OBSTLER DAVID M
Form 4
April 12, 2012

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person [*]
OBSTLER DAVID M

(Last) (First) (Middle)

MSCI INC., ONE CHASE MANHATTAN PLAZA, 44TH FL

(Street)

NEW YORK, NY 10005

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
MSCI Inc. [MSCI]

3. Date of Earliest Transaction (Month/Day/Year)
04/10/2012

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Chief Financial Officer

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Class A Common Stock	04/10/2012 [(1)]		M		10,000	A	$ 6.62	43,695	D	
Class A Common Stock	04/10/2012 [(1)]		S		10,000	D	$ 36.41 [(2)]	33,695	D	
Class A Common Stock	04/12/2012 [(1)]		M		5,000	A	$ 6.62	38,695	D	
Class A Common	04/12/2012 [(1)]		S		5,000	D	$ 36	33,695	D	

Stock

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Option to purchase Class A Common Stock	$ 6.62	04/10/2012 (1)		M			10,000	(3)	01/28/2015	Class A Common Stock	10,000
Option to purchase Class A Common Stock	$ 6.62	04/12/2012 (1)		M			5,000	(3)	01/28/2015	Class A Common Stock	5,000

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
OBSTLER DAVID M MSCI INC. ONE CHASE MANHATTAN PLAZA, 44TH FL NEW YORK, NY 10005			Chief Financial Officer	

Signatures

/s/ David M. Obstler	04/12/2012
**Signature of Reporting Person	Date

Explanation of Responses:

*	If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).
**	Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
(1)	This transaction was made pursuant to a Rule 10b5-1 trading plan adopted by the Reporting Person on December 9, 2011.
(2)	This transaction was executed in multiple trades at prices ranging from $36.17 to $36.60. The price reported above reflects the weighted average purchase price. The Reporting Person hereby undertakes to provide upon request to the SEC staff, the issuer or the security holders of the issuer full information regarding the number of shares and prices at which each transaction was effected.
(3)	The options vested in four approximately equal installments on January 28, 2006, 2007, 2008 and 2009.
(4)	Following the transaction reported on this Form 4, the Reporting Person holds 253,887 vested options and 5,445 unvested options to acquire MSCI class A common stock. Please see the Form 4 filed by the Reporting Person on June 3, 2010 and the ownership amounts reported therein, as amended by subsequent Form 4 filings, for additional information on all classes of derivative securities beneficially owned by the Reporting Person.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. an;text-align:justify;text-justify:inter-ideograph;height:6.75pt;overflow: hidden;font-size:0pt;">

Pooled issue

Class

Book value

Fair value

Unrealized gain

Credit rating

Excess subordination

Pool A (7 performing issuers)

Mezzanine

$ 22

$ 22

$ -

CAA1

*

* There is no excess subordination for these securities.

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

Note 6. Loans

The Company has several lending lines of business including SBA loans, direct lease financing, SBLOC and other specialty and consumer lending. The Company also originates loans for sale to other financial institutions which issue commercial mortgage backed securities or to secondary government guaranteed loan markets. These sales are accounted for as true sales and there is no continuing involvement in these loans after the sale. Servicing rights on these loans are not retained. The Company has elected fair value treatment for these loans to better reflect the economics of the transactions. At June 30, 2016, the fair value of the loans held for sale was $441.6 million and the unpaid principal balance was $429.2 million. Included in the gain on sale of loans in the Statements of Operations were gains recognized from changes in fair value of $6.5 million for the six months ended June 30, 2016. There were no changes in fair value related to credit risk. Interest earned on loans held for sale during the period held are recorded in Interest Income-Loans, including fees on the Statements of Operations.

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In the second quarter of 2016, the Company purchased approximately $60 million in fleet vehicle leases which resulted in a customer list intangible of $1.8 million which is being amortized over a 12 year period. The balance of the $8.9 million purchase price was allocated to premium which is being amortized over the estimated average lives of the leases. The Company expects to complete its accounting for this purchase by the fourth quarter of 2016.

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

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

	June 30, 2016		December 31, 2015	
SBA non real estate	$	71,596	$	68,887
SBA commercial mortgage	116,617		114,029	
SBA construction	3,751		6,977	
SBA loans *	191,964		189,893	
Direct lease financing	315,639		231,514	
SBLOC	607,017		575,948	
Other specialty lending	40,543		48,315	
Other consumer loans	20,005		23,180	
	1,175,168		1,068,850	
Unamortized loan fees and costs	6,938		9,227	
Total loans, net of deferred loan costs	$	1,182,106	$	1,078,077

Included in the table above are demand deposit overdrafts reclassified as loan balances totaling $1.9 million and $2.8 million at June 30, 2016 and December 31, 2015, respectively. Overdraft charge-offs and recoveries are reflected in the allowance for loan and lease losses.

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

	June 30, 2016		December 31, 2015	
SBA loans, including deferred fees and costs	$	197,544	$	197,966
SBA loans included in held for sale	136,660		109,174	
Total SBA loans	$	334,204	$	307,140

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

	Recorded investment		Unpaid principal balance		Related allowance		Average recorded investment		Interest income recognized	
June 30, 2016										
Without an allowance recorded										
SBA non real estate	$	259	$	259	$	-	$	261	$	-
Consumer - other	323		323		-		326		-	
Consumer - home equity	1,274		1,274		-		881		-	
With an allowance recorded									-	
SBA non real estate	945		945		258		711		-	
Consumer - other	-		-		-		-		-	
Consumer - home equity	827		927		474		639		-	
Total										

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SBA non real estate	1,204	1,204	258	972	-
Consumer - other	323	323	-	326	-
Consumer - home equity	2,101	2,201	474	1,520	-

December 31, 2015					
Without an allowance recorded					
SBA non real estate	$ 263	$ 263	$ -	$ 228	$ -
Consumer - other	330	330	-	338	-
Consumer - home equity	368	368	-	966	-
With an allowance recorded					
SBA non real estate	640	640	123	670	-
Consumer - other	-	-	-	-	-
Consumer - home equity	827	927	26	800	-
Total					
SBA non real estate	903	903	123	898	-
Consumer - other	330	330	-	338	-
Consumer - home equity	1,195	1,295	26	1,766	-

The following tables summarize the Company’s non-accrual loans, loans past due 90 days and still accruing and other real estate owned for the periods indicated (the Company had no non-accrual leases at June 30, 2016 or December 31, 2015) (in thousands):

	June 30, 2016	December 31, 2015

Non-accrual loans				
SBA non real estate	$	1,047	$	733
Consumer	2,100		1,194	
Total non-accrual loans	3,147		1,927	
Loans past due 90 days or more	3,172		403	
Total non-performing loans	6,319		2,330	
Other real estate owned	-		-	
Total non-performing assets	$	6,319	$	2,330

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

	June 30, 2016					December 31, 2015				
	Number	Pre-modification recorded investment		Post-modification recorded investment		Number	Pre-modification recorded investment		Post-modification recorded investment	
SBA non real estate	2	$	416	$	416	1	$	171	$	171
Consumer	2	427		427		2	434		434	
Total	4	$	843	$	843	3	$	605	$	605

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

	June 30, 2016			December 31, 2015		
	Adjusted interest rate	Extended maturity	Combined rate and maturity	Adjusted interest rate	Extended maturity	Combined rate and maturity
SBA non real estate	$ -	$ 157	$ 259	$ -	$ 171	$ -
Consumer	-	323	104	-	330	104
Total	$ -	$ 480	$ 363	$ -	$ 501	$ 104

The following table summarizes as of June 30, 2016 loans that had been restructured within the last 12 months that have subsequently defaulted.

	Number	Pre-modification recorded investment
Consumer	1	$ 323
Total	1	$ 323

As of June 30, 2016 and December 31, 2015, the Company had no commitments to lend additional funds to loan customers whose loan terms have been modified in troubled debt restructurings.

