	48,625	48,625
Consumer - other	9		-	-	9	8,654	8,663
Consumer - home equity	-	457	-	1,907	2,364	25,141	27,505
Unamortized loan fees and costs	-	-	-	-	-	8,340	8,340
	$ 5,092	$ 2,289	$ 149	$ 1,907	$ 9,437	$ 865,156	$ 874,593
December 31, 2013 (restated)							

SBA non real estate	$ -	$ -	$ -	$ 168	$ 168	$ 45,707	$ 45,875
SBA commercial mortgage	-	-	-	-	-	69,730	69,730

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SBA construction	-	-	-	-	-	51	51
Direct lease financing	3,427	1,293	110	-	4,830	170,780	175,610
SBLOC	-	-	-	-	-	293,109	293,109
Other specialty lending	-	-	-	-	-	1,588	1,588
Consumer - other	425	-	-	1,356	1,781	8,793	10,574
Consumer - home equity	18	-	-	-	18	34,560	34,578
Unamortized loan fees and costs	-	-	-	-	-	4,886	4,886
	$ 3,870	$ 1,293	$ 110	$ 1,524	$ 6,797	$ 629,204	$ 636,001

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):

December 31, 2014	Pass	Special mention	Substandard	Doubtful	Loss	Unrated subject to review *	Unrated no subject to *
SBA non real estate	$ 49,214	$ -	$ 197	$ -	$ -	$ 669	$ 1
SBA commercial mortgage	59,086	-	-	-	-	965	22,266
SBA construction	18,911	-	-	-	-	-	1,481
Direct lease financing	58,994	-	99	-	-	-	135,371
SBLOC	142,286	-	-	-	-	57,360	222,216
Other specialty lending	46,990	-	-	-	-	-	1,635
Consumer	14,196	346	1,907	-	-	73	19,646
Unamortized loan fees and costs	-	-	-	-	-	-	8,340
	$ 389,677	$ 346	$ 2,203	$ -	$ -	$ 59,067	$ 42

December 31, 2013 (restated)							
SBA non real estate	$ 51,645	$ -	$ 385	$ -	$ -	$ 643	$ (
SBA commercial mortgage	57,162	-	-	-	-	6,619	5,949
SBA construction	-	-	-	-	-	51	-
Direct lease financing	58,545	-	-	-	-	2,244	114,821
SBLOC	94,487	-	-	-	-	500	198,122
Other specialty lending	67	-	-	-	-	-	1,521
Consumer	15,013	1,348	1,356	-	-	24	27,411
Unamortized loan fees and costs	-	-	-	-	-	-	4,886
	$ 276,919	$ 1,348	$ 1,741	$ -	$ -	$ 10,081	$ 34

*The loan review scope does not encompass performing loans in the absence of negative characteristics or which fell below the dollar threshold requiring review. Accordingly, such loans are not rated and not subject to review. The loan portfolio review coverage was approximately 45% at December 31, 2014 and approximately 44% at December 31, 2013. This review is performed by the loan review department, which is independent of the loan departments and reports directly to the audit committee. All classified loans are reviewed by our independent loan review function. Potential problem loans which are identified by either the independent loan review department or line management are also reviewed. Loans are subject to review by their relationship manager and senior loan personnel. As a result of transferring loans into "Discontinued Operations", management is currently reassessing the review scope for the continuing operations portfolio.

Note G—Premises and Equipment

Premises and equipment are as follows (in thousands):

	Estimated useful lives	December 31, 2014		2013	
Furniture, fixtures, and equipment	3 to 12 years	$	41,765	$	35,754
Leasehold improvements	6 to 10 years	7,098		6,623	
		48,863		42,377	
Accumulated depreciation		(31,166)		(26,718)	
		$	17,697	$	15,659

Depreciation expense for the years ended December 31, 2014, 2013 and 2012 was approximately $4.5 million, $3.7 million and $2.8 million, respectively.

Note H—Variable Interest Entity ("VIE")

VIEs are entities that, by design, either (1) lack sufficient equity to permit the entity to finance its activities without additional subordinated financial support from other parties, or (2) have equity investors that do not have the ability to make significant decisions relating to the entity's operations through voting rights, or do not have the obligation to absorb the expected losses, or do not have the right to receive the residual returns of the entity.

The most common type of VIE is a special purpose entity ("SPE"). SPEs are commonly used in securitization transactions in order to isolate certain assets and distribute the cash flows from those assets to investors. The basic SPE structure involves a company selling assets to the SPE with the SPE funding the purchase of those assets by issuing securities to investors. The legal documents that govern the transaction specify how the cash earned on the assets must be allocated to the SPE's investors and other parties that have rights to those cash flows. SPEs are generally structured to insulate investors from claims on the SPE's assets by creditors of other entities, including the creditors of the seller of the assets. The primary beneficiary of a VIE (i.e., the party that has a controlling financial interest) is required to consolidate the assets and liabilities of the VIE. The primary beneficiary is the party that has both (1) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (2) through its interests in the VIE, the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

The Company holds variable interests in Walnut Street 2014-1 LLC (" WS 2014"), accounted for as a debt security and the Company elected the fair value option, after acquiring a 49% equity interest in WS 2014, as well as 100% of the A-Notes and 49% of the B-Notes that WS 2014 issued in a securitization transaction. The variable interests relate to the economic interests held by the Company in WS 2014 and the asset management contract between the Company and WS 2014. The Company is not the primary beneficiary, as it does not have the controlling financial interest in WS 2014 and therefore does not consolidate. At December 31, 2014, the Company's investment in the WS 2014 was $193.6 million and was classified as investment in unconsolidated entity in the consolidated balance sheet. The Company's maximum exposure to loss is equal to the balance of the Company's interest, or $193.6 million.

The following table presents the total unpaid principal amount of assets held in private securitization entities, including those in which the Company has continuing involvement. Continuing involvement includes servicing the loans and holding senior interests or subordinated interests.

	Principal amount outstanding						
December 31, 2014	Total assets held by securitization VIEs		Assets held in consolidated securitization VIEs	Assets held in nonconsolidated VIEs with continuing involvement		The Company's interest in securitized assets in nonconsolidated VIEs (b)	
Commercial and other (a)	$	209,632	-	$	209,632	$	193,595

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(a) Consists of notes backed by commercial loans predominately secured by real estate.
(b) The retained interest in the commercial and other securitization trusts are non-rated and are accounted for under the equity method of accounting.

Note I—Debt

1. Short-term borrowings

At December 31, 2014, the Bank maintained $49.0 million in unsecured lines of credit that bear interest at variable rates and are renewed annually. Additionally, the Bank has overnight borrowing capacity with the Federal Home Loan Bank of Pittsburgh of $355.8 million at December 31, 2014. Borrowings under this arrangement have a variable interest rate. As of December 31, 2014, the Bank did not have any borrowings outstanding on these lines. The details of these categories are presented below:

	As of or for the year ended December 31,		
	2014	2013	2012
	(dollars in thousands)		
Short-term borrowings and federal funds purchased			

Balance at year-end	$ -	$ -	$ -
Average during the year	-	-	-
Maximum month-end balance	-	-	-
Weighted average rate during the year	0.00%	0.00%	0.00%
Rate at December 31	0.27%	0.25%	0.25%

2.Securities sold under agreements to repurchase

Securities sold under agreements to repurchase generally mature within 30 days from the date of the transactions. The detail of securities sold under agreements to repurchase is presented below:

	As of or for the year ended December 31,		
	2014	2013	2012
	(dollars in thousands)		
Securities sold under repurchase agreements			
Balance at year-end	$ 19,414	$ 21,221	$ 18,548
Average during the year	17,497	18,442	22,508
Maximum month-end balance	21,496	22,523	30,964
Weighted average rate during the year	0.29%	0.29%	0.42%
Rate at December 31	0.29%	0.28%	0.37%

3. Guaranteed Preferred Beneficiary Interest in Company's Subordinated Debt

As of December 31, 2014, the Company held two statutory business trusts: The Bancorp Capital Trust II and The Bancorp Capital Trust III (Trusts). In each case, the Company owns all the common securities of the trust. The Trusts issued preferred capital securities to investors and invested the proceeds in the Company through the purchase of junior subordinated debentures issued by the Company. These debentures are the sole assets of the Trusts.

- The $10.3 million of debentures issued to The Bancorp Capital Trust II on November 28, 2007 mature on March 15, 2038, and bear interest at an annual rate equal to 3-month LIBOR plus 3.25%.
- The $3.1 million of debentures issued to The Bancorp Capital Trust III on November 28, 2007 mature on March 15, 2038, and bear interest at a floating annual rate equal to 3-month LIBOR plus 3.25%.

As of December 31, 2014, the Trusts qualify as variable interest entities under ASC 810, Consolidation. The Company is not considered the primary beneficiary and therefore the Trusts are not consolidated in the Company's consolidated financial statements. The Trusts are accounted for under the equity method of accounting.

Note J—Shareholders' Equity

In December 2012, the Company issued 4,000,000 shares of the Company's common stock, par value $1.00, at a public offering price of $11.00 per share in an underwritten public offering. The sale of the common stock resulted in net proceeds to the Company, after underwriting discounts, commissions and expenses, of approximately $41.7 million.

In 2011, the Company adopted a common stock repurchase program in which shares repurchases reduce the amount of shares outstanding. Repurchased shares may be reissued for various corporate purposes. As of December 31, 2011, the Company had repurchased 100,000 shares of the total 750,000 maximum number of shares authorized by the Board of Directors. The 100,000 shares were repurchased at an average cost of $8.66. Shares were repurchased at market price and were recorded as treasury stock at that amount, using the cost method. The Company did not repurchase shares in 2012, 2013 or 2014.

In March 2011, the Company issued 7,015,000 shares of the Company's common stock, par value $1.00, at a public offering price of $8.25 per share in an underwritten public offering. The sale of the common stock resulted in net proceeds to the Company, after underwriting discounts, commissions and expenses, of approximately $54.5 million.

Note K—Benefit Plans

401 (k) Plan

The Company maintains a 401(k) savings plan covering substantially all employees of the Company. Under the plan, the Company matches 50% of the employee contributions for all participants, not to exceed 6% of their salary. Contributions made by the Company were approximately $921,000, $813,000 and $679,000 for the years ended December 31, 2014, 2013 and 2012, respectively.

