

Bancorp, Inc.  
Form 10-Q  
August 08, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: June 30, 2017

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

For the transition period from: \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 51018

THE BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or organization)

23-3016517  
(IRS Employer Identification No.)

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

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

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer   
Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

As of August 3, 2017, there were 55,857,645 outstanding shares of common stock, \$1.00 par value.



THE BANCORP, INC

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

## THE BANCORP, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

	June 30, 2017 (unaudited) (in thousands)	December 31, 2016
<b>ASSETS</b>		
Cash and cash equivalents		
Cash and due from banks	\$ 6,458	\$ 4,127
Interest earning deposits at Federal Reserve Bank	475,387	955,733
Securities purchased under agreements to resell	65,076	39,199
Total cash and cash equivalents	546,921	999,059
Investment securities, available-for-sale, at fair value	1,149,116	1,248,614
Investment securities, held-to-maturity (fair value \$92,161 and \$91,799, respectively)	93,419	93,467
Commercial loans held for sale	542,819	663,140
Loans, net of deferred loan fees and costs	1,370,263	1,222,911
Allowance for loan and lease losses	(7,353)	(6,332)
Loans, net	1,362,910	1,216,579
Federal Home Loan Bank and Atlantic Central Bankers Bank stock	6,211	1,613
Premises and equipment, net	22,004	24,125
Accrued interest receivable	10,880	10,589
Intangible assets, net	5,515	6,906
Other real estate owned	-	104
Deferred tax asset, net	53,226	55,666
Investment in unconsolidated entity, at fair value	120,862	126,930
Assets held for sale from discontinued operations	336,246	360,711
Other assets	53,888	50,611
Total assets	\$ 4,304,017	\$ 4,858,114
<b>LIABILITIES</b>		
Deposits		
Demand and interest checking	\$ 3,437,482	\$ 3,816,524
Savings and money market	438,602	421,780
Total deposits	3,876,084	4,238,304

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Securities sold under agreements to repurchase	273	274
Subordinated debentures	13,401	13,401
Long-term borrowings	42,680	263,099
Other liabilities	40,560	44,073
Total liabilities	3,972,998	4,559,151
<b>SHAREHOLDERS' EQUITY</b>		
Common stock - authorized, 75,000,000 shares of \$1.00 par value; 55,857,645 and 55,419,204 shares issued at June 30, 2017 and December 31, 2016, respectively	55,858	55,419
Treasury stock, at cost (100,000 shares)	(866)	(866)
Additional paid-in capital	361,478	360,564
Accumulated deficit	(85,114)	(111,941)
Accumulated other comprehensive loss	(337)	(4,213)
Total shareholders' equity	331,019	298,963
Total liabilities and shareholders' equity	\$ 4,304,017	\$ 4,858,114

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

## THE BANCORP, INC. AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
	(in thousands, except per share data)			
Interest income				
Loans, including fees	\$ 20,017	\$ 15,362	\$ 37,646	\$ 31,231
Interest on investment securities:				
Taxable interest	9,138	7,900	18,143	14,432
Tax-exempt interest	70	176	142	497
Federal funds sold/securities purchased under agreements to resell	333	128	560	155
Interest earning deposits	1,255	378	2,771	1,280
	30,813	23,944	59,262	47,595
Interest expense				
Deposits	3,432	2,815	6,866	5,786
Securities sold under agreements to repurchase	-	1	-	1
Short-term borrowings	22	110	22	110
Subordinated debenture	144	128	282	252
	3,598	3,054	7,170	6,149
Net interest income	27,215	20,890	52,092	41,446
Provision for loan and lease losses	350	1,060	1,350	1,060
Net interest income after provision for loan and lease losses	26,865	19,830	50,742	40,386
Non-interest income				
Service fees on deposit accounts	1,520	978	3,195	1,825
Card payment and ACH processing fees	1,504	1,457	3,032	2,724
Prepaid card fees	13,234	13,510	26,781	27,084
Gain (loss) on sale of loans	758	1,339	6,141	(94)
Gain on sale of investment securities	586	124	1,089	2,150
Change in value of investment in unconsolidated entity	3	(13,936)	(16)	(13,124)
Leasing income	832	464	1,383	868
Affinity fees	149	1,322	1,170	2,416