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

	SBA non real estate	SBA commercial mortgage	SBA construction	Direct lease financing	SBLOC	Other specialty lending
June 30, 2016						
Beginning balance	$ 844	$ 408	$ 48	$ 1,022	$ 762	$ 199
Charge-offs	-	-	-	(50)	-	-
Recoveries	1	-	-	10	-	-
Provision (credit)	374	211	(22)	735	(330)	(89)

Ending balance	$ 1,219	$ 619	$ 26	$ 1,717	$ 432	$ 110
Ending balance: Individually evaluated for impairment	$ 121	$ -	$ -	$ -	$ -	$ -
Ending balance: Collectively evaluated for impairment	$ 1,098	$ 619	$ 26	$ 1,717	$ 432	$ 110
Loans: Ending balance	$ 71,596	$ 116,617	$ 3,751	$ 315,639	$ 607,017	$ 40,54
Ending balance: Individually evaluated for impairment	$ 808	$ -	$ -	$ -	$ -	$ -

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Ending balance: Collectively evaluated for impairment	$	70,788	$	116,617	$	3,751	$	315,639	$	607,017	$	40,54
December 31, 2015												
Beginning balance	$	385	$	461	$	114	$	836	$	562	$	66
Charge-offs	(111)		-		-		(30)		-		-	
Recoveries	-		-		-		-		-		-	
Provision (credit)	570		(53)		(66)		216		200		133	
Ending balance	$	844	$	408	$	48	$	1,022	$	762	$	199
Ending balance: Individually evaluated for impairment	$	123	$	-	$	-	$	-	$	-	$	-
Ending balance: Collectively evaluated for impairment	$	721	$	408	$	48	$	1,022	$	762	$	199
Loans: Ending balance	$	68,887	$	114,029	$	6,977	$	231,514	$	575,948	$	48,31
Ending balance: Individually evaluated for impairment	$	904	$	-	$	-	$	-	$	-	$	-
Ending balance: Collectively	$	67,983	$	114,029	$	6,977	$	231,514	$	575,948	$	48,31

evaluated for impairment

June 30, 2015						
Beginning balance	$ 385	$ 461	$ 114	$ 836	$ 562	$ 66
Charge-offs	(65)	-	-	(9)	-	-
Recoveries	-	-	-	-	-	-
Provision (credit)	576	(159)	(23)	41	112	21
Ending balance	$ 896	$ 302	$ 91	$ 868	$ 674	$ 87
Ending balance: Individually evaluated for impairment	$ 242	$ -	$ -	$ -	$ -	$ -
Ending balance: Collectively evaluated for impairment	$ 654	$ 302	$ 91	$ 868	$ 674	$ 87
Loans: Ending balance	$ 63,390	$ 85,234	$ 16,977	$ 222,169	$ 512,269	$ 32,118

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Ending balance: Individually evaluated for impairment	$	976	$	-	$	-	$	-	$	-	$	-
Ending balance: Collectively evaluated for impairment	$	62,414	$	85,234	$	16,977	$	222,169	$	512,269	$	32,118

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

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

June 30, 2016	30-59 Days past due		60-89 Days past due		Greater than 90 days		Non-accrual		Total past due		Current	
SBA non real estate	$	-	$	-	$	-	$	1,046	$	1,046	$	70,5
SBA commercial mortgage	-		-		-		-		-		116,617	
SBA construction	-		-		-		-		-		3,751	
Direct lease financing	5,880		3,021		2,882		-		11,783		303,856	
SBLOC	-		190		-		-		190		606,827	
Other specialty lending	-		-		-		-		-		40,543	
Consumer - other	325		-		-		-		325		5,145	
Consumer - home equity	162		-		290		2,101		2,553		11,982	
Unamortized loan fees and costs	-		-		-		-		-		6,938	

	$ 6,367	$ 3,211	$ 3,172	$ 3,147	$ 15,897	$ 1,166,2

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

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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):

June 30, 2016	Pass	Special mention	Substandard	Doubtful	Loss	Unrated subject to review *	Unrat to rev
SBA non real estate	$ 56,744	$ -	$ 2,194	$ -	$ -	$ 375	$
SBA commercial mortgage	96,364	-	-	-	-	735	19,51
SBA construction	3,751	-	-	-	-	-	-
Direct lease financing	101,701	-	939	-	-	43,262	169,7
SBLOC	257,473	-	-	-	-	18,941	330,6
Other specialty lending	38,787	-	-	-	-	-	1,756
Consumer	11,567	-	3,884	-	-	-	4,554
Unamortized loan fees and costs	-	-	-	-	-	-	6,938
	$ 566,387	$ -	$ 7,017	$ -	$ -	$ 63,313	$
December 31, 2015							
SBA non real estate	$ 55,682	$ -	$ 904	$ -	$ -	$ 8,610	$
SBA commercial mortgage	92,859	-	-	-	-	3,894	17,27
SBA construction	6,977	-	-	-	-	-	-
Direct lease financing	90,588	-	670	-	-	17,200	123,0
SBLOC	204,201	-	-	-	-	19,372	352,3
Other specialty lending	46,520	-	-	-	-	-	1,795
Consumer	7,631	70	3,473	-	-	457	11,54
Unamortized loan fees and costs	-	-	-	-	-	-	9,227
	$ 504,458	$ 70	$ 5,047	$ -	$ -	$ 49,533	$

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

Note 7. Transactions with Affiliates

The Company entered into a space sharing agreement for office space in New York, New York with Resource America, Inc. commencing in September 2011 which terminated January 31, 2015. The Company paid only its proportionate share of the lease rate to a lessor which was an unrelated third party. The 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, Inc. is the brother of the Chairman of the Board and the son of the former Chief Executive Officer of the Company. Rent expense was 50% of the fixed rent, real estate tax and the base expense charges. Rent expense was $0 for the six months ended June 30, 2016 and $9,000 for the six months ended June 30, 2015.

The Company entered into a space sharing agreement for office space in New York, New York with Atlas Energy, L.P. commencing in May 2012. This agreement expired in May 2015. The Company paid only its proportionate share of the lease rate to a lessor which was an unrelated third party. The Chairman of the Board of the general partner of Atlas Energy, L.P. is the brother of the Chairman of the Board and the son of the former Chief Executive Officer of the Company. The Chief Executive Officer and President of Atlas Energy, L.P. is the father of the Chairman of the Board and the spouse of the former Chief Executive Officer of the Company. Rent expense was 50% of the fixed rent, real estate tax payment and the base expense charges. Rent expense was $0 and $35,000 for the six months ended June 30, 2016 and 2015, respectively.

The Bank maintains deposits for various affiliated companies totaling approximately $5.5 million and $33.4 million as of June 30, 2016 and December 31, 2015, respectively.

The Bank has entered into lending transactions in the ordinary course of business with directors, executive officers, principal stockholders and affiliates of such persons. All loans were made on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable loans with persons not related to the lender. At June 30, 2016, these loans were current as to principal and interest payments and did not involve more than normal risk of collectability. Loans to these related parties included in Loans, net of deferred loan fees and costs, amounted to $1.5 million at June 30, 2016 and $1.8 million at December 31, 2015.

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

are full faith and credit obligations of the United States government issued at competitive rates. JVB was in compliance with all of the terms of the agreements at June 30, 2016 and had complied with all terms for all prior repurchase agreements. There were $39.4 million of repurchase agreements outstanding at June 30, 2016 and none outstanding at December 31, 2015.

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

Note 8. Fair Value Measurements

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

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

Cash and cash equivalents, which are comprised of cash and due from banks, the Company's balance at the Federal Reserve Bank and securities purchased under agreements to resell, had recorded values of $571.5 million and $1.16 billion as of June 30, 2016 and December 31, 2015, respectively, which approximated fair values.

The estimated fair values of investment securities are based on quoted market prices, if available, or estimated using a methodology based on management's inputs. The fair values of the Company's investment securities held-to-maturity and loans held for sale are based on using "unobservable inputs" that are the best information available in the circumstances. Level 3 investment securities fair values are based on the present value of cash flows, which discounts expected cash flows from principal and interest using yield to maturity at the measurement date.

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

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

The net loan portfolio at June 30, 2016 and December 31, 2015 has been valued using the present value of discounted cash flow where market prices were not available. The discount rate used in these calculations is the estimated current market rate adjusted for credit risk. Accrued interest receivable has a carrying value that approximates fair value

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

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

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

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

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

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

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

	June 30, 2016				
	Carrying amount (in thousands)	Estimated fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investment securities available-for-sale	$ 1,328,693	$ 1,328,693	$ -	$ 1,328,693	$ -
	93,537	91,467	-	85,792	5,675

Investment securities held-to-maturity					
Securities purchased under agreements to resell	39,360	39,360	39,360	-	-
Federal Home Loan and Atlantic Community Bancshares stock	12,289	12,289	-	-	12,289
Commercial loans held for sale	441,593	441,593	-	-	441,593
Loans, net of deferred loan fees and costs	1,182,106	1,177,930	-	-	1,177,930
Investment in unconsolidated entity, senior note	155,009	155,009	-	-	155,009
Investment in unconsolidated entity, subordinated note	7,266	7,266	-	-	7,266
Assets held for sale	487,373	487,373	-	-	487,373
Demand and interest checking	3,569,669	3,569,669	3,569,669	-	-
Savings and money market	389,851	389,851	389,851	-	-
Time deposits	101,160	101,197	-	-	101,197
Subordinated debentures	13,401	8,785	-	-	8,785
Securities sold under agreements to repurchase	318	318	318	-	-
Interest rate swaps, liability	6,351	6,351	-	6,351	-