Supplemental Executive Retirement Plan

In 2005, the Company began contributing to a supplemental executive retirement plan for its former Chief Executive Officer that provides annual retirement benefits of $25,000 per month until death. There were no disbursements under the plan in 2014 or prior years. In 2014 the Company expensed $1.3 million based upon actuarial tables for which the appropriate actuarial data for 2014 was utilized. The actuarial assumptions reflected a discount rate of 3.37%, a maximum potential life expectancy of 120 years and a monthly benefit of $25,000. The Company expensed $112,000 and $125,000 for this plan for the years ended December 31, 2013 and 2012 respectively. As of December 31, 2014 the Company had accrued $4.3 million for potential future payouts.

Note L—Income Taxes

The company operates predominately in the United States and is subject to corporate net income taxes for Federal and State purposes. The company also has minimal operations in foreign jurisdictions but these taxes are not considered material to the overall financial statements.

The components of income tax expense (benefit) included in the statements of continuing operations are as follows:

For the years ended December 31,

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	2014	2013 (restated)	2012 (restated)
	(in thousands)		
Current tax provision (benefit)			
Federal	$ (3,663)	$ 4,723	$ (3,533)
State	2,730	2,244	1,229
	(933)	6,967	(2,304)
Deferred tax provision (benefit)			
Federal	(13,705)	(208)	(1,125)
State	115	8	(63)
	(13,590)	(200)	(1,188)
	$ (14,523)	$ 6,767	$ (3,492)

The differences between applicable income tax expense (benefit) from continuing operations and the amounts computed by applying the statutory federal income tax rate of 34% for 2014, 2013 and 2012, respectively, are as follows:

	For the years ended December 31, 2014	2013 (restated)	2012 (restated)
	(in thousands)		
Computed tax expense at statutory rate	$ 2,479	$ 6,897	$ (3,150)
State taxes	1,877	1,486	769
Tax-exempt interest income	(4,304)	(1,898)	(1,213)
Foreign income tax rate difference	(591)	-	-
Valuation allowance - domestic	(14,485)	-	-
Valuation allowance - foreign	354	-	-
Other	147	282	102
	$ (14,523)	$ 6,767	$ (3,492)

Deferred income taxes are provided for the temporary difference between the financial reporting basis and the tax basis of the Company's assets and liabilities. Cumulative temporary differences recognized in the financial statement of position are as follows:

For the years ended December 31, 2014	2013

		(restated)
	(in thousands)	
Deferred tax assets:		
Allowance for loan and lease losses	$ 1,236	$ 12,983
Non-accrual interest	1,223	1,402
Deferred compensation	1,451	1,014
State taxes	2,107	2,840

Nonqualified stock options	2,962	2,576
Stock appreciation rights	100	100
Tax deductible goodwill	9,082	10,100
Depreciation	206	205
Other than temporary impairment	147	147
Partnership interest, Walnut St basis difference	1,654	-
Loan charges	16,745	48,245
AMT tax credit	1,092	
Federal net operating loss	5,940	
Foreign net operating loss	637	-
Other	3,748	277
Total gross deferred tax assets	48,330	79,889
Federal and state valuation allowance	(5,252)	(19,754)
Foreign valuation allowance	(637)	-
Deferred tax liabilities:		
Unrealized gains on investment securities available for sale	6,642	300
Discount on Class A notes	2,126	-
Leasing	-	-
Total deferred tax liabilities	8,768	300
Net deferred tax asset (liability)	$ 33,673	$ 59,835

The Company has a federal net operating loss carryforward of approximately $17 million that will expire in 2034. The Company has approximately $73 million of state net operating losses from several states that will expire at varying times over the next 20 years. Additionally, the Company has alternative minimum tax credits of $1.1 million to offset taxable income in the future that may be carried forward indefinitely.

Management assesses all available positive and negative evidence to determine whether it is more likely than not that the Company will able to recognize the existing deferred tax assets. For the year ended December 31, 2013, the Company recorded a valuation allowance on the deferrerd tax assets of approximately $19.7 million. Management determined these assets were no longer more likely-than-not to be realized due to increasing losses and deferred tax assets in discontinued operations. Accordingly, the income tax expense related to the recording of the valuation allowance was allocated to discontinued operations. For the year ended December 31, 2014, the valuation allowance recorded on the deferred tax assets remained consistent until opportunities arose in the fourth quarter of 2014 for a prudent and feasible tax planning strategy. This resulted in a reduction of the required valuation allowance of approximately $14.5 million. The income tax benefit of this reduction was recorded in continuing operations. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased or if the negative evidence is no longer present or diminishes due to growth of positive evidence.

The Company does not provide for deferred taxes on the excess of the financial reporting over the tax basis in our investments in foreign subsidiaries that are essentially permanent in duration. The determination of the additional deferred taxes that have not been provided for is not practicable. From its European operations, the Company has net operating loss carryforwards of approximately $6.4 million which may be carried forward indefinitely provided there is no change in ownership or nature of trade of the company within a period of expire over the next three years. These losses have generated deferred tax assets in the amount of $637,000 which have a full valuation allowance at

December 31, 2014.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

For the
years
ended

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	December 31, 2014		2013 (restated)		2012 (restated)	
	(in thousands)					
Beginning balance at January 1	$	352	$	230	$	119
Increases(decreases) in tax provisions for prior years	(39)		122		111	
Gross unrecognized tax benefits at December 31	$	313	$	352	$	230

Management does not believe these amounts will significantly increase or decrease within 12 months of December 31, 2014. The total amount of unrecognized tax benefits, if recognized, will impact the effective tax rate.

The Company files federal and state returns in jurisdictions with varying statutes of limitations. The 2011 through 2013 tax years generally remain subject to examination by federal and most state tax authorities. The Company recognizes interest accrued and penalties related to unrecognized tax benefits in income tax expense for all periods presented. To date, no amounts of interest or penalties relating to unrecognized tax benefits have been recorded.

Note M—Stock-Based Compensation

In May 2013, the Company adopted a stock option and equity plan (the 2013 Plan). Employees and directors of the Company and the Bank and consultants (with restrictions) are eligible to participate in the 2013 plan. The option term may not exceed 10 years from the date of the grant. An employee or consultant who possesses more than 10 percent of voting power of all classes of stock of the Company, or any parent or subsidiary, may not have options with terms exceeding 5 years from the date of grant. An aggregate of 2,200,000 shares of common stock were reserved for issuance by the 2013 plan.

In May 2011, the Company adopted a Stock Option and Equity Plan (the 2011 Plan). Employees and directors of the Company and the Bank and consultants (with restrictions) are eligible to participate in the 2011 Plan. The option term may not exceed 10 years from the date of the grant. An employee or consultant who possesses more than 10 percent of voting power of all classes of stock of the Company, or any parent or subsidiary, may not have options with terms exceeding 5 years from the date of grant. An aggregate of 1,400,000 shares of common stock were reserved for issuance by the 2011 plan.

In June 2005, the Company adopted an omnibus equity compensation plan (the 2005 plan). Employees and directors of the Company and the Bank are eligible to participate in the 2005 Plan. An aggregate of 1,000,000 shares of common stock were reserved for issuance by the 2005 plan. Options granted under the 2005 plan expire on the tenth anniversary of their grant.

In October 1999, the Company adopted a stock option plan (the 1999 Plan). Employees and directors of the Company and the Bank were eligible to participate in the 1999 Plan. An aggregate of 1,000,000 shares of common stock were reserved under the 1999 Plan, with no more than 75,000 shares being issuable to non-employee directors. Options vested over four years and expire on the tenth anniversary of the grant.

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)			

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Outstanding at January 1, 2014	2,620,874	$	9.70	6.32		
Granted	45,000	9.82		9.92	-	
Exercised	(63,874)	9.27		-	-	
Expired	-	-		-	-	
Forfeited	-	-		-	-	
Outstanding at December 31, 2014	2,602,000	$	9.72	5.39	$	5,010,208
Exercisable at December 31, 2014	2,099,250	$	9.91	4.89	$	4,006,688

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

	Shares	Weighted average exercise price		Average remaining contractual term (years)
Outstanding at January 1, 2014	197,841	$	10.46	3.07
Granted	-	-		-
Vested	(49,460)	10.46		-
Forfeited	-	-		-
Outstanding at December 31, 2014	148,381	10.46		2.07

The Company granted 197,481 restricted stock units with a vesting period of four years at a fair value of $10.46 in 2013. There were no restricted stock units granted in 2014 or 2012.

A summary of the status of the Company's non-vested options under the plans as of December 31, 2014, and changes during the year then ended, is presented below:

	Shares	Weighted-average grant-date fair value	
Non-Vested at January 1, 2014	997,125	$	4.71
Granted	45,000	4.16	
Vested	(539,375)	4.66	
Expired	-	-	
Forfeited	-	-	
Non-Vested at December 31, 2014	502,750	$	4.72

The Company granted 45,000 common stock options in 2014, with a vesting period of four years. The weighted-average fair value of the stock options issued was $4.16. The Company granted 215,000 common stock options in 2013, 35,000 with a vesting period of one year and 180,000 with a vesting period of four years. The weighted-average fair value of the stock options issued was $4.85. The Company granted 500,000 common stock options in 2012, 40,000 with a vesting period of one year and 460,000 with a vesting period of four years. The weighted-average fair value of the stock options issued was $5.06. There were 63,874 options exercised in 2014 and 605,494 options exercised in 2013 and 50,374 options exercised in 2012. The total intrinsic value of the options exercised in 2014, 2013 and 2012 was $1.5 million, $3.0 million and $116,000, respectively. The total fair value of options that vested during the year ended December 31, 2014 was $2.5 million.

As of December 31, 2014, there was a total of $2.6 million of unrecognized compensation cost related to unvested awards under share-based plans. This cost is expected to be recognized over a weighted average period of 1.3 years. For the years ended

December 31, 2014, 2013 and 2012 total compensation expense under share based payment arrangements was $2.6 million, $3.2 million and $2.6 million respectively and the related tax benefits recognized were $915,000, $1.1 million and $910,000, respectively.

For the years ended December 31, 2014, 2013 and 2012, 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:

	December 31,		
	2014	2013	2012
Risk-free interest rate	2.36%	1.86%	1.97%
Expected dividend yield	-	-	-
Expected volatility	41.74%	49.71%-55.65%	72.90%
Expected lives (years)	5.71	4.03-4.22	4.83

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

Note N—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 former Chief Executive Officer of the Company. The Chief Executive Officer of Resource America is the brother of the Chairman of the Board and the son of the former 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 $112,000, $102,000 and $102,000 for the years ended December 31, 2014, 2013 and 2012, respectively.