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Gain on sale of health savings accounts	2,538	-	2,538	-
Loss from sale of European prepaid operations	(3,437)	-	(3,437)	-
Other	486	4,282	516	4,379
Total non-interest income	18,173	9,540	42,392	28,228
Non-interest expense				
Salaries and employee benefits	18,108	21,308	36,114	40,892
Depreciation and amortization	1,119	1,271	2,325	2,510
Rent and related occupancy cost	1,398	1,371	2,859	2,830
Data processing expense	2,641	3,730	6,121	7,690
Printing and supplies	333	826	838	1,369
Audit expense	456	245	877	500
Legal expense	1,427	2,223	3,165	2,972
Amortization of intangible assets	377	344	756	638
Losses on sale and write downs on other real estate owned	19	-	19	-
FDIC insurance	3,458	2,332	5,523	4,682
Software	3,012	2,818	6,240	4,986
Insurance	542	554	1,220	1,064
Telecom and IT network communications	425	587	1,017	965
Securitization and servicing expense	105	178	100	747
Consulting	706	836	1,240	2,513
Bank Secrecy Act and lookback consulting expenses	-	13,421	-	27,736
Other	3,237	5,092	6,732	10,180
Total non-interest expense	37,363	57,136	75,146	112,274



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Income (loss) from continuing operations before income taxes	7,675	(27,766)	17,988	(43,660)
Income tax benefit	(9,923)	(10,004)	(5,912)	(15,276)
Net income (loss) from continuing operations	\$ 17,598	\$ (17,762)	\$ 23,900	\$ (28,384)
Discontinued operations				
Income (loss) from discontinued operations before income taxes	1,992	(16,214)	4,659	(16,583)
Income tax expense (benefit)	726	(2,616)	1,732	(2,695)
Income (loss) from discontinued operations, net of tax	1,266	(13,598)	2,927	(13,888)
Net income (loss) available to common shareholders	\$ 18,864	\$ (31,360)	\$ 26,827	\$ (42,272)
Net income (loss) per share from continuing operations - basic	\$ 0.32	\$ (0.47)	\$ 0.43	\$ (0.75)
Net income (loss) per share from discontinued operations - basic	\$ 0.02	\$ (0.36)	\$ 0.05	\$ (0.37)
Net income (loss) per share - basic	\$ 0.34	\$ (0.83)	\$ 0.48	\$ (1.12)
Net income (loss) per share from continuing operations - diluted	\$ 0.32	\$ (0.47)	\$ 0.43	\$ (0.75)
Net income (loss) per share from discontinued operations - diluted	\$ 0.02	\$ (0.36)	\$ 0.05	\$ (0.37)
Net income (loss) per share - diluted	\$ 0.34	\$ (0.83)	\$ 0.48	\$ (1.12)

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

## THE BANCORP INC. AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the six months ended June 30,	
	2017	2016
	(in thousands)	
Net income (loss)	\$ 26,827	\$ (42,272)
Other comprehensive income (loss) net of reclassifications into net income:		
Other comprehensive income (loss)		
Change in net unrealized gain during the period	7,172	20,472
Reclassification adjustments for losses included in income	(1,089)	(2,150)
Reclassification adjustments for foreign currency translation gains	216	335
Amortization of losses previously held as available-for-sale	17	17
Net unrealized gain	6,316	18,674
Deferred tax expense		
Securities available-for-sale:		
Change in net unrealized gain during the period	2,869	8,189
Reclassification adjustments for losses included in income	(436)	(860)
Amortization of losses previously held as available-for-sale	7	7
Income tax expense related to items of other comprehensive income	2,440	7,336
Other comprehensive income net of tax and reclassifications into net income	3,876	11,338
Comprehensive income (loss)	\$ 30,703	\$ (30,934)

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



## THE BANCORP INC. AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the six months ended June 30, 2017

(in thousands, except share data)

	Common stock shares	Common stock	Treasury stock	Additional paid-in capital	Retained earnings/ (accumulated deficit)	Accumulated other comprehensive income (loss)	Total
Balance at January 1, 2017	55,419,204	\$ 55,419	\$ (866)	\$ 360,564	\$ (111,941)	\$ (4,213)	\$ 298,963
Net income	-	-	-	-	26,827	-	26,827
Common stock issuance expense	-	-	-	(200)	-	-	(200)
Common stock issued from restricted shares, net of tax benefits	438,441	439	-	(439)	-	-	-
Stock-based compensation	-	-	-	1,553	-	-	1,553
Other comprehensive income net of reclassification adjustments and tax	-	-	-	-	-	3,876	3,876
Balance at June 30, 2017	55,857,645	\$ 55,858	\$ (866)	\$ 361,478	\$ (85,114)	\$ (337)	\$ 331,019