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	December 31, 2015				
	Carrying amount (in thousands)	Estimated fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investment securities available-for-sale	$ 1,070,098	$ 1,070,098	$ -	$ 1,070,098	$
Investment securities held-to-maturity	93,590	91,599	7,490	76,552	7,557
Federal Home Loan and Atlantic Community Bancshares stock	1,062	1,062	-	-	1,062
Commercial loans held for sale	489,938	489,938	-	-	489,938
Loans, net of deferred loan fees and costs	1,078,077	1,068,718	-	-	1,068,718
Investment in unconsolidated entity, senior note	166,548	166,548	-	-	166,548
Investment in unconsolidated entity, subordinated note	11,972	11,972	-	-	11,972
Assets held for sale	583,909	583,909	-	-	583,909
Demand and interest checking	3,602,376	3,602,376	3,602,376	-	-
Savings and money market	383,832	383,832	383,832	-	-
Time deposits	428,549	428,711	-	-	428,711
Subordinated debentures	13,401	8,529	-	-	8,529
Securities sold under agreements to repurchase	925	925	925	-	-
Interest rate swaps, asset	43	43	-	43	-

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

	Fair value June 30, 2016	Fair Value Measurements at Reporting Date Using Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investment securities available for sale				
U.S. Government agency securities	$ 27,256	$ -	$ 27,256	$
Federally insured student loan securities	126,396	-	126,396	-
Obligations of states and political subdivisions	145,116	-	145,116	-
Residential mortgage-backed securities	561,478	-	561,478	-
Commercial mortgage-backed securities	61,196	-	61,196	-
Collateralized loan obligation securities	239,296	-	239,296	-
Foreign debt securities	49,324	-	49,324	-
Other debt securities	118,631	-	118,631	-
Total investment securities available for sale	1,328,693	-	1,328,693	-
Loans held for sale	441,593	-	-	441,593
Investment in unconsolidated entity, senior note	155,009	-	-	155,009
Investment in unconsolidated entity, subordinated note	7,266	-	-	7,266
Assets held for sale	487,373	-	-	487,373
Interest rate swaps, liability	6,351	-	6,351	-

$	2,413,583	$	-	$	1,322,342	$	1,09

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	Fair value December 31, 2015	Fair Value Measurements at Reporting Date Using Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investment securities available for sale				
U.S. Government agency securities	$ 29,238	$ -	$ 29,238	$
Federally insured student loan securities	115,149	-	115,149	-
Obligations of states and political subdivisions	194,859	-	194,859	-
Residential mortgage-backed securities	450,107	-	450,107	-
Commercial mortgage-backed securities	58,303	-	58,303	-
Collateralized loan obligation securities	70,492	-	70,492	-
Foreign debt securities	57,132	-	57,132	-
Other debt securities	94,818	-	94,818	-
Total investment securities available for sale	1,070,098	-	1,070,098	-
Loans held for sale	489,938	-	-	489,938
Investment in unconsolidated entity, senior note	166,548	-	-	166,548
Investment in unconsolidated entity, subordinated note	11,972	-	-	11,972
Assets held for sale	583,909	-	-	583,909
Interest rate swaps, asset	43	-	43	-
	$ 2,322,508	$ -	$ 1,070,141	$ 1,25

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

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	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)						
	Available-for-sale securities				Commercial loans held for sale		
	June 30, 2016		December 31, 2015		June 30, 2016		December 31, 20
Beginning balance	$	-	$	1,366	$	489,938	$
Transfers into level 3	-		-		-		-
Transfers out of level 3	-		-		-		-
Total gains or losses (realized/unrealized)							
Included in earnings	-		(23)		6,457		1,677
Included in other comprehensive income	-		-		-		-
Purchases, issuances, and settlements							
Purchases	-		-		-		-
Issuances	-		-		263,473		681,526
Sales	-		(1,343)		(318,275)		(410,345)
Settlements	-		-		-		-
Ending balance	$	-	$	-	$	441,593	$
The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at the reporting date.	$	-	$	-	$	7,711	$

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	Investment in unconsolidated entity			
	June 30, 2016		December 31, 2015	
Beginning balance	$	178,520	$	193,595

Transfers into level 3	-		-	
Transfers out of level 3	-		-	
Total gains or losses (realized/unrealized)				
Included in earnings	(14,753)		(2,430)	
Included in other comprehensive income	-		-	
Purchases, issuances, and settlements				
Purchases	-		-	
Issuances	-		-	
Sales	-		-	
Settlements	(1,492)		(12,645)	
Ending balance	$	162,275	$	178,520
The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at the reporting date.	$	(14,753)	$	(2,430)

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

		Fair Value Measurements at Reporting Date Using		
Description	Fair value June 30, 2016	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs * (Level 3)
Impaired loans - collateral dependent	$ 3,628	$ -	$ -	$ 3,628
Intangible assets	6,074	-	-	6,074
	$ 9,702	$ -	$ -	$ 9,702

		Fair Value Measurements at Reporting Date Using		
Description	Fair value December 31, 2015	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs * (Level 3)
Impaired loans - collateral dependent	$ 2,428	$ -	$ -	2,428
Intangible assets	4,929	-	-	4,929
	$ 7,357	$ -	$ -	$ 7,357

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

At June 30, 2016, impaired loans and troubled debt restructuring that are measured based on the value of underlying collateral have been presented at their fair value, less costs to sell, of $3.9 million through specific reserves and other write downs of $732,000 or by recording charge-offs when the carrying value exceeds the fair value. Included in the impaired balance at June 30, 2016 were four troubled debt restructured loans with a balance of $843,000 which had specific reserves of $39,000. Valuation techniques consistent with the market and/or cost approach were used to measure fair value and primarily included observable inputs for the individual impaired loans being evaluated such as recent sales of similar assets or observable market data for operational or carrying costs. In cases where such inputs were unobservable, the loan balance is reflected within the Level 3 hierarchy. The fair value of other real estate owned is based on an appraisal of the property using the market approach for valuation.

Note 9. Derivatives

The Company utilizes derivative instruments to assist in the management of interest rate sensitivity by modifying the repricing, maturity and option characteristics on commercial real estate loans held for sale. These instruments are not accounted for as hedges. As of June 30, 2016, the Company had entered into nineteen interest rate swap agreements with an aggregate notional amount of $120.6 million. These swap agreements provide for the Company to receive an adjustable rate of interest based upon the three-month London Interbank Offering Rate (LIBOR). The Company recorded a loss of $6.4 million for the six months ended June 30, 2016 to recognize the fair value of the derivative instruments which is reported in gain (loss) on sale of loans. The amount payable by the Company under these swap agreements was $6.4 million at June 30, 2016 which is reported in other liabilities. The Company had minimum collateral posting thresholds with certain of its derivative counterparties and had posted cash collateral of $7.2 million as of June 30, 2016.

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

Maturity date	June 30, 2016 Notional amount	Interest rate paid	Interest rate received	Fair value
May 9, 2021	$ 3,400	1.2%	0.63%	$ (33)
August 17, 2025	4,000	2.3%	0.63%	(335)
August 17, 2025	2,500	2.3%	0.63%	(209)
August 17, 2025	2,500	2.3%	0.63%	(209)
October 7, 2025	3,200	2.1%	0.63%	(208)
November 27, 2025	1,700	2.1%	0.67%	(118)
December 11, 2025	2,400	2.1%	0.66%	(173)
December 15, 2025	5,300	2.1%	0.65%	(367)
December 17, 2025	3,300	2.2%	0.66%	(252)
December 23, 2025	6,800	2.2%	0.64%	(504)
December 24, 2025	8,200	2.2%	0.64%	(621)
December 29, 2025	9,900	2.2%	0.63%	(777)
December 30, 2025	14,800	2.2%	0.63%	(1,141)
January 28, 2026	3,000	1.9%	0.63%	(144)
March 10, 2026	1,200	1.7%	0.66%	(37)
March 29, 2026	1,700	1.7%	0.63%	(60)
April 18, 2026	12,500	1.7%	0.63%	(343)
April 18, 2026	6,600	1.7%	0.63%	(188)
June 8, 2026	27,600	1.6%	0.66%	(632)
Total	$ 120,600			$ (6,351)

Note 10. Other Identifiable Intangible Assets

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

The Company accounts for its customer list in accordance with ASC 350, "Intangibles—Goodwill and Other". The acquisition of the Stored Value Solutions division of Marshall Bank First in 2007 resulted in a customer list intangible of $12.0 million which is being amortized over a 12 year period. Amortization expense is $1.0 million per year ($3.9 million over the next five years). The gross carrying amount of the customer list intangible is $12.0 million and as of June 30, 2016 the accumulated amortization was $8.5 million. For both 2016 and 2015, amortization expense for the second quarter was $250,000 and for the six months was $500,000. In the second quarter of 2016, the Company purchased approximately $60 million in fleet vehicle leases which resulted in a customer list intangible of $1.8 million which is being amortized over a 12 year period. Amortization expense is $176,000 per year ($880,000 over the next five years). The Company preliminarily allocated the $1.8 million to the customer list and expects to complete its accounting for this purchase by the fourth quarter of 2016. Until completion, the above allocation of purchase price is considered preliminary. The gross carrying amount of the customer list intangible is $1.8 million and as of June 30, 2016 and the accumulated amortization was $49,000. For 2016, amortization expense for the second quarter was $49,000 and for the six months was $49,000.