The Company entered into a space sharing agreement for office space in New York, New York with Atlas Energy, L.P. commencing May 2012. As a result of certain transactions, Atlas Energy, L.P. assigned the lease to its successor, Atlas Energy Group, LLC. in 2015. The Company pays only its proportionate share of the lease rate to a lessor which is an unrelated third party. The Executive Chairman of the Board of Atlas Energy Group. LLC and , prior thereto, of the general partner of Atlas Energy, L.P. is the brother of the Chairman of the Board and son of the former Chief Executive Officer of the Company. The Chief Executive Officer and President of Atlas Energy Group LLC and , prior thereto, of the general partner of Atlas Energy, L.P is the father of the Chairman of the Board and spouse of the former 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 $104,000, $104,000 and $104,000 for the years ended December 31, 2014, 2013 and 2012, respectively.

The Bank maintains deposits for various affiliated companies totaling approximately $15.1 million and $36.7 million as of December 31, 2014 and 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. 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 lender. At December 31, 2014, these loans were current as to principal and interest payments, and did not involve more than normal risk of collectability. At December 31, 2014 and 2013, loans to these related parties included in Assets held for sale amounted to $28.1 million and $26.4 million. At December 31, 2014 and 2013, loans to these related parties included in Loans, net of deferred loan fees and costs amounted to $2.8 million and $2.1 million.

In addition to these lending transactions, the Bank periodically purchases securities under agreement to resell and engages in other securities transactions as follows. The Company executed securities 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. For the twelve months ended December 31, 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 twelve months ended December 31, 2014. From time to time, the Company may also purchase securities under agreements to resell through JVB primarily consisting of Government National Mortgage Association. certificates which are full faith and credit obligations of the United States government issued at competitive rates. JVB was in full compliance with all of the terms of the repurchase agreements at December 31, 2014 and had complied with the terms for all prior repurchase agreements. A total of $46.3 million of such agreements were outstanding at December 31, 2014 and $6.4 million were outstanding at December 31, 2013.

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 will act 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 service fee of $30,000, and the provision of office space and administrative support. We have not paid any monthly fees under this agreement pending regulatory review.

Note O—Commitments and Contingencies

1. Operating Leases

The Company leases its operations facility for a term expiring on October 31, 2025, and leases its Philadelphia offices for a term expiring in 2025. The Company also has leases for business production offices in Pennsylvania, Maryland, Florida, Washington and Minnesota that expire at various times through 2017. The Company leases space in South Dakota, USA, Gibraltar and Bulgaria for its prepaid card division. The leases on these spaces expire at various times through 2022. The Company leases space in Illinois for its Small Business Lending division for a term expiring in 2020. The Company leases space in Florida for compliance operations for a term expiring in 2020. The Company leases executive office space in New York for a term expiring in 2025. These leases require the Company to pay the real estate taxes and insurance on the leased properties in addition to rent. The approximate future minimum annual rental payments, including any additional rents due to escalation clauses, required by these leases are as follows (in thousands):

Year ending December 31,

2015	$	3,997
2016	3,786	
2017	3,757	
2018	3,749	
2019	3,815	
Thereafter	18,420	
	$	37,524

Rent expense for the years ended December 31, 2014, 2013 and 2012 was approximately $4.0 million, $3.1 million and $2.6 million, net of sublease rentals of approximately $78,000, $110,000 and $122,000, respectively. The sublease expired in 2014.

2. Legal Proceedings

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

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

Note P—Financial Instruments with Off-Balance-Sheet Risk and Concentrations of Credit Risk

The Company is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they become payable. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contractual, or notional, amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The approximate contract amounts and maturity term of the Company's credit commitments are as follows:

	December 31, 2014		2013	
	(in thousands)			
Financial instruments whose contract amounts represent credit risk				
Commitments to extend credit	$	709,080	$	590,121
Standby letters of credit	22,057		22,424	
	$	731,137	$	612,545

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds residential or commercial real estate, accounts receivable, inventory and equipment as collateral supporting those commitments for which collateral is deemed necessary. Based upon periodic analysis of the Company's standby letters of credit, management has determined that a reserve is not necessary at December 31, 2014. The Company reduces any potential liability on its standby letters of credit based upon its estimate of the proceeds obtainable upon the liquidation of the collateral held. Fair values of unrecognized financial instruments, including commitments to extend credit and the fair value of letters of credit, are considered immaterial. The standby letters of credit expire as follows: $607,000 in 2014, $19.8 million in 2015 and the remaining $1.7 million in 2016.

The Company's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Note Q—Fair Value of Financial Instruments

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 fair value measurement criteria as required under 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 $1.11 billion and $1.24 billion at December 31, 2014 and 2013, respectively, which approximated fair values.

Investment securities have estimated fair values based on quoted market prices, if available, or by an estimation methodology based on management's inputs. The fair values of the Company's investment securities held-to-maturity 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.

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

Loans, net of deferred loan fees and costs, have an estimated fair value 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 approximates fair value.

Federal Home Loan and Atlantic Central Bankers Bank stock are held as required by those respective institutions and are 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.

Accrued interest receivable has a carrying value that approximates fair value.

Investment in unconsolidated entity, senior note has a carrying value based upon the exit price from a December 30, 2014 sale to a private securitization entity. The par value of the principal approximated the carrying value of the underlying notes as determined by a third party valuation. The exit price approximates fair value as December 31, 2014.

Investment in unconsolidated entity, subordinated note has a carrying value based upon the closing price from a December 30, 2014 sale to a private securitization entity. The fair value was based on a market rate approach for similar yielding securities. The exit price approximates fair value as December 31, 2014.

Assets held for sale as of December 31, 2014 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 7-10% for estimated selling costs.

Demand deposits (comprising interest-and noninterest-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 December 31, 2014, the carrying values approximate their fair values. The carrying amount of accrued interest payable approximates its fair value.

Interest rate swaps have a fair value estimated 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.

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" that are 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. There were no transfers between levels in 2014 or 2013.

	December 31, 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	$ 1,493,639	$ 1,493,639	$ 66,287	$ 1,425,986	$ 1,36
Investment securities held-to-maturity	93,765	91,914	7,448	-	84,466
Securities purchased under agreements to resell	46,250	46,250	46,250	-	-
Federal Home Loan and Atlantic Central Bankers Bank stock	1,002	1,002	-	-	1,002
Commercial loans held for sale	217,080	217,080	-	-	217,080
Loans, net	874,593	869,871	-	-	869,871
Investment in unconsolidated entity, senior note	178,187	178,187	-	-	178,187
Investment in unconsolidated entity, subordinated note	15,408	15,408	-	-	15,408
Assets held for sale	887,929	887,929	-	-	887,929
Demand and interest checking	4,289,586	4,289,586	4,289,586	-	-
Savings and money market	330,798	330,798	330,798	-	-
Time deposits	1,400	1,412	-	-	1,412
Subordinated debentures	13,401	8,042	-	-	8,042
Securities sold under agreements to repurchase	19,414	19,414	19,414	-	-
Interest rate swaps, liability	942	942	-	942	-

	December 31, 2013 (restated)				
	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	$ 551
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	636,001	630,464	-	-	630,464
Assets held for sale	1,179,277	1,179,277	-	-	1,179,277
Demand and interest checking	3,722,602	3,722,602	3,722,602	-	-
Savings and money market	536,162	536,162	536,162	-	-
Time deposits	14,225	242	-	-	242
Subordinated debentures	13,401	9,287	-	-	9,287
Securities sold under agreements to repurchase	21,221	21,221	21,221	-	-
Interest rate swaps, asset	481	481	-	481	-

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

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		Fair Value Measurements at Reporting Date Using		
	Fair value December 31, 2014	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	$ 16,561	$ -	$ 16,561	$
Federally insured student loan securities	126,012	-	126,012	-
Obligations of states and political subdivisions	612,648	1,182	611,466	-
Residential mortgage-backed securities	422,129	-	422,129	-
Commercial mortgage-backed securities	123,239	-	123,239	-
Foreign debt securities	66,878	14,098	52,235	545
Other debt securities	126,172	51,007	74,344	821
Total investment securities available for sale	1,493,639	66,287	1,425,986	1,366
Loans held for sale	217,080	-	-	217,080
Investment in unconsolidated entity, senior note	178,187	-	-	178,187
Investment in unconsolidated entity, subordinated note	15,408	-	-	15,408
Interest rate swaps, liability	942	-	942	-
	$ 1,903,372	$ 66,287	$ 1,425,044	$ 412

	Fair value December 31, 2013 (restated)	Fair Value Measurements at Reporting Date Using Quoted prices in active markets for identical assets (Level 1) (restated)	Significant other observable inputs (Level 2) (restated)	Significant unobservable inputs (Level 3) (restated)
Investment securities available for sale				
U.S. Government agency securities	$ 10,726	$ 400	$ 10,326	$
Federally insured student loan securities	147,573	-	147,573	-
Obligations of states and political subdivisions	458,118	2,277	455,841	-
Residential mortgage-backed securities	322,774	-	322,774	-
Commercial mortgage-backed securities	120,347	-	120,347	-
Other debt securities	193,579	62,294	130,734	551
Total investment securities available for sale	1,253,117	64,971	1,187,595	551
Loans held for sale	69,904	-	-	69,904
Interest rate swaps, asset	481	-	481	-
	$ 1,323,502	$ 64,971	$ 1,188,076	$ 70

The Company’s Level 3 assets are listed below (in thousands).

Fair Value
Measurements Using
Significant
Unobservable Inputs
(Level 3)

Available-for-sale securities	Commercial loans held for sale

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	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 201
Beginning balance	$ 551	$ 597	$ 69,904	$
Transfers into level 3	1,279	-	-	-
Transfers out of level 3	(551)	-	-	-
Total gains or losses (realized/unrealized)				
Included in earnings	-	(1)	1,846	3,082
Included in other comprehensive income	87	21	-	-
Purchases, issuances, and settlements				
Purchases	-	-		
Issuances	-	-	630,165	309,358
Sales	-	-	(484,835)	(253,832)
Settlements	-	(66)	-	(45)
Ending balance	$ 1,366	$ 551	$ 217,080	$
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.	$ -	$ -	$ 3,587	$

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	Investment in unconsolidated entity	
	December 31, 2014	December 31, 2013
Beginning balance	$ -	$ -
Transfers into level 3	-	-
Transfers out of level 3	-	-

Total gains or losses (realized/unrealized)				
Included in earnings	-		-	
Included in other comprehensive income	-		-	
Purchases, issuances, and settlements				
Purchases	193,595		-	
Issuances	-		-	
Sales	-		-	
Settlements	-		-	
Ending balance	$	193,595	$	-
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.	$	-	$	-

Assets measured at fair value on a nonrecurring basis, segregated by fair value hierarchy, at December 31, 2014 and 2013 are summarized below (in thousands):

Fair Value Measurements at Reporting Date Using		
Quoted prices in active	Significant other	Significant

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Description	December 31, 2014	markets for identical assets (Level 1)	observable inputs (Level 2)	unobservable inputs (1) (Level 3)
Impaired loans	$ 2,450	$ -	$ -	$ 2,450
Intangible assets	6,228	-	-	6,228
	$ 8,678	$ -	$ -	$ 8,678

		Fair Value Measurements at Reporting Date Using		
Description	Fair value December 31, 2013 (restated)	Quoted prices in active markets for identical assets (Level 1) (restated)	Significant other observable inputs (Level 2) (restated)	Significant unobservable inputs (1) (Level 3) (restated)
Impaired loans	$ 1,741	$ -	$ -	$ 1,741
Intangible assets	7,612	-	-	7,612
	$ 9,353	$ -	$ -	$ 9,353

(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.