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



## THE BANCORP, INC. AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the six months ended June 30,	
	2017	2016
	(in thousands)	
Operating activities		
Net income (loss) from continuing operations	\$ 23,900	\$ (28,384)
Net income (loss) from discontinued operations	2,927	(13,888)
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	3,081	3,148
Provision for loan and lease losses	1,350	1,060
Net amortization of investment securities discounts/premiums	3,867	4,033
Stock-based compensation expense	1,553	1,215
Loans originated for sale	(246,172)	(263,473)
Sale of loans originated for resale	126,388	311,912
Loss (gain) on sales of loans originated for resale	3,047	(94)
Loss on sale of fixed assets	28	44
Loss on sale of other real estate owned	19	-
Fair value adjustment on investment in unconsolidated entity	(16)	14,932
Gain on sales of investment securities	(1,089)	(2,150)
Increase in accrued interest receivable	(291)	(800)
Increase in other assets	(7,025)	(25,248)
Decrease (increase) in discontinued assets held for sale	5,723	(1,145)
Increase (decrease) in other liabilities	(29,531)	23,082
Net cash provided by (used in) operating activities	(112,241)	24,244
Investing activities		
Purchase of investment securities available-for-sale	(106,677)	(422,166)
Proceeds from sale of investment securities available-for-sale	60,115	84,245
Proceeds from redemptions and prepayments of securities held-to-maturity	-	28
Proceeds from redemptions and prepayments of securities available-for-sale	192,088	93,081
Proceeds from sale of other real estate owned	85	-
Net increase in loans	(147,894)	(104,091)
Net decrease in discontinued loans held for sale	18,742	97,680
Proceeds from sale of fixed assets	366	210

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Purchases of premises and equipment	(385)	(3,562)
Investment in unconsolidated entity	6,084	1,313
Net cash provided by (used in) investing activities	22,524	(253,262)
Financing activities		
Net decrease in deposits	(362,220)	(354,077)
Net decrease in securities sold under agreements to repurchase	(1)	(607)
Common stock issuance expense	(200)	-
Net cash used in financing activities	(362,421)	(354,684)
Net decrease in cash and cash equivalents	(452,138)	(583,702)
Cash and cash equivalents, beginning of period	999,059	1,155,162
Cash and cash equivalents, end of period	\$ 546,921	\$ 571,460
Supplemental disclosure:		
Interest paid	\$ 7,163	\$ 6,290
Taxes paid	\$ 44	\$ 585

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

THE BANCORP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Structure of Company

The Bancorp, Inc. (the Company) is a Delaware corporation and a registered financial holding company. Its primary subsidiary is The Bancorp Bank (the Bank) which is wholly owned by the Company. The Bank is a Delaware chartered commercial bank located in Wilmington, Delaware and is a Federal Deposit Insurance Corporation (FDIC) insured institution. In its continuing operations, the Bank has four primary lines of specialty lending: securities-backed lines of credit (SBLOC), leasing, Small Business Administration (SBA) loans and loans generated for sale into capital markets primarily through commercial loan securitizations (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.

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

Note 2. Significant Accounting Policies

Basis of Presentation

The financial statements of the Company, as of June 30, 2017 and for the three and six month periods ended June 30, 2017 and 2016, are unaudited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been condensed or omitted in this Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission. However, in the opinion of management, these interim financial statements include all necessary adjustments to fairly present the results of the interim periods presented. The unaudited interim consolidated financial statements should be read in conjunction with the audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 (2016 Form 10-K Report). The results of operations for the six month period ended June 30, 2017 may not necessarily be indicative of the results of operations for the full year ending December 31, 2017.

Note 3. Share-based Compensation

The Company recognizes compensation expense for stock options in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 718, "Stock Based Compensation". The expense of the option is generally measured at fair value at the grant date with compensation expense recognized over the service period, which is typically the vesting period. For grants subject to a service condition, the Company utilizes the Black-Scholes option-pricing model to estimate the fair value of each option on the date of grant. The Black-Scholes model takes into consideration the exercise price and expected life of the options, the current price of the underlying stock and its expected volatility, the expected dividends on the stock and the current risk-free interest rate for the expected life of the option. The Company's estimate of the fair value of a stock option is based on expectations derived from historical



experience and may not necessarily equate to its market value when fully vested. In accordance with ASC 718, the Company estimates the number of options for which the requisite service is expected to be rendered. At June 30, 2017, the Company had two active stock-based compensation plans, which are more fully described in its 2016 Form 10-K Report.

The Company did not grant stock options during the six month period ended June 30, 2017. The Company granted 300,000 stock options with a vesting period of four years in the first six months of 2016. There were no common stock options exercised in the six month periods ended June 30, 2017 or June 30, 2016.

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

	Shares	Weighted average exercise price	Weighted average remaining contractual term (years)	Aggregate intrinsic value
Outstanding at January 1, 2017	2,021,625	\$ 8.32	5.24	\$ -
Granted	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Forfeited	(2,500)	10.45	-	-
Outstanding at June 30, 2017	2,019,125	\$ 8.32	4.74	\$ -
Exercisable at June 30, 2017	1,696,625	\$ 8.58	4.18	\$ -

The Company granted 807,482 restricted stock units (RSUs) in the first six months of 2017 of which 672,482 have a vesting period of three years and 135,000 have a vesting period of one year. Of the RSUs granted in the first half of 2017, 799,599 had a fair value of \$5.06 and 7,923 RSUs had a fair value of \$6.31 at issuance. In the first six months of 2016, the Company granted 789,000 restricted stock units (RSUs) of which 620,000 had a vesting period of three years and 169,000 had a vesting period of one year. Of the RSUs granted in the first half of 2016, 489,000 had a fair value of \$4.50 and 300,000 RSUs had a fair value of \$6.75 at issuance. The total fair value of RSUs vested for the six months ended June 30, 2017 and 2016 was \$2.6 million and \$830,000, respectively.