Note 11. Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, “Revenue from Contracts with Customers”. This ASU establishes a comprehensive revenue recognition standard for virtually all industries in U.S. GAAP, including those that previously followed industry-specific guidance such as the real estate and construction industries. The revenue standard’s core principle is built on

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the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this, the standard requires five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) identify the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, (v) recognize revenue when (or as) the entity satisfies the performance obligation. Three basic transition methods are available - full retrospective, retrospective with certain practical expedients, and a cumulative effect approach. Under the cumulative effect alternative, an entity would apply the new revenue standard only to contracts that are incomplete under legacy U.S. GAAP at the date of initial application and recognize the cumulative effect of the new standard as an adjustment to the opening balance of retained earnings. The guidance in this ASU is effective for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2017. The Company does not expect this ASU to have a significant impact on its financial condition or results of operations.

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

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

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

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

Note 12. Regulatory Matters

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

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

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

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

Note 13. Legal

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

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

On June 30, 2016, the Company received written notice from the Internal Revenue Service that it will be conducting an audit of the Company's tax returns for the tax years 2012, 2013 and 2014. The audit has not yet begun.

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

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

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Note 14. Segment Financials

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

	For the three months ended June 30, 2016				
	Specialty finance (in thousands)	Payments	Corporate	Discontinued operations	Total
Interest income	$ 15,347	$ 0	$ 8,597	$ -	$ 23,944
Interest allocation	-	8,597	(8,597)	-	-
Interest expense	716	1,932	406	-	3,054
Net interest income	14,631	6,665	(406)	-	20,890
Provision for loan and lease losses	1,060	-	-	-	1,060
Non-interest income	(11,287) *	16,716	4,111	-	9,540
Non-interest expense	16,821	36,394	3,921	-	57,136
Income (loss) from continuing operations before taxes	(14,537)	(13,013)	(216)	-	(27,766)
Income tax benefit	-	-	(10,004)	-	(10,004)
Income (loss) from continuing operations	(14,537)	(13,013)	9,788	-	(17,762)
Loss from discontinued operations	-	-	-	(13,598)	(13,598)
Net income (loss)	$ (14,537)	$ (13,013)	$ 9,788	$ (13,598)	$ (31,360)

* Reflects writedown of investment in unconsolidated entity

	For the three months ended June 30, 2015				
	Specialty finance	Payments	Corporate	Discontinued operations	Total
	(in thousands)				
Interest income	$ 11,516	$ -	$ 8,856	$ -	$ 20,372
Interest allocation	-	8,856	(8,856)	-	-
Interest expense	1,265	1,860	210	-	3,335
Net interest income	10,250	6,996	(210)	-	17,037
Provision for loan and lease losses	510	-	-	-	510
Non-interest income	10,901	16,034	(2,211)	-	24,724
Non-interest expense	11,627	31,174	3,633	-	46,434
Income (loss) from continuing operations before taxes	9,015	(8,144)	(6,054)	-	(5,183)
Income tax benefit	-	-	(2,684)	-	(2,684)
Income (loss) from continuing operations	9,015	(8,144)	(3,370)	-	(2,499)
Income from discontinued operations	-	-	-	2,673	2,673
Net income (loss)	$ 9,015	$ (8,144)	$ (3,370)	$ 2,673	$ 174

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	For the six months ended June 30, 2016				
	Specialty finance (in thousands)	Payments	Corporate	Discontinued operations	Total
Interest income	$ 31,198	$ 1	$ 16,396	$ -	$ 47,595
Interest allocation	-	16,396	(16,396)	-	-
Interest expense	1,400	3,804	945	-	6,149
Net interest income	29,798	12,593	(945)	-	41,446
Provision	1,060	-	-	-	1,060
Non-interest income	(11,005) *	33,066	6,167	-	28,228
Non-interest expense	31,476	72,295	8,503	-	112,274
Income (loss) from continuing operations before taxes	(13,743)	(26,636)	(3,281)	-	(43,660)
Income taxes	-	-	(15,276)	-	(15,276)
Income (loss) from continuing operations	(13,743)	(26,636)	11,995	-	(28,384)
Income from discontinued operations	-	-	-	(13,888)	(13,888)
Net income (loss)	$ (13,743)	$ (26,636)	$ 11,995	$ (13,888)	$ (42,272)

* Reflects writedown of investment in unconsolidated entity

	For the six months ended June 30, 2015				
	Specialty finance (in thousands)	Payments	Corporate	Discontinued operations	Total
Interest income	$ 22,204	$ 10	$ 17,875	$ -	$ 40,089
Interest allocation	-	17,875	(17,875)	-	-
Interest expense	2,477	3,650	410	-	6,538
Net interest income	19,726	14,235	(410)	-	33,551
Provision	1,175	-	-	-	1,175
Non-interest income	14,914	32,772	(2,185)	-	45,501
Non-interest expense	22,076	57,153	8,065	-	87,294
Income (loss) from continuing operations before taxes	11,389	(10,145)	(10,661)	-	(9,417)
Income taxes	-	-	(5,111)	-	(5,111)
Income (loss) from continuing operations	11,389	(10,145)	(5,550)	-	(4,306)
Income from discontinued	-	-	-	4,694	4,694

operations										
Net income (loss)	$	11,389	$	(10,145)	$	(5,550)	$	4,694	$	388

	June 30, 2016									
	Specialty finance		Payments		Corporate		Discontinued operations		Total	
	(in thousands)									
Total assets	$	1,790,227	$	35,809	$	2,088,366	$	487,373	$	4,401,775
Total liabilities	$	546,493	$	3,220,252	$	344,748	$	-	$	4,111,493

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

Note 15. Discontinued Operations

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

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

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Interest income	$ 5,327	$ 7,397	$ 11,146	$ 15,932
Interest expense	-	-	-	-
Provision for loan and lease losses	-	-	-	-
Net interest income after provision	5,327	7,397	11,146	15,932
	51	2,288	103	2,336

Non interest income								
Non interest expense	21,592		5,588		27,832		11,072	
Income (loss) before taxes	(16,214)		4,097		(16,583)		7,196	
Income tax (benefit) provision	(2,616)		1,424		(2,695)		2,502	
Net income (loss)	$	(13,598)	$	2,673	$	(13,888)	$	4,694

	June 30, 2016 (in thousands)		December 31, 2015	
Loans, net	$	471,067	$	568,748
Other assets	16,306		15,161	
Total assets	$	487,373	$	583,909

Based upon an independent third party review, the Company marked the commercial lending portfolio in discontinued operations to lower of cost or market. The third party reviewed the majority of the credit portfolio and determined fair value for each specific loan that was reviewed. Based on that review, weighted average fair values were applied to the loans not specifically reviewed. The results of discontinued operations do not include any future severance payments. Of the approximately $1.1 billion in book value of loans in that portfolio as of the September 30, 2014 date of discontinuance of operations, $471.1 million of loans remain in assets held for sale on the balance sheet, reflecting related sales and paydowns. The Company is attempting to sell those remaining loans. Additionally, the balance sheet reflects $162.3 million in investment in unconsolidated entity, which is comprised of notes owned by the Company as a result of the sale of certain discontinued loans to Walnut Street, see Note 8, Fair Value Measurements.

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

Measured on a recurring basis	Valuation techniques	Significant unobservable inputs	Range
Large balance commercial loans	Discounted cash flows	Discount rate	3.29% - 9.04%
Small balance commercial loans	Discounted cash flows	Discount rate	3.61% - 8.70%

Note 16. Subsequent Events

The Company evaluated its June 30, 2016 financial statements for subsequent events through the date the financial statements were issued. The Company is not aware of any subsequent events which would require recognition or disclosure in the financial statements, not otherwise disclosed herein.

On July 27, 2016 the Company and all other individually-named defendants entered into a Stipulation and Agreement of Settlement (Settlement Agreement) with respect to the consolidated class action. Under the terms of the Settlement Agreement, Bancorp will pay $17.5 million to the plaintiffs as full and complete settlement of the litigation. All amounts paid by the Company will be fully funded by the Company's insurance carriers. All terms of the Settlement Agreement are subject to court approval.

On August 5, 2016, the Company entered into a Securities Purchase Agreement (the "Securities Purchase Agreement") with certain institutional and accredited investors (collectively, the "Investors"), pursuant to which the Company sold an aggregate of 7,560,000 shares of common stock at a purchase price of $4.50 per share, and 40,000 shares of a new series of preferred stock, Series C mandatorily convertible cumulative non-voting perpetual preferred stock, par value $0.01 per share, at a purchase price of $1,000 per share (the "Series C Preferred Stock"), in a private placement (the "Private Placement") for total consideration of approximately $74 million. The Company intends to use the net proceeds of the private placement transaction for general corporate purposes.