Impaired loans that are measured based on the value of underlying collateral have been presented at their fair value, less costs to sell, of $2.5 million through the establishment of specific reserves and other writedowns of $331,000 or by recording charge-offs when the carrying value exceeds the fair value. Included in the impaired balance at December 31, 2014, were troubled debt restructured loans with a balance of $543,000 which had specific reserves of $40,000. 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 R –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 December 31, 2014, the Company had entered into fifteen interest rate swap agreements with an aggregate notional amount of $115.8 million. These swap agreements provide for the Company to receive an adjustable rate of interest based upon the three-month London Interbank Offered Rate (LIBOR). The Company recorded a loss of $1.4 million for the year ended December 31, 2014 and recorded income of $436,000 and $45,000 for the years ended December 31, 2013 and 2012 to recognize the fair value of derivative instruments. The amount payable by the Company under these swap agreements was $1.1 million at December 31, 2014 and the amount receivable by the Company at December 31, 2013 was $423,000. At December 31, 2014 and 2013, the Company had minimum collateral posting thresholds with certain of its derivative counterparties and had posted cash collateral of $3.6 million and $0, respectively.

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

	December 31, 2014			
Maturity date	Notional amount	Interest rate paid	Interest rate received	Fair value
December 19, 2019	$ 19,100	1.70%	0.25%	$ 31

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December 19, 2019	9,000		1.70%	0.25%	15
September 2, 2024	4,800		2.50%	0.23%	(103)
September 9, 2024	1,000		2.59%	0.23%	(30)
October 8, 2024	6,500		2.60%	0.23%	(199)
October 10, 2024	4,000		2.47%	0.23%	(77)
October 14, 2024	4,300		2.47%	0.23%	(82)
October 20, 2024	3,100		2.28%	0.23%	(4)
November 10, 2024	10,800		2.52%	0.23%	(251)
November 28, 2024	4,800		2.42%	0.24%	(68)
December 3, 2024	4,300		2.33%	0.23%	(22)
December 5, 2024	4,300		2.43%	0.23%	(64)
January 2, 2025	15,500		2.31%	0.26%	(46)
January 5, 2025	3,700		2.29%	0.26%	(5)
January 5, 2025	20,600		2.30%	0.26%	(37)
Total	$	115,800			$ (942)

Note S—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 financial holding companies should not maintain a level of cash dividends that undermines the financial holding company's ability to serve as a source of strength to its banking subsidiaries.

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 the 2014 Consent Order pursuant to which the Bank may not pay dividends without prior FDIC approval. Previously, 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, 2015. Future payments are subject to future approval by the Federal Reserve. (See Note D)

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.

	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(dollars in thousands)					
As of December 31, 2014						
Total capital						
(to risk-weighted assets)						
The Bancorp	$ 302,458	11.67%	$ 216,440	>=8.00	N/A	N/A
The Bancorp Bank	276,003	10.59%	217,778	8.00	272,222	>= 10.00%
Tier I capital						
(to risk-weighted assets)						
The Bancorp	298,819	11.54%	108,220	>=4.00	N/A	N/A
The Bancorp Bank	272,366	10.46%	108,889	4.00	163,333	>= 6.00%
Tier I capital						
(to average assets)						
The Bancorp	298,819	7.07%	175,209	>=4.00	N/A	N/A
The Bancorp Bank	272,366	6.46%	175,258	4.00	219,073	>= 5.00%
As of December 31, 2013 (restated)						
Total capital						
(to risk-weighted assets)						
The Bancorp	$ 283,304	11.87%	$ 200,072	>=8.00	N/A	N/A
The Bancorp Bank	202,798	8.53%	199,251	8.00	249,064	>= 10.00%
Adjustment (1)	58,000					
The Bancorp Bank pro forma	260,798	10.92%				
Tier I capital						
(to risk-weighted assets)						
The Bancorp	251,957	10.55%	100,036	>=4.00	N/A	N/A
The Bancorp Bank	171,578	7.22%	99,626	4.00	149,438	>= 6.00%
Adjustment (1)	58,000					
The Bancorp Bank pro forma	229,578	9.62%				
Tier I capital						
(to average assets)						
The Bancorp	251,957	6.09%	169,994	>=4.00	N/A	N/A
The Bancorp Bank	171,578	4.17%	169,120	4.00	211,400	>= 5.00%
Adjustment (1)	58,000					
The Bancorp Bank pro forma	229,578	5.58%				

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

As of December 31, 2014, the Company and the Bank met all regulatory requirements for classification as well capitalized under the regulatory framework for prompt corrective action. Effective January 1, 2015, with the first measurement date of March 31, 2015, capital rules will begin to be modified as part of a multi year phase in period. The new rules emphasize common equity capital of which the vast majority of the Company and the Bank's capital is comprised.

In 2012, the Company paid a $172,000 civil money penalty as part of an administrative agreement with the FDIC which also requires additional quarterly reporting on the part of the Bank to the FDIC. On June 4, 2014, an Order with the FDIC became effective and encompassed Bank Secrecy Act, or BSA, Anti-Money Laundering Act , or AML, and other areas. As a result of the Order, the Bank incurred significant remediation expenses for third party consultants in 2014, which will continue into 2015, to create an expanded BSA/AML function and to perform "lookbacks" to analyze historical transactions. Additional permanent expenses have and will result due to a significant increase in the number of employees performing BSA/AML related functions. The 2014 consent order restricts the Bank from signing and boarding new independent sales organizations, establishing new non-benefit reloadable prepaid card programs and originating Automated Clearing House transactions for new merchant-related payments. The removal of these limitations depends upon the Bank's issuance of a BSA report to the FDIC summarizing the completion of certain corrective action and the FDIC's approval thereof.

Note T – Restated Quarterly Financial Data (Unaudited)

The following represents summarized quarterly financial data of the Company which, in the opinion of management, reflects all adjustments (comprised of normal accruals) necessary for fair presentation. Following the summarized quarterly data the restated quarterly financial statements shown reflect applicable restatement adjustments for periods from March 31, 2013 through September 30, 2014, the last date through which financial statements previously had been issued. The data reflects restatement of the financial statements and the subsequent discontinued operations. Explanations for the discontinued operations adjustments below are as follows. The amount of cash attributable to discontinued operations was transferred to discontinued operations as the amount of such cash on deposit. The amount of loans transferred to discontinued operations was the book value of discontinued loans, which were then valued at the lower of cost or market. The allowance for loan losses attributable to discontinued loans was netted against the book value of discontinued loans and that net value including accrued interest receivable was adjusted to the lower of cost or market. That amount and other real estate owned were transferred to assets held for sale. Also.see Note C.

Quarterly amounts shown may not equal annual amounts due to rounding.

2014	Three months ended March 31, (restated)	June 30, (restated)	September 30, (restated)	December 31,
	(in thousands, except per share data)			
Interest income	$ 16,555	$ 17,610	$ 18,033	$ 18,522

Net interest income	13,651	14,791	15,268	15,715
Provision for loan and lease losses	1,275	1,173	158	(1,404)
Non-interest income	23,678	23,389	20,307	17,675
Non-interest expense	31,205	34,012	33,135	37,628
Income (loss) from continuing operations before income tax expense	4,849	2,995	2,282	(2,834)
Income tax expense (benefit)	1,623	1,343	(3,560)	(13,929)
Net income (loss) from continuing operations	3,226	1,652	5,842	11,095
Net income (loss) from discontinued operations, net of tax	(1,599)	8,670	19,127	9,096
Net income available to common shareholders	$ 1,627	10,322	24,969	20,191
Net income (loss) per share from continuing operations - basic	$ 0.08	$ 0.04	$ 0.15	$ 0.31

Net income (loss) per share from discontinued operations - basic	$	(0.04)	$	0.23	$	0.51	$	0.24
Net income per share - basic	$	0.04	$	0.27	$	0.66	$	0.55
Net income (loss) per share from continuing operations - diluted	$	0.08	$	0.04	$	0.15	$	0.30
Net income (loss) per share from discontinued operations - diluted	$	(0.04)	$	0.23	$	0.51	$	0.22
Net income per share - diluted	$	0.04	$	0.27	$	0.66	$	0.52

2013	Three months ended March 31, (restated)		June 30, (restated)		September 30, (restated)		December 31, (restated)	
	(in thousands, except per share data)							
Interest income	$	11,472	$	12,094	$	13,176	$	14,408
Net interest income	8,760		9,488		10,470		11,664	
Provision for loan and lease losses	(165)		247		379		(106)	
Non-interest income	19,040		21,989		19,224		21,820	
Non-interest expense	22,954		25,353		26,384		27,126	
Income from continuing operations before income tax expense	5,011		5,877		2,931		6,464	
Income tax expense	1,672		1,961		978		2,156	
Net income from continuing operations	3,339		3,916		1,953		4,308	
Net income (loss) from discontinued operations, net of tax	(14,163)		8,804		(752)		(21,828)	
Net income (loss) available to common shareholders	$	(10,824)	12,720		1,201		(17,520)	
Net income per share from continuing operations - basic	$	0.10	$	0.10	$	0.05	$	0.12
Net income (loss) per share from discontinued operations - basic	$	(0.39)	$	0.24	$	(0.02)	$	(0.58)
Net income (loss) per share - basic	$	(0.29)	$	0.34	$	0.03	$	(0.46)
	$	0.09	$	0.10	$	0.05	$	0.11

Net income per share from continuing operations - diluted				
Net income (loss) per share from discontinued operations - diluted	$ (0.39)	$ 0.24	$ (0.02)	$ (0.58)
Net income (loss) per share - diluted	$ (0.30)	$ 0.34	$ 0.03	$ (0.47)