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

	Shares	Weighted average grant date fair value	Average remaining contractual term (years)
Outstanding at January 1, 2017	831,775	\$ 5.77	1.62
Granted	807,482	5.07	
Vested	(438,441)	5.89	
Forfeited	(46,192)	4.98	
Outstanding at June 30, 2017	1,154,624	\$ 5.27	2.08

As of June 30, 2017, there was a total of \$5.8 million of unrecognized compensation cost related to unvested awards under share-based plans. This cost is expected to be recognized over a weighted average period of approximately 2.2

years. Related compensation expense for the six months ended June 30, 2017 and 2016 was \$1.6 million and \$1.2 million, respectively.

Note 4. Earnings Per Share

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

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

	For the three months ended June 30, 2017		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except share and per share data)		
Basic earnings per share from continuing operations			
Net earnings available to common shareholders	\$ 17,598	55,689,439	\$ 0.32
Effect of dilutive securities			
Common stock options	-	340,596	-
Diluted earnings per share			
Net earnings available to common shareholders	\$ 17,598	56,030,035	\$ 0.32

	For the three months ended June 30, 2017		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except share and per share data)		
Basic earnings per share from discontinued operations			
Net earnings available to common shareholders	\$ 1,266	55,689,439	\$ 0.02
Effect of dilutive securities			
Common stock options	-	340,596	-
Diluted earnings per share			
Net earnings available to common shareholders	\$ 1,266	56,030,035	\$ 0.02

	For the three months ended June 30, 2017		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except share and per share data)		
Basic earnings per share			

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Net earnings available to common shareholders	\$	18,864	55,689,439	\$	0.34
Effect of dilutive securities					
Common stock options	-		340,596	-	
Diluted earnings per share					
Net earnings available to common shareholders	\$	18,864	56,030,035	\$	0.34

Stock options for 2,019,125 shares, exercisable at prices between \$6.75 and \$25.43 per share, were outstanding at June 30, 2017, but were not included in the dilutive shares because the exercise price per share was greater than the average market price.

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	For the six months ended June 30, 2017		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except share and per share data)		
Basic earnings per share from continuing operations			
Net earnings available to common shareholders	\$ 23,900	55,612,288	\$ 0.43
Effect of dilutive securities			
Common stock options	-	277,697	-
Diluted earnings per share			
Net earnings available to common shareholders	\$ 23,900	55,889,985	\$ 0.43

	For the six months ended June 30, 2017		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except share and per share data)		
Basic earnings per share from discontinued operations			
Net earnings available to common shareholders	\$ 2,927	55,612,288	\$ 0.05
Effect of dilutive securities			
Common stock options	-	277,697	-
Diluted earnings per share			
Net earnings available to common shareholders	\$ 2,927	55,889,985	\$ 0.05

	For the six months ended June 30, 2017		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except share and per share data)		
Basic earnings per share			
Net earnings available to common shareholders	\$ 26,827	55,612,288	\$ 0.48
Effect of dilutive securities			
Common stock options	-	277,697	-
Diluted earnings per share			
Net earnings available to common shareholders	\$ 26,827	55,612,288	\$ 0.48

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Stock options for 2,019,125 shares, exercisable at prices between \$6.75 and \$25.43 per share, were outstanding at June 30, 2017, but were not included in the dilutive shares because the exercise price per share was greater than the average market price.

	For the three months ended June 30, 2016		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except share and per share data)		
Basic loss per share from continuing operations			
Net loss available to common shareholders	\$ (17,762)	37,845,250	\$ (0.47)
Effect of dilutive securities			
Common stock options	-	-	-
Diluted loss per share			
Net loss available to common shareholders	\$ (17,762)	37,845,250	\$ (0.47)

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	For the three months ended June 30, 2016		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except share and per share data)		
Basic loss per share from discontinued operations			
Net loss available to common shareholders	\$ (13,598)	37,845,250	\$ (0.36)
Effect of dilutive securities			
Common stock options	-	-	-
Diluted loss per share			
Net loss available to common shareholders	\$ (13,598)	37,845,250	\$ (0.36)

	For the three months ended June 30, 2016		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except share and per share data)		
Basic loss per share			
Net loss available to common shareholders	\$ (31,360)	37,845,250	\$ (0.83)
Effect of dilutive securities			
Common stock options	-	-	-
Diluted loss per share			
Net loss available to common shareholders	\$ (31,360)	37,845,250	\$ (0.83)

Stock options for 2,276,500 shares, exercisable at prices between \$6.75 and \$25.43 per share, were outstanding at June 30, 2016 but were not included in dilutive shares because the Company had a net loss available to common shareholders.