The Series C Preferred Stock ranks senior to the Company's common stock with respect to payment of dividends and distribution of amounts upon liquidation, dissolution or winding up. Each share of Series C Preferred Stock has a "Liquidation Preference" of $1,000. For the period beginning on and including October 1, 2016, but only to the extent that the Series C Preferred Stock remains outstanding, each share of the Series C Preferred Stock will bear a cash dividend, when and as authorized by the Board, equal to 12% per annum. Such dividends shall be cumulative from October 1, 2016 and shall be payable quarterly in arrears, provided, however that the Company may neither declare nor pay any such dividends from and after the date which is 180 days from the date of issuance of the Series C Preferred Stock without prior consultation with, and non-objection by, the Federal Reserve Bank of Philadelphia. If the Series C Preferred Stock is converted to Common Stock prior to October 1, 2016, then no dividends will be payable on the Series C Preferred Stock. The Series C Preferred Stock will automatically convert into shares of common stock following common stockholder approval. Each share of Series C Preferred Stock shall convert into that number of shares of common stock equal to (i) the sum of the Liquidation Value and all accrued and unpaid dividends thereon, divided by (ii) the conversion price of $4.50 per share, subject to certain adjustments.

In connection with the Private Placement, the Company entered into a registration rights agreement (the "Registration Rights Agreement"), with each of the Investors. Pursuant to the terms of the Registration Rights Agreement, the Company agreed to file a resale registration statement by no later than October 15, 2016 for the purpose of registering the resale of the shares of common stock issued in the Private Placement and the underlying shares of common stock into which the shares of Series C Preferred Stock are convertible. Pursuant to the Registration Rights Agreement, the Company has agreed to use commercially reasonable efforts to have such registration statement declared effective with the SEC as soon as practical, but not later than the 90th day following the closing of the Private Placement (or, in the event the SEC reviews and has written comments to the registration statement, the 120th calendar day following the closing of the Private Placement). In the event common stockholders do not vote to approve the conversion of the Series C Preferred Stock prior to the date that is the one year anniversary from the closing of the Private Placement, the Company will prepare and file one or more registration statements for the purpose of registering the resale of all of the Series C Preferred Stock by the holders thereof.

Pursuant to the terms of the Securities Purchase Agreement, prior to closing, two investors, will enter into side letter agreements with us. Under the terms of a side letter agreements, each investor will be entitled to have one representative appointed to the Board for so long as such investor, together with its respective affiliates, owns, in the aggregate, 4% or more of all of the outstanding shares of common stock. If the investor holds less than 4% of all of the outstanding shares of common stock, but 50% or more of their shares purchased in the Private Placement, then such investor will be entitled to have one representative attend all meetings of the Board as a nonvoting observer for so long as the investor, together with its respective affiliates, owns, in the aggregate, 50% or more of their shares purchased in the Private Placement.

The Company also entered into a subscription agreement dated as of August 5, 2016 (the “Subscription Agreement”) with certain of the Company’s directors and executive officers (the “Inside Investors”). Pursuant to the Subscription Agreement, the Inside Investors have agreed to purchase an aggregate of 1,025,000 shares of common stock at $4.50 per share, contingent upon the Company having obtained stockholder approval to convert the Series C Preferred Stock to common stock, and satisfaction of stock exchange rules. If these conditions are not satisfied, the Subscription Agreement will terminate and the Inside Investors will not acquire any shares of common stock.

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

Forward-Looking Statements

When used in this Form 10-Q, the words "believes" "anticipates" "expects" and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties more particularly described in Item 1A, under the caption "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2015 and in other of our public filings with the Securities and Exchange Commission. These risks and uncertainties could cause actual results to differ materially from those expressed or implied in this Form 10-Q. We caution readers not place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances after the date of this report except as required by applicable law.

In the following discussion we provide information about our results of operations, financial condition, liquidity and asset quality. We intend that this information facilitate your understanding and assessment of significant changes and trends related to our financial condition and results of operations. You should read this section in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operation" included in our Annual Report on Form 10-K for the year ended December 31, 2015.

Overview

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

In our banking operations, we focus on providing our services on a national basis to organizations with a pre-existing customer base who can use one or more selected banking services tailored to support or complement the services provided by these organizations to their customers. These services include private label banking; credit and debit card processing for merchants affiliated with independent service organizations; and prepaid cards, also known as stored value cards, for insurers, incentive plans, large retail chains and consumer service organizations. We typically provide these services under the name and through the facilities of each organization with whom we develop a relationship. We refer to this, generally, as affinity group banking. Our private label banking, merchant processing and prepaid card programs are a source of fee income and low-cost deposits. In Europe, we maintain three operational service subsidiaries and one subsidiary through which we offer prepaid card issuing services.

In the third quarter of 2014, we decided to discontinue our Philadelphia-based commercial lending operations. The loans which constitute that portfolio are in the process of disposition. This represents a strategic shift to a focus on our national specialty lending programs including small fleet leasing, SBLOC, CMBS origination and SBA lending. We anticipate using the proceeds from disposition to acquire investment securities and to provide liquidity to fund growth in our continuing specialty lending lines. Yields we obtain from reinvestment of the proceeds will be subject to economic and other conditions at the time of reinvestment, including market interest rates, many of which will be beyond our control. We cannot predict whether income resulting from the reinvestment of loans we hold for sale resulting from discontinued operations will match or exceed the amount from the sold loans. Of the approximately $1.1 billion in book value of loans in that portfolio as of the September 30, 2014 date of discontinuance of operations, $471.1 million of loans remain in assets held for sale on the balance sheet, reflecting related sales and paydowns. Additionally, the balance sheet reflects $162.3 million in investment in unconsolidated entity, which is comprised of notes owned by the Company as a result of the sale of certain discontinued loans. We have been exiting certain deposit accounts to reduce excess balances at the Federal Reserve Bank.

In second quarter 2016, as a result of quarterly third party valuations of loans in discontinued operations and in investment in unconsolidated entity, losses were recorded in both continuing and discontinued operations. The losses resulted primarily from three loan relationships. Contributing to the loss in continuing operations were continuing high Bank Secrecy Act, or BSA, related lookback expense. However, the consultant performing the BSA lookback completed its work in July 2016 and as a result we anticipate that our third and future quarterly expense should be significantly reduced. During the quarter, interest income continued to increase, reflecting growth in SBLOC, SBA, leasing and loans held for sale into secondary markets. Interest expense continued at historically low levels, reflecting the Federal Reserve’s continued maintenance of low rates. Non-interest income reflected the loss on the investment in unconsolidated entity and also included increases in prepaid card fees, the largest driver of fee income. Non-interest expense reflected the aforementioned BSA lookback expenses. On August 5, 2016, we entered into a Securities Purchase Agreement with certain institutional and accredited investors, pursuant to which we sold an aggregate of 7,560,000 shares of common stock at a purchase price of $4.50 per share, and 40,000 shares of a new series of preferred stock, Series C mandatorily convertible cumulative non-voting

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perpetual preferred stock, par value $0.01 per share, at a purchase price of $1,000 per share, in a private placement for total consideration of approximately $74 million. We intend to use the net proceeds of the private placement transaction for general corporate purposes (see "Note 16. Subsequent Events" to the financial statements). The Company's newly appointed Chief Executive Officer and a new management team are developing a plan which is seeking to significantly reduce non-interest expense. We expect to begin implementing the plan in the fourth quarter of 2016 with principal impact in 2017.

Critical Accounting Policies and Estimates

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

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

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

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

We periodically review our investment portfolio to determine whether unrealized losses on securities are temporary, based on evaluations of the creditworthiness of the issuers or guarantors, and underlying collateral, as applicable. In addition, we consider the continuing performance of the securities. We recognize credit losses through the income statement. If management believes market value losses are temporary and that we have the ability and intention to hold those securities to maturity, we recognize the reduction in other comprehensive income, through equity.

We account for income taxes under the liability method whereby we determine deferred tax assets and liabilities based on the difference between the carrying values on our financial statements and the tax basis of assets and liabilities as measured by the enacted tax rates which will be in effect when these differences reverse. Deferred tax expense (benefit) is the result of changes in deferred tax assets and liabilities. We currently use the tax expenses as calculated on year-to-date numbers, since small changes in annual estimates would have a significant change in the annual effective rate.

Financial Statement Restatement; Regulatory Actions

We have adjusted our financial statement presentation for items related to discontinued operations. Separately, we have restated our financial statements for periods from 2010 through September 30, 2014, the last date through which financial statements previously had been filed prior to our filing of our Annual Report on Form 10-K for the year ended December 31, 2014 in September 2015. 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,

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primarily in the third quarter, when commercial lending operations were discontinued. An additional $28.5 million of discontinued operations losses that were not previously reported were included within these periods. Also, $12.7 million of losses incurred in 2015 related to loans that were resolved before the issuance date of our financial statements and were reflected in our 2014 financial statements. Substantially all of the losses and corresponding restatement adjustments resulted from the discontinued commercial loan operations.