	September 30, 2014			
	As previously reported (1) (in thousands)	Restatement adjustments	Discontinued operations adjustments	As restated
ASSETS				
Cash and cash equivalents				
Cash and due from banks	$ 11,641	$ -	$ (1,728)	$ 9,913
Interest earning deposits at Federal Reserve Bank	430,117	-	-	430,117
Securities purchased under agreements to resell	55,450	-	-	55,450
Total cash and cash equivalents	497,208	-	(1,728)	495,480
Investment securities, available-for-sale, at fair value	1,442,049	-	-	1,442,049
Investment securities, held-to-maturity (fair value $94,889)	96,951	-	-	96,951
Commercial loans held for sale	136,115	-	-	136,115
Loans, net of deferred loan fees and costs	1,980,567	(53,669)	(1,070,470)	856,428
Allowance for loan and lease losses	(4,390)	558	(1,468)	(5,300)
Loans, net	1,976,177	(53,111)	(1,071,938)	851,128
Federal Home Loan and Atlantic Central Bankers Bank stock	3,409	-	-	3,409
Premises and equipment, net	17,536	-	-	17,536
	15,028	-	(3,967)	11,061

Accrued interest receivable

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Intangible assets, net	6,573	-	-	6,573
Other real estate owned	24,718	-	(23,993)	725
Deferred tax asset, net	41,601	29,420	-	71,021
Assets held for sale	-	(35,698)	1,101,727	1,066,029
Other assets	39,147	-	(101)	39,046
Total assets	$ 4,296,512	$ (59,389)	$ -	$ 4,237,123
LIABILITIES				
Deposits				
Demand and interest checking	$ 3,554,484	$ -	$ -	$ 3,554,484
Savings and money market	324,015	-	-	324,015
Time deposits	231	-	-	231
Time deposits, $100,000 and over	2,895	-	-	2,895
Total deposits	3,881,625	-	-	3,881,625
Securities sold under agreements to repurchase	21,496	-	-	21,496
Subordinated debenture	13,401	-	-	13,401
Liabilities held for sale	-	-	-	-
Other liabilities	23,603	-	-	23,603
Total liabilities	3,940,125	-	-	3,940,125
SHAREHOLDERS' EQUITY				
Common stock - authorized, 50,000,000 shares of $1.00 par value: 37,808,777 shares issued at September 30, 2014	37,809	-	-	37,809
Treasury stock, at cost (100,000 shares)	(866)	-	-	(866)
Additional paid-in capital	297,122	-	-	297,122
Retained earnings	10,954	(59,389)	-	(48,435)
Accumulated other comprehensive income	11,368	-	-	11,368
Total shareholders' equity	356,387	(59,389)	-	296,998
Total liabilities and shareholders' equity	$ 4,296,512	$ (59,389)	$ -	$ 4,237,123

(1) As previously reported excluding adjustments for discontinued operations

	June 30, 2014			
	As previously reported (in thousands)	Restatement adjustments	Discontinued operations adjustments	As restated
ASSETS				
Cash and cash equivalents				
Cash and due from banks	$ 15,192	$ -	$ (1,904)	$ 13,288
Interest earning deposits at Federal Reserve Bank	441,422	-	-	441,422
Securities purchased under agreements to resell	15,906	-	-	15,906
Total cash and cash equivalents	472,520	-	(1,904)	470,616
Investment securities, available-for-sale, at fair value	1,459,626	-	-	1,459,626
Investment securities, held-to-maturity (fair value $94,927)	97,130	-	-	97,130
Commercial loans held for sale	154,474	-	-	154,474
Loans, net of deferred loan fees and costs	2,049,561	(101,030)	(1,146,776)	801,755
Allowance for loan and lease losses	(46,945)	(22,966)	64,112	(5,799)
Loans, net	2,002,616	(123,996)	(1,082,664)	795,956
Federal Home Loan and Atlantic Central Bankers Bank stock	3,409	-	-	3,409

Premises and equipment, net	16,236		-		-		16,236	
Accrued interest receivable	14,508		-		(4,032)		10,476	
Intangible assets, net	6,988		-		-		6,988	
Other real estate owned	26,781		-		(26,781)		(0)	
Deferred tax asset, net	24,606		29,420		-		54,026	
Assets held for sale	-		(6,588)		1,115,560		1,108,972	
Other assets	36,270		-		(179)		36,091	
Total assets	$	4,315,164	$	(101,164)	$	0	$	4,214,000
LIABILITIES								
Deposits								
Demand and interest checking	$	3,563,447	$	-	$	-	$	3,563,447
Savings and money market	307,927		-		-		307,927	
Time deposits	8,962		-		-		8,962	
Time deposits, $100,000 and over	1,474		-		-		1,474	
Total deposits	3,881,810		-		-		3,881,810	
Securities sold under agreements to repurchase	17,481		-		-		17,481	
Subordinated debenture	13,401		-		-		13,401	
Other liabilities	29,978		-		-		29,978	
Total liabilities	3,942,670		-		-		3,942,670	
SHAREHOLDERS' EQUITY								
Common stock - authorized, 50,000,000 shares of $1.00 par value: 37,808,777 shares issued at June 30, 2014	37,809		-		-		37,809	
Treasury stock, at cost (100,000 shares)	(866)		-		-		(866)	
Additional paid-in capital	296,523		-		-		296,523	
Retained earnings	27,762		(101,164)		-		(73,402)	
Accumulated other comprehensive income	11,266		-		-		11,266	
Total shareholders' equity	372,494		(101,164)		-		271,330	
Total liabilities and shareholders' equity	$	4,315,164	$	(101,164)	$	-	$	4,214,000

	March 31, 2014			
	As previously reported (in thousands)	Restatement adjustments	Discontinued operations adjustments	As restated
ASSETS				
Cash and cash equivalents				
Cash and due from banks	$ 15,298	$ -	$ (1,927)	$ 13,371
Interest earning deposits at Federal Reserve Bank	796,385	-	-	796,385
Securities purchased under agreements to resell	24,926	-	-	24,926
Total cash and cash equivalents	836,609	-	(1,927)	834,682
Investment securities, available-for-sale, at fair value	1,411,708	-	-	1,411,708
Investment securities, held-to-maturity (fair value $95,077)	97,149	-	-	97,149
Commercial loans held for sale	222,024	-	-	222,024
Loans, net of deferred loan fees and costs	2,044,004	(111,131)	(1,197,366)	735,507
Allowance for loan and lease losses	(46,409)	(27,628)	68,989	(5,048)
Loans, net	1,997,595	(138,759)	(1,128,377)	730,459
Federal Home Loan and Atlantic Central Bankers Bank stock	3,209	-	-	3,209

Premises and equipment, net	15,692	-	-	15,692
Accrued interest receivable	14,715	-	(4,265)	10,450
Intangible assets, net	7,407	-	-	7,407
Other real estate owned	27,763	-	(27,763)	(0)
Deferred tax asset, net	27,451	29,420	-	56,871
Assets held for sale	-	(1,809)	1,162,603	1,160,794
Other assets	38,301	-	(271)	38,030
Total assets	$ 4,699,623	$ (111,148)	$ 0	$ 4,588,475
LIABILITIES				
Deposits				
Demand and interest checking	$ 3,842,569	$ -	$ -	$ 3,842,569
Savings and money market	393,329	-	-	393,329
Time deposits	9,115	-	-	9,115
Time deposits, $100,000 and over	2,195	-	-	2,195
Total deposits	4,247,208	-	-	4,247,208
Securities sold under agreements to repurchase	16,491	-	-	16,491
Subordinated debenture	13,401	-	-	13,401
Other liabilities	56,353	-	-	56,353
Total liabilities	4,333,453	-	-	4,333,453
SHAREHOLDERS' EQUITY				
Common stock - authorized, 50,000,000 shares of $1.00 par value: 37,804,902 shares issued at March 31, 2014	37,805	-	-	37,805
Treasury stock, at cost (100,000 shares)	(866)	-	-	(866)
Additional paid-in capital	295,824	-	-	295,824
Retained earnings	27,424	(111,148)	-	(83,724)
Accumulated other comprehensive income	5,983	-	-	5,983
Total shareholders' equity	366,170	(111,148)	-	255,022
Total liabilities and shareholders' equity	$ 4,699,623	$ (111,148)	$ -	$ 4,588,475

	September 30, 2013			
	As previously reported (in thousands)	Restatement adjustments	Discontinued operations adjustments	As restated
ASSETS				
Cash and cash equivalents				
Cash and due from banks	$ 32,026	$ -	$ (1,970)	$ 30,056
Interest earning deposits at Federal Reserve Bank	657,618	-	-	657,618
Securities purchased under agreements to resell	40,811	-	-	40,811
Total cash and cash equivalents	730,455	-	(1,970)	728,485
Investment securities, available-for-sale, at fair value	1,083,154	-	-	1,083,154
Investment securities, held-to-maturity (fair value $94,806)	97,459	-	-	97,459
Commercial loans held for sale	25,557	-	-	25,557
Loans, net of deferred loan fees and costs	1,991,455	(100,872)	(1,270,318)	620,265
Allowance for loan and lease losses	(39,151)	(26,951)	61,983	(4,119)
Loans, net	1,952,304	(127,823)	(1,208,335)	616,146
Federal Home Loan and Atlantic Central Bankers Bank stock	3,209	-	-	3,209

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Premises and equipment, net	14,252		-		-		14,252	
Accrued interest receivable	12,556		-		(4,626)		7,930	
Intangible assets, net	6,253		-		-		6,253	
Other real estate owned	20,111		-		(20,111)		0	
Deferred tax asset, net	26,434		38,632		-		65,066	
Assets held for sale	-		1,558		1,235,310		1,236,868	
Other assets	28,538		-		(268)		28,270	
Total assets	$	4,000,282	$	(87,633)	$	0	$	3,912,649
LIABILITIES								
Deposits								
Demand and interest checking	$	3,050,167	$	-	$	-	$	3,050,167
Savings and money market	504,447		-		-		504,447	
Time deposits	9,920		-		-		9,920	
Time deposits, $100,000 and over	4,683		-		-		4,683	
Total deposits	3,569,217		-		-		3,569,217	
Securities sold under agreements to repurchase	22,057		-		-		22,057	
Subordinated debenture	13,401		-		-		13,401	
Other liabilities	42,274		-		-		42,274	
Total liabilities	3,646,949		-		-		3,646,949	
SHAREHOLDERS' EQUITY								
Common stock - authorized, 50,000,000 shares of $1.00 par value: 37,720,945 shares issued at September 30, 2013	37,721		-		-		37,721	
Treasury stock, at cost (100,000 shares)	(866)		-		-		(866)	
Additional paid-in capital	292,715		-		-		292,715	
Retained earnings	20,291		(87,633)		-		(67,342)	
Accumulated other comprehensive income	3,472		-		-		3,472	
Total shareholders' equity	353,333		(87,633)		-		265,700	
Total liabilities and shareholders' equity	$	4,000,282	$	(87,633)	$	-	$	3,912,649