	For the six months ended June 30, 2016		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except share and per share data)		
Basic loss per share from continuing operations			
Net loss available to common shareholders	\$ (28,384)	37,824,996	\$ (0.75)
Effect of dilutive securities			



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Common stock options	-	-	-
Diluted loss per share			
Net loss available to common shareholders	\$	(28,384) 37,824,996	\$ (0.75)

For the six months ended  
June 30, 2016

Income (numerator)	Shares (denominator)	Per share amount
-----------------------	-------------------------	---------------------

(dollars in thousands except share and per share data)

Basic loss per share from discontinued operations			
Net loss available to common shareholders	\$	(13,888) 37,824,996	\$ (0.37)
Effect of dilutive securities			
Common stock options	-	-	-
Diluted loss per share			
Net loss available to common shareholders	\$	(13,888) 37,824,996	\$ (0.37)

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For the six months ended  
June 30, 2016  
Income                      Shares                      Per share  
(numerator)                      (denominator)                      amount

(dollars in thousands except share and per share data)

Basic loss per share				
Net loss available to common shareholders	\$	(42,272)	37,824,996	\$ (1.12)
Effect of dilutive securities				
Common stock options	-		-	-
Diluted loss per share				
Net loss available to common shareholders	\$	(42,272)	37,824,996	\$ (1.12)

Stock options for 2,276,500 shares exercisable at prices between \$6.75 and \$25.43 per share, were outstanding at June 30, 2016 but were not included in dilutive shares because the Company had a net loss available to common shareholders.

Note 5. Investment Securities

The amortized cost, gross unrealized gains and losses, and fair values of the Company's investment securities classified as available-for-sale and held-to-maturity at June 30, 2017 and December 31, 2016 are summarized as follows (in thousands):

Available-for-sale	June 30, 2017			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Government agency securities	\$ 24,672	\$ 69	\$ (1)	\$ 24,740
Asset-backed securities *	255,792	872	(562)	256,102
Tax-exempt obligations of states and political subdivisions	13,309	182	(21)	13,470
Taxable obligations of states and political subdivisions	76,959	1,960	(173)	78,746
Residential mortgage-backed securities	354,000	923	(3,764)	351,159
Collateralized mortgage obligation securities	136,410	491	(911)	135,990
Commercial mortgage-backed securities	131,013	472	(63)	131,422
Foreign debt securities	56,220	364	(91)	56,493
Corporate debt securities	100,304	847	(157)	100,994

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\$ 1,148,679 \$ 6,180 \$ (5,743) \$ 1,149,116

	June 30, 2017			
	Amortized	Gross unrealized	Gross unrealized	Fair
* Asset-backed securities as shown above	cost	gains	losses	value
Federally insured student loan securities	\$ 98,541	\$ 118	\$ (558)	\$ 98,101
Collateralized loan obligation securities	139,576	641	-	140,217
Other	17,675	113	(4)	17,784
	\$ 255,792	\$ 872	\$ (562)	\$ 256,102

Held-to-maturity	June 30, 2017			
	Amortized	Gross unrealized	Gross unrealized	Fair
	cost	gains	losses	value
Other debt securities - single issuers	\$ 18,005	\$ 223	\$ (2,867)	\$ 15,361
Other debt securities - pooled	75,414	1,386	-	76,800
	\$ 93,419	\$ 1,609	\$ (2,867)	\$ 92,161

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Available-for-sale	December 31, 2016						
	Amortized cost		Gross unrealized gains		Gross unrealized losses	Fair value	
U.S. Government agency securities	\$ 27,771		\$ 23		\$ (92)	\$ 27,702	
Asset-backed securities *	355,622		1,811		(2,037)	355,396	
Tax-exempt obligations of states and political subdivisions	15,492		129		(137)	15,484	
Taxable obligations of states and political subdivisions	78,143		1,539		(633)	79,049	
Residential mortgage-backed securities	347,120		598		(5,149)	342,569	
Collateralized mortgage obligation securities	160,649		619		(1,445)	159,823	
Commercial mortgage-backed securities	117,844		250		(1,008)	117,086	
Foreign debt securities	56,603		168		(274)	56,497	
Corporate debt securities	95,005		421		(418)	95,008	
	\$ 1,254,249		\$ 5,558		\$ (11,193)	\$ 1,248,614	