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

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

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

Until the Bank submits to the FDIC (and the FDIC approves) a BSA report summarizing the completion of its corrective actions, the 2014 Consent Order places some restrictions on certain activities: the Bank is restricted from signing and boarding new independent sales organizations, issuing new non-benefit related reloadable prepaid card programs, establishing new distribution channels for existing non-benefit reloadable prepaid card programs and originating Automated Clearing House transactions for new merchant-related payments. Until we receive the FDIC's approval, restrictions in these specific areas may potentially impact their growth. We do not believe that these restrictions will have a material impact on current revenue levels. The Bank has utilized one primary consultant related to its BSA-AML (Anti-Money Laundering) program refinement and one primary consultant related to conducting a lookback review of historical transactions to confirm that suspicious activity was properly identified and reported in accordance with applicable law. The primary consultant for the lookback performed services resulting in $27.7 million in billings and expense in the first six months of 2016. However, the consultant performing the BSA lookback completed its work in July 2016 and accordingly we expect that third quarter and future expense will be significantly reduced. Suspicious activity reports resulting from the lookback have been filed.

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

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

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

The 2015 Consent Order was based on FDIC allegations regarding electronic fund transfer, or EFT, error resolution practices, account termination practices and fee practices of various third parties with whom the Bank had previously provided, or currently provides, deposit-related products which we refer to as Third Parties. The specific operational practices of the third parties identified by the FDIC were the following: practices related to the termination of a third-party rewards program tied to deposit accounts, including the timing of the notice of termination, and the disclosure of the effects of such termination on the consumer’s ability to obtain unredeemed rewards;

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

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

Results of Operations

Second quarter 2016 to second quarter 2015

Net Income: Net loss from continuing operations for the second quarter of 2016 was $17.8 million, or $.47 per diluted share, compared to net loss of $2.5 million, or $.07 per diluted share for the second quarter of 2015. After discontinued operations, net loss for the second quarter of 2016 was $31.4 million compared to net income of $174,000 for the second quarter of 2015. The loss for the second quarter of 2016 reflected additional fair value marks based upon quarterly third party valuations for both loans held in discontinued operations and loans in the investment in unconsolidated entity in continuing operations. The majority of the loan charges resulted from three lending relationships. A $3.9 million increase in net interest income was more than offset by a $15.1 million decrease in non-interest income (excluding security gains) which reflected the aforementioned loan charges to investment in unconsolidated entity. Non-interest expense reflected an increase of $4.2 million in BSA lookback consulting expense, an increase of $6.5 million of other non-interest expense and a $550,000 increase in the provision for loan and lease losses. The BSA lookback consulting expense reflects the volume of transactions which must be analyzed and the increased manpower to do so. However, the consultant performing the lookback completed its work in July, 2016 and accordingly, we expect that third quarter and future expense will be significantly reduced. Suspicious activity reports resulting from the lookback have been filed. The $6.5 million increase in other non-interest expense reflected a $3.9 million increase in salaries expense, and reflected staff additions and related expense for increased BSA and other compliance functions, SBA loan production, institutional banking, leasing business development and internal audit. Non-interest income (excluding security gains) decreased $15.1 million in the second quarter of 2016 from $24.5 million in the second quarter of 2015, primarily reflecting a $15.0 million decrease in the value of our investment in unconsolidated entity as noted above. Net interest income increased to $20.9 million from $17.0 million primarily as a result of higher loan balances and yields. Net loss from discontinued operations was $13.6 million in second quarter 2016 compared to net income of $2.7 million for the second quarter of 2015. Diluted loss per share was $0.83 in second quarter 2016 compared to $0.00 earnings per share in the second quarter of 2015.

Net Interest Income: Our net interest income for second quarter 2016 increased to $20.9 million, an increase of $3.9 million or 22.6% from $17.0 million in second quarter 2015. Our interest income for second quarter 2016 increased to $23.9 million, an increase of $3.6 million or 17.5% from $20.4 million for second quarter 2015. The increase in interest income resulted primarily from higher loan balances and higher yields. Our average loans and leases increased to $1.48 billion for second quarter 2016 from $1.26 billion for second quarter 2015, while related interest income increased $3.8 million on a tax equivalent basis. The increase in average loans reflected the second quarter purchase of approximately $60 million of lease contracts. Our average investment securities decreased to $1.37 billion for second quarter 2016 from $1.51 billion for second quarter 2015 and, as a result, related tax equivalent interest income decreased $1.4 million on a tax equivalent basis. The decrease reflected the time required to reinvest the proceeds from the fourth quarter 2015 sale of our municipal portfolio and continuing loan demand which resulted in fewer investment purchases.

Our net interest margin (calculated by dividing net interest income by average interest earning assets) for second quarter 2016 increased to 2.73% from 2.23% in the second quarter of 2015, an increase of 50 basis points. The increase in the net interest margin reflected higher yields on loans and reduced balances of lower yielding deposits at the Federal Reserve Bank. In the first quarter of 2016, we exited certain higher cost deposit relationships which reduced excess balances at the Federal Reserve with a full quarter impact in second quarter 2016 averages.

In second quarter 2016, the average yield on our loans increased to 4.13% from 3.63% for second quarter 2015, an increase of 50 basis points. The increase in loan yields reflected a greater proportion of higher yielding loans originated for sale in secondary markets, and the impact of the December 2015, 25 basis point Federal Reserve Bank increase in overnight rates. Yields on taxable investment securities in second quarter 2016 increased to 2.40% compared to 2.00% for second quarter 2015, an increase of 40 basis points. The increase reflected the impact of the aforementioned 25 basis point Federal Reserve Bank rate increase. Yields on non-taxable investments were lower at 1.95% compared to 3.57%, respectively, a decrease of 162 basis points. The reduction reflected the sale of the vast majority of our tax exempt portfolio in the fourth quarter of 2015 for tax planning purposes to expedite the utilization of deferred tax assets. Average interest earning deposits at the Federal Reserve Bank decreased $601.9 million, or 63.4% to $348.2 million in second quarter 2016 from $950.0 million in second quarter 2015. The decrease reflected the full quarter impact of the first quarter 2016 exit of certain non strategic deposits to reduce excess Federal Reserve Bank balances which earn nominal rates. The interest cost of total deposits and interest bearing liabilities was relatively stable at 0.32% for second quarter 2016 compared to 0.30% in second quarter 2015.

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

	Three months ended June 30, 2016 Average Balance (dollars in thousands)	Interest	Average Rate	2015 Average Balance	Interest	Av Ra
Assets:						
Interest earning assets:						
Loans net of unearned fees and costs **	$ 1,458,980	$ 15,080	4.13%	$ 1,240,932	$ 11,258	3.6
Leases - bank qualified*	20,603	435	8.45%	24,023	424	7.0
Investment securities-taxable	1,317,902	7,900	2.40%	982,332	4,906	2.0
Investment securities-nontaxable*	55,271	270	1.95%	523,843	4,674	3.5
Interest earning deposits at Federal Reserve Bank	348,150	378	0.43%	950,019	557	0.2
Federal funds sold and securities purchased under agreement to resell	35,297	128	1.45%	44,280	158	1.4
Net interest earning assets	3,236,203	24,191	2.99%	3,765,429	21,977	2.3
Allowance for loan and lease losses	(4,313)			(4,234)		
Assets held for sale from discontinued operations	537,252	5,327	3.97%	679,581	7,397	4.3
Other assets	326,407			302,973		
	$ 4,095,549			$ 4,743,749		
Liabilities and shareholders' equity:						
Deposits:						
Demand and interest checking	$ 3,264,909	$ 2,397	0.29%	$ 4,080,804	$ 2,835	0.2
Savings and money market	390,889	379	0.39%	313,142	374	0.4
Time	27,842	39	0.56%	1,400	6	1.7
Total deposits	3,683,640	2,815	0.31%	4,395,346	3,215	0.2

Short-term borrowings	71,440		110		0.62%	-		-		0.0
Repurchase agreements	1,210		1		0.33%	5,167		4		0.3
Subordinated debt	13,401		128		3.82%	13,401		116		3.4
Total deposits and interest bearing liabilities	3,769,691		3,054		0.32%	4,413,914		3,335		0.3
Other liabilities	22,922					10,933				
Total liabilities	3,792,613					4,424,847				
Shareholders' equity	302,936					318,902				
	$	4,095,549				$	4,743,749			
Net interest income on tax equivalent basis *			$	26,464				$	26,039	
Tax equivalent adjustment			247					1,784		
Net interest income			$	26,217				$	24,255	
Net interest margin *					2.73%					2.2

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

For second quarter 2016, average interest earning assets decreased to $3.24 billion, a decrease of $529.2 million, or 14.1% from second quarter 2015. The decrease reflected decreased average balances of investment securities of $133.0 million or 8.8% and decreased average balances of $601.9 million of interest earning deposits at the Federal Reserve Bank, net of increases in average balances of

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loans and leases of $214.6 million or 17.0%. Average demand and interest checking deposits decreased $815.9 million or 20.0%, reflecting the deposit exits noted previously.