	June 30, 2013			
	As previously reported (in thousands)	Restatement adjustments	Discontinued operations adjustments	As restated
ASSETS				
Cash and cash equivalents				
Cash and due from banks	$ 21,560	$ -	$ (198)	$ 21,362
Interest earning deposits at Federal Reserve Bank	622,989	-	-	622,989
Securities purchased under agreements to resell	40,240	-	-	40,240
Total cash and cash equivalents	684,789	-	(198)	684,591
Investment securities, available-for-sale, at fair value	1,021,848	-	-	1,021,848
Investment securities, held-to-maturity (fair value $91,777)	95,662	-	-	95,662
Commercial loans held for sale	49,355	-	-	49,355
Loans, net of deferred loan fees and costs	1,967,382	(98,218)	(1,304,627)	564,537
Allowance for loan and lease losses	(40,274)	(25,400)	61,737	(3,937)
Loans, net	1,927,108	(123,618)	(1,242,890)	560,600
Federal Home Loan and Atlantic Central Bankers Bank stock	3,209	-	-	3,209

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Premises and equipment, net	13,709	-	-	13,709
Accrued interest receivable	12,360	-	(4,875)	7,485
Intangible assets, net	6,503	-	-	6,503
Other real estate owned	6,308	-	(6,308)	(0)
Deferred tax asset, net	27,613	38,632	-	66,245
Assets held for sale	-	940	1,254,619	1,255,559
Other assets	28,031	-	(348)	27,683
Total assets	$ 3,876,495	$ (84,046)	$ 0	$ 3,792,449
LIABILITIES				
Deposits				
Demand and interest checking	$ 2,963,170	$ -	$ -	$ 2,963,170
Savings and money market	469,238	-	-	469,238
Time deposits	12,502	-	-	12,502
Time deposits, $100,000 and over	5,747	-	-	5,747
Total deposits	3,450,657	-	-	3,450,657
Securities sold under agreements to repurchase	19,059	-	-	19,059
Subordinated debenture	13,401	-	-	13,401
Other liabilities	49,186	-	-	49,186
Total liabilities	3,532,303	-	-	3,532,303
SHAREHOLDERS' EQUITY				
Common stock - authorized, 50,000,000 shares of $1.00 par value: 37,462,939 shares issued at June 30, 2013	37,463	-	-	37,463
Treasury stock, at cost (100,000 shares)	(866)	-	-	(866)
Additional paid-in capital	286,321	-	-	286,321
Retained earnings	19,993	(84,046)	-	(64,053)
Accumulated other comprehensive income	1,281	-	-	1,281
Total shareholders' equity	344,192	(84,046)	-	260,146
Total liabilities and shareholders' equity	$ 3,876,495	$ (84,046)	$ -	$ 3,792,449

	March 31, 2013			
	As previously reported (in thousands)	Restatement adjustments	Discontinued operations adjustments	As restated
ASSETS				
Cash and cash equivalents				
Cash and due from banks	$ 14,108	$ -	$ (936)	$ 13,172
Interest earning deposits at Federal Reserve Bank	1,102,217	-	-	1,102,217
Securities purchased under agreements to resell	22,831	-	-	22,831
Total cash and cash equivalents	1,139,156	-	(936)	1,138,220
Investment securities, available-for-sale, at fair value	898,653	-	-	898,653
Investment securities, held-to-maturity (fair value $40,999)	45,064	-	-	45,064
Commercial loans held for sale	28,402	-	-	28,402
Loans, net of deferred loan fees and costs	1,968,890	(95,330)	(1,308,124)	565,436
Allowance for loan and lease losses	(34,883)	(28,988)	60,065	(3,806)
Loans, net	1,934,007	(124,318)	(1,248,059)	561,630
Federal Home Loan and Atlantic Central Bankers Bank stock	3,094	-	-	3,094

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Premises and equipment, net	10,965	-	-	10,965
Accrued interest receivable	11,521	-	(4,863)	6,658
Intangible assets, net	6,753	-	-	6,753
Other real estate owned	4,543	-	(4,543)	(0)
Deferred tax asset, net	23,055	38,632	-	61,687
Assets held for sale	-	(5,488)	1,258,805	1,253,317
Other assets	26,882	-	(404)	26,478
Total assets	$ 4,132,095	$ (91,174)	$ 0	$ 4,040,921
LIABILITIES				
Deposits				
Demand and interest checking	$ 3,197,039	$ -	$ -	$ 3,197,039
Savings and money market	495,001	-	-	495,001
Time deposits	12,602	-	-	12,602
Time deposits, $100,000 and over	8,343	-	-	8,343
Total deposits	3,712,985	-	-	3,712,985
Securities sold under agreements to repurchase	16,672	-	-	16,672
Subordinated debenture	13,401	-	-	13,401
Other liabilities	42,961	-	-	42,961
Total liabilities	3,786,019	-	-	3,786,019
SHAREHOLDERS' EQUITY				
Common stock - authorized, 50,000,000 shares of $1.00 par value: 37,433,594 shares issued at March 31, 2013	37,434	-	-	37,434
Treasury stock, at cost (100,000 shares)	(866)	-	-	(866)
Additional paid-in capital	285,009	-	-	285,009
Retained earnings	14,753	(91,174)	-	(76,421)
Accumulated other comprehensive income	9,746	-	-	9,746
Total shareholders' equity	346,076	(91,174)	-	254,902
Total liabilities and shareholders' equity	$ 4,132,095	$ (91,174)	$ -	$ 4,040,921

	Quarter ended September 30, 2014			
	As previously reported (1)	Restatement adjustments	Discontinued operations adjustments	As restated
	(in thousands, except per share data)			
Interest income				
Loans, including fees	$ 21,864	$ -	$ (12,689)	$ 9,175
Interest on investment securities:				
Taxable interest	5,311	-	-	5,311
Tax-exempt interest	3,157	-	-	3,157
Federal funds sold/securities purchased under agreements to resell	105	-	-	105
Interest earning deposits	285	-	-	285
	30,722	-	(12,689)	18,033
Interest expense				
Deposits	2,635	-	-	2,635
Securities sold under agreements to repurchase	14	-	-	14
Subordinated debenture	116	-	-	116
	2,765	-	-	2,765
Net interest income	27,957	-	(12,689)	15,268

Provision for loan and lease losses	965	(71,113)	70,306	158
Net interest income after provision for loan and lease losses	26,992	71,113	(82,995)	15,110
Non-interest income				
Service fees on deposit accounts	1,692	-	-	1,692
Card payment and ACH processing fees	1,369	-	-	1,369
Prepaid card fees	12,307	-	-	12,307
Gain on sale of loans	2,772	-	-	2,772
Loss on sale of investment securities	(35)	-	-	(35)
Leasing income	840	-	-	840
Debit card income	414	-	-	414
Affinity fees	649	-	-	649
Other	748	-	(449)	299
Total non-interest income	20,756	-	(449)	20,307
Non-interest expense				
Salaries and employee benefits	14,606	-	(671)	13,935
Depreciation and amortization	1,178	-	-	1,178
Rent and related occupancy cost	1,309	-	(35)	1,274
Data processing expense	3,394	-	(79)	3,315
Printing and supplies	542	-	(50)	492
Professional fees	356	-	-	356
Legal expense	1,497	-	(940)	557
Amortization of intangible assets	304	-	-	304
Loss on sale and write-downs on other real estate owned	2,568	-	(2,568)	-
FDIC Insurance	1,492	-	-	1,492
Software	1,166	-	(8)	1,158
Other real estate owned	434	-	(434)	-
Insurance	404	-	-	404
Telecom and IT network communications	931	-	(168)	763
Securitization and servicing expense	573	-	-	573
Consulting	1,157	-	-	1,157
Bank Secrecy Act and lookback consulting expenses	2,749	-	-	2,749
Losses on discontinued operations	43,441	-	(43,441)	-
Other	3,624	-	(196)	3,428
Total non-interest expense	81,725	-	(48,590)	33,135
Income (loss) from continuing operations before income taxes	(33,977)	71,113	(34,854)	2,282
Income tax benefit	(17,172)	29,339	(15,727)	(3,560)
Net income (loss) from continuing operations	(16,805)	41,774	(19,127)	5,842
Discontinued operations				
Income from discontinued operations before income taxes	-	-	34,854	34,854
Income tax provision	-	-	15,727	15,727
Income from discontinued operations, net of tax	-	-	19,127	19,127

Net income (loss) available to common shareholders	$	(16,805)	$	41,774	$	-	$	24,969
Net income (loss) per share from continuing operations - basic	$	(0.45)	$	1.11	$	(0.51)	$	0.15
Net income per share from discontinued operations - basic	$	-	$	-	$	0.51	$	0.51
Net income (loss) per share - basic	$	(0.45)	$	1.11	$	-	$	0.66
Net income (loss) per share from continuing operations - diluted	$	(0.45)	$	1.11	$	(0.51)	$	0.15
Net income per share from discontinued operations - diluted	$	-	$	-	$	0.51	$	0.51
Net income (loss) per share - diluted	$	(0.45)	$	1.11	$	-	$	0.66

(1) As previously reported excluding adjustments for discontinued operations

	Quarter ended June 30, 2014 As previously reported	Restatement adjustments	Discontinued operations adjustments	As restated
	(in thousands, except per share data)			
Interest income				
Loans, including fees	$ 21,926	$ (162)	$ (12,962)	$ 8,802
Interest on investment securities:				
Taxable interest	5,356	-	-	5,356
Tax-exempt interest	2,956	-	-	2,956
Federal funds sold/securities purchased under agreements to resell	85	-	-	85
Interest earning deposits	411	-	-	411
	30,734	(162)	(12,962)	17,610
Interest expense				
Deposits	2,695	-	-	2,695
Securities sold under agreements to repurchase	11	-	-	11
Subordinated debenture	113	-	-	113
	2,819	-	-	2,819
Net interest income	27,915	(162)	(12,962)	14,791
Provision for loan and lease losses	15,500	(14,925)	598	1,173
Net interest income after provision for loan and lease losses	12,415	14,763	(13,560)	13,618
Non-interest income				
Service fees on deposit accounts	1,377	-	-	1,377
Card payment and ACH processing fees	1,317	-	-	1,317
Prepaid card fees	12,898	-	-	12,898
Gain on sale of loans	5,212	-	-	5,212
Gain on sale of investment securities	159	-	-	159
Leasing income	1,015	-	-	1,015
Debit card income	456	-	-	456
Affinity fees	668	-	-	668
Other	608	-	(321)	287
Total non-interest income	23,710	-	(321)	23,389
Non-interest expense				