* Asset-backed securities as shown above	December 31, 2016						
	Amortized cost		Gross unrealized gains		Gross unrealized losses	Fair value	
Federally insured student loan securities	\$ 122,579		\$ 346		\$ (2,000)	\$ 120,925	
Collateralized loan obligation securities	215,117		1,294		(14)	216,397	
Other	17,926		171		(23)	18,074	
	\$ 355,622		\$ 1,811		\$ (2,037)	\$ 355,396	

Held-to-maturity	December 31, 2016						
	Amortized cost		Gross unrealized gains		Gross unrealized losses	Fair value	
Other debt securities - single issuers	\$ 17,983		\$ 179		\$ (3,026)	\$ 15,136	
Other debt securities - pooled	75,484		1,179		-	76,663	
	\$ 93,467		\$ 1,358		\$ (3,026)	\$ 91,799	

Investments in Federal Home Loan and Atlantic Central Bankers Bank stock are recorded at cost and amounted to \$6.2 million and \$1.6 million, respectively, at June 30, 2017 and December 31, 2016.

The amortized cost and fair value of the Company's investment securities at June 30, 2017, by contractual maturity, are shown below (in thousands). Expected maturities may differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-sale		Held-to-maturity	
	Amortized cost	Fair value	Amortized cost	Fair value
Due before one year	\$ 4,508	\$ 4,511	\$ -	\$ -
Due after one year through five years	157,935	158,902	7,002	7,114
Due after five years through ten years	364,091	364,609	-	-
Due after ten years	622,145	621,094	86,417	85,047
	\$ 1,148,679	\$ 1,149,116	\$ 93,419	\$ 92,161

At June 30, 2017 and December 31, 2016, there were no investment securities pledged to secure securities sold under repurchase agreements as required or permitted by law. The balance of pledged securities was reduced to \$0 as balances requiring pledging were not expected to increase from minimal levels exceeded by deposit insurance. At June 30, 2017 and December 31, 2016, investment securities with a fair value of approximately \$600.0 million and \$607.2 million, respectively, were pledged to secure a line of credit with the FHLB and a letter of credit with that institution.

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Fair value of available-for-sale securities are based on the fair market value supplied by a third-party market data provider, while the fair value of held-to-maturity securities are based on the present value of cash flows, which discounts expected cash flows from principal and interest using yield to maturity at the measurement date. The Company periodically reviews its investment portfolio to determine whether unrealized losses are other than temporary, based on an evaluation of the creditworthiness of the issuers/guarantors as well as the underlying collateral, if applicable, in addition to the continuing performance of the securities. The amount of the credit impairment is calculated by estimating the discounted cash flows for those securities. The Company did not recognize any other-than-temporary impairment charges in the first six months of 2017.

The table below indicates the length of time individual securities had been in a continuous unrealized loss position at June 30, 2017 (dollars in thousands):

Available-for-sale Description of Securities	Number of securities	Less than 12 months		12 months or longer		Total
		Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value
U.S. Government agency securities	1	\$ 841	\$ (1)	\$ -	\$ -	\$ 841
Asset-backed securities	16	406	(1)	73,048	(561)	73,454
Tax-exempt obligations of states and political subdivisions	5	4,777	(21)	-	-	4,777
Taxable obligations of states and political subdivisions	15	19,418	(173)	-	-	19,418
Residential mortgage-backed securities	81	209,559	(3,286)	40,056	(478)	249,615
Collateralized mortgage obligation securities	25	46,078	(503)	31,154	(408)	77,232
Commercial mortgage-backed securities	9	18,043	(62)	1,192	(1)	19,235
	17	13,443	(91)	-	-	13,443

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Foreign debt securities								
Corporate debt securities	25	22,615	(157)	-	-			22,615
Total temporarily impaired investment securities	194	\$ 335,180	\$ (4,295)	\$ 145,450	\$ (1,448)	\$	\$	480,630

Description of Securities	Held-to-maturity	Number of securities	Less than 12 months		12 months or longer		Total	
			Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Fair Value
Corporate and other debt securities:								
Single issuers	1	\$	-	\$ -	\$ 6,224	\$ (2,867)	\$	6,224
Total temporarily impaired investment securities	1	\$	-	\$ -	\$ 6,224	\$ (2,867)	\$	6,224

The table below indicates the length of time individual securities had been in a continuous unrealized loss position at December 31, 2016 (dollars in thousands):

Description of Securities	Available-for-sale	Number of securities	Less than 12 months		12 months or longer		Total	
			Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Fair Value
U.S. Government agency securities	5	\$	7,414	\$ (36)	\$ 7,824	\$ (56)	\$	15,182
Asset-backed securities	23	10,186	(49)	93,375	(1,988)			103,561
Tax-exempt obligations of								