Provision for Loan and Lease Losses. Our provision for loan and lease losses was $1.1 million for the second quarter of 2016 compared to $510,000 for the second quarter of 2015. The $550,000 increase reflects the impact of the addition of the second quarter 2016 purchase of approximately $60 million of lease contracts and a reserve on a specific loan. The allowance for loan losses increased to $5.4 million or 0.46% of total loans at June 30, 2016, from $4.4 million or 0.41% of total loans at December 31, 2015. We believe that our allowance is adequate to cover expected losses For more information about our provision and allowance for loan and lease losses and our loss experience, see “Financial Condition-Allowance for loan and lease losses”, “-Net charge-offs,” and “-Non-performing loans, loans 90 days delinquent and still accruing, and troubled debt restructurings,” below and Note 6 to the financial statements.

Non-Interest Income. Non-interest income was $9.4 million in second quarter 2016 compared to $24.5 million in second quarter 2015 before gains on sale of investment securities of $124,000 in the second quarter of 2016 and $193,000 in the second quarter of 2015. The $15.1 million or 61.6% decrease between those respective periods reflected a $14.7 million charge against change in value of investment in unconsolidated entity (see “Loss on Discontinued Operations and Change in Value of Unconsolidated Entity.” below). The decrease also reflected a decrease in gain on sale of loans of $4.6 million or 77.3% to $1.3 million in second quarter 2016. . Gain (loss) on sale of loans and related expense result from the sale of commercial real estate loans to institutions which package such loans in secondary commercial mortgage backed securities markets. The decrease in second quarter 2016 reflected lower credit spreads which result in lower sales prices. Prepaid card fees increased by $2.4 million or 21.4% to $13.5 million for second quarter 2016. The increase reflected increased volumes and associated revenues attributable to that volume. Leasing income decreased $192,000 between those respective periods reflecting lower gains on disposition of leased vehicles in 2016 due to lower volume. Service fees on deposit accounts decreased $922,000 or 48.5% to $978,000 for second quarter 2016 from $1.9 million for second quarter 2015 due to the sale of the majority of our health savings accounts in the fourth quarter of 2015. Affinity fees increased $426,000 or 47.5% to $1.3 million for second quarter 2016 from $896,000 for second quarter 2015. The increase resulted from the growth in one affinity relationship. Other non-interest income increased $3.3 million or 323.3% to $4.3 million for second quarter 2016 from $1.0 million in second quarter 2015. The increase resulted from a gain on the sale of Visa Europe to Visa U.S.A., in which members of Visa Europe shared in the sales proceeds.

Non-Interest Expense. Total non-interest expense was $57.1 million for second quarter 2016, an increase of $10.7 million or 23.0% over $46.4 million for second quarter 2015. The increase included an increase of $4.2 million for BSA lookback consulting expenses, discussed previously. Salaries and employee benefits amounted to $21.3 million, an increase of $3.9 million or 22.6% over $17.4 million for second quarter 2015. The increase in salaries and employee benefits reflected staff additions and related expense for increased BSA and other compliance functions, SBA loan production, institutional banking, leasing business development and internal audit. Depreciation and amortization increased $76,000 or 6.4% to $1.3 million in second quarter 2016 from $1.2 million in second quarter 2015 which reflected increased depreciation costs related to leasehold improvements and equipment for staff additions and information technology upgrades. Rent and occupancy decreased $30,000 or 2.1% to $1.4 million in second quarter 2016 from $1.4 million in second quarter 2015. Data processing decreased $30,000 or 0.8% to $3.7 million in second quarter 2016 from $3.8 million in second quarter 2015 reflecting increased account and transaction volume. Printing and supplies increased $258,000 or 45.4% to $826,000 in second quarter 2016 from $568,000 in second quarter 2015, reflecting mailings related to service charge increases and other periodic communications with customers. Audit expense decreased $528,000 or 68.3% to $245,000 in second quarter 2016 from $773,000 in second quarter 2015 reflecting lower compliance audit expense and the transfer of certain audit functions in house. Legal expense increased $1.6 million or 243.1% to $2.2 million in second quarter 2016 from $648,000 in second quarter 2015 reflecting higher regulatory legal costs and fees associated with the purchase of $60 million of lease contracts. FDIC insurance expense decreased $421,000 or 15.3% to $2.3 million for second quarter 2016 from $2.8 million in second quarter 2015 reflecting the impact of decreased average deposits. Software expense increased $1.3 million or 85.0% to $2.8 million in second quarter 2016 from $1.5 million in second quarter 2015 reflecting additional information technology infrastructure to improve efficiency and scalability, including BSA software required to satisfy regulatory requirements. Insurance expense increased $53,000 or 10.6% to $554,000 in second quarter 2016 compared to $501,000 in second quarter 2015. The increase reflected higher coverages and increased premiums on other coverages. Telecom and IT network communications increased $175,000 or 42.5% to $587,000 in second quarter 2016 from $412,000 in second quarter 2015. Securitization and servicing expense decreased $195,000 or 52.3% to $178,000 for second quarter 2016 from $373,000 for second quarter 2015 as a result of the lower volume of actual sales in second quarter 2016 compared to second quarter 2015. Consulting increased $104,000 or 14.2% to $836,000 in second quarter 2016 from $732,000 in second quarter 2015. The increased expense reflected consulting for a more efficient loan processing system. Other non-interest expense increased $191,000 or 3.9% to $5.1 million in second quarter 2016 from $4.9 million in second quarter 2015. The increase reflected an increase of $208,000 in customer identification verification expense reflecting increased volume, which was offset by reductions in several categories.

Loss on Discontinued Operations and Change in Value of Unconsolidated Entity. The loss for the second quarter of 2016 reflected additional fair value marks based upon quarterly third party valuations for both loans held in discontinued operations and loans held through our investment in unconsolidated entity. Investment in unconsolidated entity resulted from the sale of discontinued loans to a securitization with an equity contribution by an independent third party investor. A $16.2 million pre-tax loss in discontinued operations and a $13.9 million change in value of investment in unconsolidated entity resulted primarily from three loan relationships. The largest impact was for a lending relationship for which the Bank held $5.0 million principal in discontinued operations and held $15.9 million

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of obligations in the investment in unconsolidated entity. The majority of the original loan balances within this relationship had previously been charged off. Remaining loan amounts were collateralized based upon an orderly disposition of the borrower which provides retail services. In the second quarter, projections indicated that cash flows might not be adequate to fund the company's operations in the near future. A plan for orderly disposition was not yet in place at the end of the second quarter and, as a result, the value of existing collateral was significantly discounted. The $5.0 million loan in discontinued operations was marked down by an additional $3.9 million and the $15.9 principal in investment in unconsolidated entity was written down by $9.3 million in addition to previous markdowns and charge-offs of $23.6 million. Another loan relationship, with a borrower which provides communications services, was primarily collateralized by its sales value in an orderly disposition. However, the company had not put into place cost reductions previously identified to provide adequate cash flow. As a result of ensuing overdrafts incurred during the second quarter and charged off by the Bank, it was concluded that the company might not cash flow adequately. While the company was in sales negotiations with a potential purchaser, an orderly disposition at prior collateral value became questionable. As a result, the loans in discontinued operations which totaled $6.9 million, were marked down by $3.5 million in addition to previous markdowns of $1.5 million. We will continue to aggressively pursue recoveries on these lending relationships. The third loan relationship represented loans totaling $18.5 million against a residential development. These loans had previously been marked down $4.9 million. In the second quarter, our third party loan workout specialist for these loans reported that the developer had not executed on a development plan for the property. Accordingly, the loans were marked down an additional $9.2 million to the appraised value of the land. Two unrelated loan relationships resulted in respective charges to the investment in unconsolidated subsidiary. The first was a charge for $3.4 million as a result of a second quarter 2016 forbearance agreement. The second was a charge for $2.0 million resulting from second quarter 2016 litigation resulting in the subordination of a property lien. The majority of that loan relationship had been previously charged off.

Income Taxes. Income tax benefit for continuing operations was $10.0 million for second quarter 2016 compared to $2.7 million in second quarter 2015. The increased tax benefit reflected the higher loss in the second quarter of 2016.