Salaries and employee benefits	16,324	-	(580)	15,744
Depreciation and amortization	1,133	-	-	1,133
Rent and related occupancy cost	1,177	-	(55)	1,122
Data processing expense	3,535	-	(72)	3,463
Printing and supplies	626	-	(37)	589
Professional fees	400	-	-	400
Legal expense	915	-	(613)	302
Amortization of intangible assets	304	-	-	304
Loss on sale and write-downs on other real estate owned	(92)	-	92	-
FDIC Insurance	1,116	-	-	1,116
Software	1,133	-	(10)	1,123
Other real estate owned	325	-	(325)	-
Insurance	485	-	-	485
Telecom and IT network communications	480	-	-	480
Securitization and servicing expense	703	-	-	703
Consulting	409	-	-	409

Bank Secrecy Act and lookback consulting expenses	2,169	-	-	2,169
Other	4,688	-	(218)	4,470
Total non-interest expense	35,830	-	(1,818)	34,012
Income from continuing operations before income taxes	295	14,763	(12,063)	2,995
Income tax (benefit) provision	(43)	4,779	(3,393)	1,343
Net income from continuing operations	338	9,984	(8,670)	1,652
Discontinued operations				
Income from discontinued operations before income taxes	-	-	12,063	12,063
Income tax provision	-	-	3,393	3,393
Income from discontinued operations, net of tax	-	-	8,670	8,670
Net income available to common shareholders	$ 338	$ 9,984	$ -	$ 10,322
Net income per share from continuing operations - basic	$ 0.01	$ 0.26	$ (0.23)	$ 0.04
Net income per share from discontinued operations - basic	$ -	$ -	$ 0.23	$ 0.23
Net income per share - basic	$ 0.01	$ 0.26	$ -	$ 0.27
Net income per share from continuing operations - diluted	$ 0.01	$ 0.26	$ (0.23)	$ 0.04
Net income per share from discontinued operations - diluted	$ -	$ -	$ 0.23	$ 0.23
Net income per share - diluted	$ 0.01	$ 0.26	$ -	$ 0.27

	Quarter ended March 31, 2014			
	As previously reported	Restatement adjustments	Discontinued operations adjustments	As restated
	(in thousands, except per share data)			
Interest income				
Loans, including fees	$ 21,381	$ (257)	$ (12,660)	$ 8,464
Interest on investment securities:				
Taxable interest	5,137	-	-	5,137
Tax-exempt interest	2,084	-	-	2,084
Federal funds sold/securities purchased under agreements to resell	106	-	-	106
Interest earning deposits	764	-	-	764
	29,472	(257)	(12,660)	16,555
Interest expense				
Deposits	2,777	-	-	2,777
	12	-	-	12

Securities sold under agreements to repurchase				
Subordinated debenture	115	-	-	115
	2,904	-	-	2,904
Net interest income	26,568	(257)	(12,660)	13,651
Provision for loan and lease losses	17,300	(2,165)	(13,860)	1,275
Net interest income after provision for loan and lease losses	9,268	1,908	1,200	12,376
Non-interest income				
Service fees on deposit accounts	1,210	-	-	1,210
Card payment and ACH processing fees	1,303	-	-	1,303
Prepaid card fees	13,468	-	-	13,468
Gain on sale of loans	5,484	-	-	5,484
Gain on sale of investment securities	241	-	-	241
Leasing income	381	-	-	381
Debit card income	426	-	-	426
Affinity fees	534	-	-	534
Other	1,108	-	(477)	631

Total non-interest income	24,155	-	(477)	23,678
Non-interest expense				
Salaries and employee benefits	15,361	-	(216)	15,145
Depreciation and amortization	1,050	-	-	1,050
Rent and related occupancy cost	1,082	-	(55)	1,027
Data processing expense	3,336	-	(81)	3,255
Printing and supplies	571	-	(15)	556
Professional fees	376	-	-	376
Legal expense	1,332	-	(702)	630
Amortization of intangible assets	304	-	-	304
Loss on sale and write-downs on other real estate owned	62	-	(62)	-
FDIC Insurance	1,689	-	-	1,689
Software	1,175	-	(7)	1,168
Other real estate owned	326	-	(326)	-
Insurance	451	-	-	451
Telecom and IT network communications	521	-	-	521
Securitization and servicing expense	578	-	-	578
Consulting	696	-	-	696
Other	4,047	-	(288)	3,759
Total non-interest expense	32,957	-	(1,752)	31,205
Income from continuing operations before income taxes	466	1,908	2,475	4,849
Income tax provision	168	579	876	1,623
Net income from continuing operations	298	1,329	1,599	3,226
Discontinued operations				
Loss from discontinued operations before income taxes	-	-	(2,475)	(2,475)
Income tax benefit	-	-	(876)	(876)
Loss from discontinued operations, net of tax	-	-	(1,599)	(1,599)
Net income available to common shareholders	$ 298	$ 1,329	$ -	$ 1,627
Net income per share from continuing operations - basic	$ 0.01	$ 0.03	$ 0.04	$ 0.08
Net loss per share from discontinued operations - basic	$ -	$ -	$ (0.04)	$ (0.04)
Net income per share - basic	$ 0.01	$ 0.03	$ -	$ 0.04
Net income per share from continuing operations - diluted	$ 0.01	$ 0.03	$ 0.09	$ 0.08
Net loss per share from discontinued operations - diluted	$ -	$ -	$ (0.09)	$ (0.04)
Net income per share - diluted	$ 0.01	$ 0.03	$ -	$ 0.04

	Quarter ended December 31, 2013			
	As previously reported	Restatement adjustments	Discontinued operations adjustments	As restated
	(in thousands, except per share data)			
Interest income				
Loans, including fees	$ 20,966	$ (343)	$ (13,395)	$ 7,228
Interest on investment securities:				
Taxable interest	4,654	-	-	4,654
Tax-exempt interest	1,834	-	-	1,834
Federal funds sold/securities purchased under agreements to resell	146	-	-	146
Interest earning deposits	546	-	-	546
	28,146	(343)	(13,395)	14,408
Interest expense				

Deposits	2,614	-	-	2,614
Securities sold under agreements to repurchase	15	-	-	15
Subordinated debenture	115	-	-	115
	2,744	-	-	2,744
Net interest income	25,402	(343)	(13,395)	11,664
Provision for loan and lease losses	6,500	13,733	(20,339)	(106)
Net interest income after provision for loan and lease losses	18,902	(14,076)	6,944	11,770
Non-interest income				
Service fees on deposit accounts	1,547	-	-	1,547
Card payment and ACH processing fees	1,106	-	-	1,106
Prepaid card fees	11,657	-	-	11,657
Gain on sale of loans	4,560	-	-	4,560
Gain on sale of investment securities	1,104	-	-	1,104
Leasing income	707	-	-	707
Debit card income	337	-	-	337
Affinity fees	558	-	-	558
Other	759	-	(515)	244
Total non-interest income	22,335	-	(515)	21,820
Non-interest expense				
Salaries and employee benefits	13,416	-	(96)	13,320
Depreciation and amortization	1,029	-	-	1,029
Rent and related occupancy cost	1,087	-	(56)	1,031
Data processing expense	3,007	-	(76)	2,931
Printing and supplies	422	-	(15)	407
Professional fees	478	-	-	478
Legal expense	2,785	-	(1,670)	1,115
Amortization of intangible assets	392	-	-	392
Loss on sale and write-downs on other real estate owned	(8)	-	8	-
FDIC Insurance	953	-	-	953
Software	892	-	(11)	881
Other real estate owned	320	-	(320)	-
Insurance	415	-	-	415
Telecom and IT network communications	139	-	(1)	138
Securitization and servicing expense	278	-	-	278
Consulting	501	-	-	501
Other	3,707	-	(450)	3,257
Total non-interest expense	29,813	-	(2,687)	27,126
Income from continuing operations before income taxes	11,424	(14,076)	9,116	6,464
Income tax provision	4,098	10,769	(12,711)	2,156
Net income from continuing operations	7,326	(24,845)	21,827	4,308
Discontinued operations				
Loss from discontinued operations before income taxes	-	-	(9,116)	(9,116)

Income tax provision	-		-		12,711		12,711	
Loss from discontinued operations, net of tax	-		-		(21,827)		(21,827)	
Net income (loss) available to common shareholders	$	7,326	$	(24,845)	$	-	$	(17,519)
Net income per share from continuing operations - basic	$	0.20	$	(0.66)	$	0.58	$	0.12
Net loss per share from discontinued operations - basic	$	-	$	-	$	(0.58)	$	(0.58)
Net income (loss) per share - basic	$	0.20	$	(0.66)	$	-	$	(0.46)
Net income per share from continuing operations - diluted	$	0.19	$	(0.66)	$	0.58	$	0.11
Net loss per share from discontinued operations - diluted	$	-	$	-	$	(0.58)	$	(0.58)

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Net income (loss) per share - diluted	$ 0.19	$ (0.66)	$ -	$ (0.47)

	Quarter ended September 30, 2013			
	As previously reported	Restatement adjustments	Discontinued operations adjustments	As restated
	(in thousands, except per share data)			
Interest income				
Loans, including fees	$ 20,845	$ (342)	$ (13,305)	$ 7,198
Interest on investment securities:				
Taxable interest	4,057	-	-	4,057
Tax-exempt interest	1,326	-	-	1,326
Federal funds sold/securities purchased under agreements to resell	157	-	-	157
Interest earning deposits	438	-	-	438
	26,823	(342)	(13,305)	13,176
Interest expense				
Deposits	2,578	-	-	2,578
Securities sold under agreements to repurchase	13	-	-	13
Subordinated debenture	115	-	-	115
	2,706	-	-	2,706
Net interest income	24,117	(342)	(13,305)	10,470
Provision for loan and lease losses	8,000	3,863	(11,484)	379
Net interest income after provision for loan and lease losses	16,117	(4,205)	(1,821)	10,091
Non-interest income				
Service fees on deposit accounts	1,286	-	-	1,286
Card payment and ACH processing fees	1,027	-	-	1,027
Prepaid card fees	10,177	-	-	10,177
Gain on sale of loans	4,739	-	-	4,739
Gain on sale of investment securities	42	-	-	42
Leasing income	624	-	-	624
Debit card income	158	-	-	158
Affinity fees	722	-	-	722
Other	827	-	(378)	449
Total non-interest income	19,602	-	(378)	19,224
Non-interest expense				
Salaries and employee benefits	13,766	-	(445)	13,321