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states and political subdivisions	8	6,056	(118)	3,301	(19)	9,357
Taxable obligations of states and political subdivisions	27	42,963	(633)	-	-	42,963
Residential mortgage-backed securities	68	180,357	(4,833)	54,254	(316)	234,611
Collateralized mortgage obligation securities	28	88,936	(1,004)	30,386	(441)	119,322
Commercial mortgage-backed securities	28	79,345	(963)	4,547	(45)	83,892
Foreign debt securities	34	26,696	(274)	700	-	27,396
Corporate debt securities	39	30,418	(414)	645	(4)	31,063
Total temporarily impaired investment securities	260	\$ 472,371	\$ (8,324)	\$ 195,032	\$ (2,869)	\$ 667,000



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Held-to-maturity	Number of securities	Less than 12 months		12 months or longer		Total	
		Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Fair Value
Description of Securities							
Corporate and other debt securities:							
Single issuers	1	\$ -	\$ -	\$ 6,039	\$ (3,026)	\$ 6,039	\$ 6,039
Total temporarily impaired investment securities							
	1	\$ -	\$ -	\$ 6,039	\$ (3,026)	\$ 6,039	\$ 6,039

Other securities included in the held-to-maturity classification at June 30, 2017 consisted of three securities secured by diversified portfolios of corporate securities, one bank senior note and two single-issuer trust preferred securities.

A total of \$18.0 million of other debt securities - single issuers is comprised of the following: (i) amortized cost of the two single-issuer trust preferred securities of \$11.0 million, of which one security for \$1.9 million was issued by a bank and one security for \$9.1 million was issued by an insurance company; and (ii) the book value of a bank senior note of \$7.0 million.

A total of \$75.4 million of other debt securities – pooled is comprised of three securities consisting of diversified portfolios of corporate securities.

The following table provides additional information related to the Company's single issuer trust preferred securities as of June 30, 2017 (in thousands):

Single issuer	Book value	Fair value	Unrealized gain/(loss)	Credit rating
Security A	\$ 1,913	\$ 2,024	\$ 111	Not rated
Security B	9,091	6,224	(2,867)	Not rated

Class: All of the above are trust preferred securities.

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

#### Note 6. Loans

The Company has several lending lines of business including SBA loans, direct lease financing, SBLOC and other specialty and consumer lending. The Company also originates loans for sale into commercial mortgage backed securitizations or to secondary government guaranteed loan markets. These sales are accounted for as true sales and there is no continuing involvement in these loans. Servicing rights on these loans are not retained. The Company has elected fair value treatment for these loans to better reflect the economics of the transactions. At June 30, 2017, the fair value of the loans held for sale was \$542.8 million and their book value was \$537.9 million. Included in the gain on sale of loans in the Statements of Operations were gains recognized from changes in fair value of \$2.0 million for the six months ended June 30, 2017. There were no changes in fair value related to credit risk. Interest earned on loans held for sale during the period held are recorded in Interest Income-Loans, including fees, on the Statements of Operations.

In the second quarter of 2016, the Company purchased approximately \$60 million in fleet vehicle leases which resulted in a customer list intangible of \$3.4 million. The balance of the \$8.0 million purchase price was allocated to premium which is being amortized over

the estimated average lives of the leases.

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

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

	June 30, 2017		December 31, 2016
SBA non real estate	\$ 74,511	\$	74,644
SBA commercial mortgage	126,224		126,159
SBA construction	11,057		8,826
SBA loans *	211,792		209,629
Direct lease financing	371,002		346,645
SBLOC	718,707		630,400
Other specialty lending	44,389		11,073
Other consumer loans	15,858		17,374
	1,361,748		1,215,121
Unamortized loan fees and costs	8,515		7,790
Total loans, net of deferred loan costs	\$ 1,370,263	\$	1,222,911

Included in the table above are demand deposit overdrafts reclassified as loan balances totaling \$2.2 million and \$2.4 million at June 30, 2017 and December 31, 2016, respectively. Overdraft charge-offs and recoveries are reflected in the allowance for loan and lease losses.

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

	June 30, 2017		December 31, 2016
SBA loans, including deferred fees and costs	\$ 218,253	\$	215,786

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SBA loans included in held for sale	158,389	154,016
Total SBA loans	\$ 376,642	\$ 369,802

The following table provides information about impaired loans at June 30, 2017 and December 31, 2016 (in thousands):

	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment	Interest income recognized
June 30, 2017					
Without an allowance recorded					
SBA non real estate	\$ 367	\$ 367	\$ -	\$ 247	\$ -
SBA commercial mortgage	-	-	-	-	-
Direct lease financing	-	-	-	-	-
Consumer - other	-	-	-	-	-
Consumer - home equity	1,714	1,714	-	1,721	-
With an allowance recorded					
SBA non real estate	2,677	2,677	1,425	2,616	-
SBA commercial mortgage	908	908	141	606	-
Direct lease financing	606	606	143	675	-
Consumer - other	74	74	74	24	-
Consumer - home equity	-	-	-	-	-



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Total					
SBA non real estate	3,044	3,044	1,425	2,863	-
SBA commercial mortgage	908	908	141	606	-
Direct lease financing	606	606	143	675	-
Consumer - other	74	74	74	24	-
Consumer - home equity	1,714	1,714	-	1,721	-
	6,346	6,346	1,783	5,889	-

December 31, 2016

Without an allowance recorded

SBA non real estate	\$	191	\$	191	\$	-	\$	336	\$	-
Direct lease financing	-	-	-	-	-	-	-	-	-	-
Consumer - other	-	-	-	-	-	259	-	-	-	-
Consumer - home equity	1,730	-	1,730	-	-	1,187	-	-	-	-

With an allowance recorded

SBA non real estate	2,183	-	2,183	938	1,277	-
Direct lease financing	734	-	734	216	147	-
Consumer - other	-	-	-	-	-	-
Consumer - home equity	-	-	-	-	549	-
Total						
SBA non real estate	2,374	-	2,374	938	1,613	-
Direct lease financing	734	-	734	216	147	-
Consumer - other	-	-	-	-	259	-
Consumer - home equity	1,730	-	1,730	-	1,736	-
	4,838	-	4,838	1,154	3,755	-

The following tables summarize the Company's non-accrual loans, loans past due 90 days and still accruing and other real estate owned for the periods indicated (the Company had no non-accrual leases at June 30, 2017 or December 31, 2016) (in thousands):

		June 30, 2017		December 31, 2016
Non-accrual loans				
SBA non real estate	\$	2,704	\$	1,530
SBA commercial mortgage	908	-	-	-

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Consumer	1,503	1,442		
Total non-accrual loans	5,115	2,972		
Loans past due 90 days or more	494	661		
Total non-performing loans	5,609	3,633		
Other real estate owned	-	104		
Total non-performing assets	\$	5,609	\$	3,737

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The Company's loans that were modified as of June 30, 2017 and December 31, 2016 and considered troubled debt restructurings are as follows (dollars in thousands):

	June 30, 2017			December 31, 2016		
	Number	Pre-modification recorded investment	Post-modification recorded investment	Number	Pre-modification recorded investment	Post-modification recorded investment
SBA non real estate	4	\$ 1,088	\$ 1,088	2	\$ 844	\$ 844
Direct lease financing	1	606	606	1	734	734
Consumer	1	285	285	1	288	288
Total	6	\$ 1,979	\$ 1,979	4	\$ 1,866	\$ 1,866

The balances below provide information as to how the loans were modified as troubled debt restructurings loans as of June 30, 2017 and December 31, 2016 (in thousands):

	June 30, 2017			December 31, 2016		
	Adjusted interest rate	Extended maturity	Combined rate and maturity	Adjusted interest rate	Extended maturity	Combined rate and maturity
SBA non real estate	\$ -	\$ 144	\$ 944	\$ -	\$ 144	\$ 700
Direct lease financing	-	-	606	-	-	734
Consumer	-	-	285	-	-	288
Total	\$ -	\$ 144	\$ 1,835	\$ -	\$ 144	\$ 1,722

The following table summarizes, as of June 30, 2017, loans that had been restructured within the last 12 months that have subsequently defaulted.

	Number	Pre-modification recorded investment
SBA non real estate	2	\$ 750
Total	2	\$ 750



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As of June 30, 2017 and December 31, 2016, the Company had no commitments to lend additional funds to loan customers whose loan terms have been modified in troubled debt restructurings.

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

	SBA non real estate	SBA commercial mortgage	SBA construction	Direct lease financing	SBLOC	Other specialty lending	Other c loans
June 30, 2017							
Beginning balance	\$ 1,976	\$ 737	\$ 76	\$ 1,994	\$ 315	\$ 32	\$
Charge-offs	(136)	-	-	(201)	-	-	(17)
Recoveries	2	-	-	-	-	-	23
Provision (credit)	1,180	292	(6)	(291)	44	112	64
Ending balance	\$ 3,022	\$ 1,029	\$ 70	\$ 1,502	\$ 359	\$ 144	\$
Ending balance: Individually evaluated for impairment	\$ 1,425	\$ 141	\$ -	\$ 143	\$ -	\$ -	\$
Ending balance: Collectively evaluated for impairment	\$ 1,597	\$ 888	\$ 70	\$ 1,359	\$ 359	\$ 144	\$
Loans: Ending balance	\$ 74,511	\$ 126,224	\$ 11,057	\$ 371,002	\$ 718,707	\$ 44,389	\$

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Ending  
balance:  
Individually  
evaluated  
for  
impairment \$ 3,044 \$ 908 \$ - \$ 607 \$ - \$ - \$

Ending  
balance:  
Collectively  
evaluated  
for  
impairment \$ 71,467 \$ 125,316 \$ 11,057 \$ 370,395 \$ 718,707 \$ 44,389 \$