Depreciation and amortization	934	-	-	934
Rent and related occupancy cost	1,041	-	(55)	986
Data processing expense	2,783	-	(73)	2,710
Printing and supplies	369	-	(17)	352
Professional fees	347	-	-	347
Legal expense	1,522	-	(880)	642
Amortization of intangible assets	250	-	-	250
Loss on sale and write-downs on other real estate owned	403	-	(403)	-
FDIC Insurance	895	-	-	895
Software	938	-	(5)	933
Other real estate owned	286	-	(286)	-
Insurance	352	-	-	352
Telecom and IT network communications	752	-	(2)	750
Securitization and servicing expense	343	-	-	343

Consulting	464	-	-	464
Other	3,452	-	(347)	3,105
Total non-interest expense	28,897	-	(2,513)	26,384
Income from continuing operations before income taxes	6,822	(4,205)	314	2,931
Income tax provision	2,034	(618)	(438)	978
Net income from continuing operations	4,788	(3,587)	752	1,953
Discontinued operations				
Loss from discontinued operations before income taxes	-	-	(314)	(314)
Income tax provision	-	-	438	438
Loss from discontinued operations, net of tax	-	-	(752)	(752)
Net income available to common shareholders	$ 4,788	$ (3,587)	$ -	$ 1,201
Net income per share from continuing operations - basic	$ 0.13	$ (0.10)	$ 0.02	$ 0.05
Net loss per share from discontinued operations - basic	$ -	$ -	$ (0.02)	$ (0.02)
Net income per share - basic	$ 0.13	$ (0.10)	$ -	$ 0.03
Net income per share from continuing operations - diluted	$ 0.13	$ (0.10)	$ 0.02	$ 0.05
Net loss per share from discontinued operations - diluted	$ -	$ -	$ (0.02)	$ (0.02)
Net income per share - diluted	$ 0.13	$ (0.10)	$ -	$ 0.03

	Quarter ended June 30, 2013			
	As previously reported	Restatement adjustments	Discontinued operations adjustments	As restated
	(in thousands, except per share data)			
Interest income				
Loans, including fees	$ 20,908	$ (340)	$ (13,751)	$ 6,817
Interest on investment securities:				
Taxable interest	3,801	-	-	3,801
Tax-exempt interest	873	-	-	873
Federal funds sold/securities purchased under agreements to resell	98	-	-	98
Interest earning deposits	505	-	-	505
	26,185	(340)	(13,751)	12,094
Interest expense				
Deposits	2,476	-	-	2,476
Securities sold under agreements to repurchase	12	-	-	12

Subordinated debenture	118	-	-	118
	2,606	-	-	2,606
Net interest income	23,579	(340)	(13,751)	9,488
Provision for loan and lease losses	9,500	(1,040)	(8,213)	247
Net interest income after provision for loan and lease losses	14,079	700	(5,538)	9,241
Non-interest income				
Service fees on deposit accounts	1,084	-	-	1,084
Card payment and ACH processing fees	1,046	-	-	1,046
Prepaid card fees	11,531	-	-	11,531
Gain on sale of loans	5,748	-	-	5,748
Gain on sale of investment securities	476	-	-	476
Leasing income	642	-	-	642
Debit card income	201	-	-	201
Affinity fees	850	-	-	850
Other	784	-	(373)	411

Total non-interest income	22,362		-		(373)		21,989	
Non-interest expense								
Salaries and employee benefits	13,615		-		(177)		13,438	
Depreciation and amortization	935		-		-		935	
Rent and related occupancy cost	1,064		-		(47)		1,017	
Data processing expense	2,796		-		(72)		2,724	
Printing and supplies	437		-		(15)		422	
Professional fees	305		-		-		305	
Legal expense	791		-		(591)		200	
Amortization of intangible assets	250		-		-		250	
Loss on sale and write-downs on other real estate owned	815		-		(815)		-	
FDIC Insurance	858		-		-		858	
Software	982		-		(17)		965	
Other real estate owned	125		-		(125)		-	
Insurance	298		-		-		298	
Telecom and IT network communications	350		-		(9)		341	
Consulting	308		-		-		308	
Other	3,658		-		(366)		3,292	
Total non-interest expense	27,587		-		(2,234)		25,353	
Income from continuing operations before income taxes	8,854		700		(3,677)		5,877	
Income tax provision	3,262		(6,428)		5,127		1,961	
Net income from continuing operations	5,592		7,128		(8,804)		3,916	
Discontinued operations								
Income from discontinued operations before income taxes	-		-		3,677		3,677	
Income tax benefit	-		-		(5,127)		(5,127)	
Income from discontinued operations, net of tax	-		-		8,804		8,804	
Net income available to common shareholders	$	5,592	$	7,128	$	-	$	12,720
Net income per share from continuing operations - basic	$	0.15	$	0.19	$	(0.24)	$	0.10
Net income per share from discontinued operations - basic	$	-	$	-	$	0.24	$	0.24
Net income per share - basic	$	0.15	$	0.19	$	-	$	0.34
Net income per share from continuing operations - diluted	$	0.15	$	0.19	$	(0.24)	$	0.10
Net income per share from discontinued operations - diluted	$	-	$	-	$	0.24	$	0.24
Net income per share - diluted	$	0.15	$	0.19	$	-	$	0.34

	Quarter ended March 31, 2013 As previously reported	Restatement adjustments	Discontinued operations adjustments	As restated
	(in thousands, except per share data)			
Interest income				
Loans, including fees	$ 20,322	$ (403)	$ (13,521)	$ 6,398
Interest on investment securities:				
Taxable interest	3,487	-	-	3,487
Tax-exempt interest	725	-	-	725
Federal funds sold/securities purchased under agreements to resell	24	-	-	24
Interest earning deposits	838	-	-	838
	25,396	(403)	(13,521)	11,472
Interest expense				
Deposits	2,498	-	-	2,498

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Securities sold under agreements to repurchase	14	-	-	14
Subordinated debenture	200	-	-	200
	2,712	-	-	2,712
Net interest income	22,684	(403)	(13,521)	8,760
Provision for loan and lease losses	5,500	12,338	(18,003)	(165)
Net interest income after provision for loan and lease losses	17,184	(12,741)	4,482	8,925
Non-interest income				
Service fees on deposit accounts	1,060	-	-	1,060
Card payment and ACH processing fees	867	-	-	867
Prepaid card fees	11,974	-	-	11,974
Gain on sale of loans	2,178	-	-	2,178
Gain on sale of investment securities	267	-	-	267
Other than temporary impairment on securities held-to-maturity	(20)	-	-	(20)
Leasing income	587	-	-	587
Debit card income	196	-	-	196
Affinity fees	856	-	-	856
Other	1,167	-	(92)	1,075
Total non-interest income	19,132	-	(92)	19,040
Non-interest expense				
Salaries and employee benefits	12,289	-	(120)	12,169
Depreciation and amortization	796	-	-	796
Rent and related occupancy cost	881	-	(57)	824
Data processing expense	2,607	-	(84)	2,523
Printing and supplies	432	-	(15)	417
Professional fees	311	-	-	311
Legal expense	619	-	(528)	91
Amortization of intangible assets	250	-	-	250
Loss on sale and write-downs on other real estate owned	251	-	(251)	-
FDIC Insurance	976	-	-	976
Software	809	-	(35)	774
Other real estate owned	110	-	(110)	-
Insurance	246	-	-	246
Telecom and IT network communications	329	-	(75)	254
Securitization and servicing expense	146	-	-	146
Consulting	427	-	-	427
Other	3,000	-	(250)	2,750
Total non-interest expense	24,479	-	(1,525)	22,954
Income from continuing operations before income taxes	11,837	(12,741)	5,915	5,011
Income tax provision	4,432	5,488	(8,248)	1,672
Net income from continuing operations	7,405	(18,229)	14,163	3,339
Discontinued operations	-	-	(5,915)	(5,915)

Loss from discontinued operations before income taxes				
Income tax provision	-	-	8,248	8,248
Loss from discontinued operations, net of tax	-	-	(14,163)	(14,163)
Net income (loss) available to common shareholders	$ 7,405	$ (18,229)	$ -	$ (10,824)
Net income per share from continuing operations - basic	$ 0.20	$ (0.49)	$ 0.39	$ 0.10
Net loss per share from discontinued operations - basic	$ -	$ -	$ (0.39)	$ (0.39)
Net income (loss) per share - basic	$ 0.20	$ (0.49)	$ -	$ (0.29)
Net income per share from continuing operations - diluted	$ 0.20	$ (0.50)	$ 0.39	$ 0.09
Net loss per share from discontinued operations - diluted	$ -	$ -	$ (0.39)	$ (0.39)

Net income (loss) per share - diluted	$ 0.20	$ (0.50)	$ -	$ (0.30)

	For the nine months ended September 30, 2014			
	As previously reported (1)	Restatement adjustments	Discontinued operations adjustments	As restated
	(in thousands, except per share data)			
Operating activities				
Net income (loss) from continuing operations	$ (16,169)	$ 31,829	$ (4,940)	$ 10,720
Net income from discontinued operations	-	-	26,198	26,198
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation and amortization	4,273	-	-	4,273
Provision for loan and lease losses	33,765	(80,062)	48,903	2,606
Net amortization of investment securities discounts/premiums	7,448	-	-	7,448
Stock-based compensation expense	2,042	-	-	2,042
Loans originated for sale	(427,937)	-	-	(427,937)
Sale of loans originated for resale	375,194	-	-	375,194
Gain on sales of loans originated for resale	(13,468)	-	-	(13,468)
Deferred income tax provision	-	47,814	(47,814)	-
Gain on sale of fixed assets	(2)	-	-	(2)
Loss on sale and write downs on other real estate owned	2,538	-	(2,538)	-
Gain on sales of investment securities	(365)	-	-	(365)
Increase in accrued interest receivable	(1,897)	-	(642)	(2,539)
Increase in other assets	(24,916)	-	(42,306)	(67,222)
Increase in discontinued assets held for sale	0	-	34,903	34,903
Decrease in other liabilities	(15,247)	-	(2)	(15,249)
Net cash used in operating activities	(74,741)	(419)	11,762	(63,398)
Investing activities				

Purchase of investment securities available-for-sale	(402,168)	-	-	(402,168)
Proceeds from sale of investment securities available-for-sale	78,793	-	-	78,793
Proceeds from redemptions and prepayments of securities held-to-maturity	195			