First six months 2016 to first six months 2015

Net Income: Net loss from continuing operations for the first six months of 2016 was $28.4 million, or $.75 per diluted share, compared to net loss of $4.3 million, or $.11 per diluted share for the first six months of 2015. After discontinued operations, net loss for the first six months of 2016 was $42.3 million compared to net income of $388,000 for the first six months of 2015. A $7.9 million increase in net interest income and a $115,000 decrease in the provision for loan and lease losses were more than offset by a $19.2 million decrease in non-interest income (excluding security gains), a $12.8 million increase in BSA related consulting expenses and a $12.2 million increase in other non-interest expenses. Non-interest income (excluding security gains) decreased to $26.1 million in the first six months of 2016 from $45.2 million in the first six months of 2015, reflecting a $15.2 million decrease in change in value of investment in unconsolidated entity and a $7.7 million decrease in gain on sale of loans. The $15.2 million decrease between those respective periods reflected a $14.7 million second quarter 2016 charge against change in value of investment in unconsolidated entity (see "Loss on Discontinued Operations and Change in Value of Unconsolidated Entity.") The decrease in gain on sale of loans primarily reflected lower margins resulting from increased credit spreads. As credit spreads increase, loan sale prices and related margins decrease. Net interest income increased to $41.4 million from $33.6 million primarily as a result of higher loan balances and yields. The provision for loan and lease losses decreased $115,000 to $1.1 million in the first six months of 2016 compared to $1.2 million in the first six months of 2015. Net loss from discontinued operations was $13.9 million for the first six months of 2015, compared to net income of $4.7 million from discontinued operations for the first six months of 2015. Diluted loss per share was $1.12 for the first six months of 2016 compared to diluted earnings per share of $0.01 for the first six months of 2015.

Net Interest Income: Our net interest income for the first six months of 2016 increased to $41.4 million, an increase of $7.9 million, or 23.5%, from $33.6 million in the first six months of 2015. Our interest income for the first six months of 2016 increased to $47.6 million, an increase of $7.5 million or 18.7% from $40.1 million for the first six months of 2015. The increase in interest income resulted primarily from higher balances of loans and higher yields. Our average loans and leases increased to $1.49 billion for the first six months of 2016 from $1.25 billion for the first six months of 2015, while related interest income increased $9.1 million on a tax equivalent basis. Our average investment securities decreased to $1.30 billion for the first six months of 2016 from $1.53 billion for the first six months of 2015, while related interest income decreased $4.5 million on a tax equivalent basis. The decrease reflected the time required to reinvest the proceeds from the fourth quarter 2015 sale of our municipal portfolio and continuing loan demand which resulted in fewer investment purchases.

Our net interest margin (calculated by dividing net interest income by average interest earning assets) for the first six months of 2016 increased to 2.56% from 2.23% in the first six months of 2015, an increase of 33 basis points. The increase in the net interest margin reflected higher yields on loans and reduced balances of lower yielding deposits at the Federal Reserve Bank. In the first six months of 2016, the average yield on our loans increased to 4.16% from 3.55% for the first six months of 2015, an increase of 61 basis points. The increase in loan yields reflected a greater proportion of higher yielding loans originated for sale in secondary markets, and the impact of the December 2015, 25 basis point Federal Reserve Bank increase in overnight rates. Yields on taxable investment securities were higher at 2.34% compared to 2.00%, an increase of 34 basis points. The increase reflected the impact of the aforementioned 25 basis point Federal Reserve Bank rate increase. Additionally, yields on non-taxable investments were lower at 2.33% compared to 3.67%. The reduction reflected the sale of the vast majority of our tax exempt portfolio in the fourth quarter of 2015 for tax planning purposes to expedite the utilization of deferred tax assets. Average interest earning deposits decreased $449.5 million, or 43.9% to $574.0 million in the first six months of 2016 from $1.02 billion in the first six months of 2015. The decrease reflected the impact of the first quarter 2016 exit of certain non strategic deposits to reduce excess Federal Reserve Bank balances which earn nominal rates. The interest cost of total deposits and interest bearing liabilities was relatively stable at 0.31% for the first six months of 2016 compared to 0.29% in the first six months of 2015.

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

	Six months ended June 30, 2016 Average Balance (dollars in thousands)	Interest	Average Rate	2015 Average Balance	Interest	Av Ra
Assets:						
Interest earning assets:						
Loans net of unearned fees and costs **	$ 1,471,327	$ 30,636	4.16%	$ 1,227,728	$ 21,765	3.
Leases - bank qualified*	20,422	916	8.97%	20,807	716	6.8
Investment securities-taxable	1,233,639	14,432	2.34%	1,005,397	10,066	2.0
Investment securities-nontaxable*	65,558	765	2.33%	528,060	9,680	3.6
Interest earning deposits at Federal Reserve Bank	573,595	1,280	0.45%	1,023,112	1,179	0.2
Federal funds sold and securities purchased under agreement to resell	21,360	155	1.45%	45,259	322	1.4
Net interest earning assets	3,385,901	48,184	2.85%	3,850,363	43,728	2.2
Allowance for loan and lease losses	(4,356)			(3,938)		
Assets held for sale from discontinued operations	562,860	11,146	3.96%	718,630	15,931	4.4
Other assets	312,405			288,981		
	$ 4,256,810			$ 4,854,036		

Liabilities and shareholders' Equity:									
Deposits:									
Demand and interest checking	$	3,373,084	$	4,839	0.29%	$	4,185,239	$	5,442	0.2
Savings and money market	389,270		604		0.31%	315,943		860		0.5
Time	117,117		343		0.59%	1,400		12		1.7
Total deposits	3,879,471		5,786		0.30%	4,502,582		6,314		0.2
Short-term borrowings	35,720		110		0.00%	-		-		0.0
Repurchase agreements	1,033		1		0.19%	9,135		13		0.2
Subordinated debt	13,401		252		3.76%	13,401		211		3.1
Total deposits and interest bearing liabilities	3,929,625		6,149		0.31%	4,525,118		6,538		0.2
Other liabilities	22,043					9,976				
Total liabilities	3,951,668					4,535,094				
Shareholders' equity	305,142					318,942				
	$	4,256,810				$	4,854,036			
Net interest income on tax equivalent basis *			$	53,181				$	53,121	
Tax equivalent adjustment			589					3,638		
Net interest income			$	52,592				$	49,483	
Net interest margin *					2.56%					2.2

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

For the first six months of 2016, average interest earning assets decreased to $3.39 billion, a decrease of $464.5 million or 12.1% from the first six months of 2015. The decrease reflected decreased average balances of investment securities of $234.3 million or 15.3% and decreased average balances of interest earning deposits at the Federal Reserve Bank of $449.5 million or 43.9% net of increased average balances of loans and leases of $243.2 million or 19.5%. Average demand and interest checking deposits decreased $812.2 million or 19.4%.

Provision for Loan and Lease Losses. Our provision for loan and lease losses was $1.1 million for the first six months of 2016 compared to $1.2 million for the first six months of 2015. The $115,000 decrease in the provision is based on our evaluation of the adequacy of our allowance for loan and leases losses, particularly in light of current economic conditions. At June 30, 2016, our allowance for loan and lease losses amounted to $5.4 million or 0.46% of total loans compared to $4.4 million or 0.41% of total loans at December 31, 2015. For more information about our provision and allowance for loan and lease losses and our loss experience, see “Financial Condition-Allowance for loan and lease losses”, “-Net charge-offs,” and “-Non-performing loans, loans 90 days delinquent and still accruing, and troubled debt restructurings,” below and Note 6 to the financial statements.

Non-Interest Income. Non-interest income was $26.1 million in the first six months of 2016 compared to $45.2 million in the first six months of 2015 before gains on securities of $2.2 million in the first six months of 2016 and $273,000 in the first six months of 2015. The $19.2 million or 42.3% decrease between those respective periods reflected a $14.7 million charge against change in value of investment in unconsolidated entity (see “Loss on Discontinued Operations and Change in Value of Unconsolidated Entity.”). Gain (loss) on sale of loans decreased $7.7 million or 101.2% to a loss of $94,000 for the first six months of 2016 reflecting lower margins resulting from increased credit spreads. Gain (loss) on sale of loans and related expense result from the sale of commercial real estate loans to institutions which package such loans in secondary commercial mortgage backed securities markets. Service fees on deposit accounts decreased $1.8 million or 50.1% to $1.8 million for the first six months of 2016 from $3.7 million for the first six months of 2015 due to the sale of the majority of our health savings accounts in the fourth quarter of 2015. Prepaid card fees increased $2.8 million or 11.6% to $27.1 million for the first six months of 2016 from $24.3 for the first six months of 2015 reflecting increased volumes and associated revenues attributable to that volume. Leasing income decreased $307,000 or 26.1% to $868,000 for the first six months of 2016 from $1.2 million for the first six months of 2015, reflecting lower gains on disposition of leased vehicles in 2016 due to lower volume. Affinity fees increased $1.1 million or 84.7% to $2.4 million for the first six months of 2016 from $1.3 million for the first six months of 2015. This increase resulted primarily from growth in one affinity relationship. Other non-interest income increased $3.1 million or 209.2% to $4.5 million for the first six months of 2016 from $1.5 million in the first six months of 2015. The increase resulted from a gain on the sale of Visa Europe to Visa U.S.A., in which members of Visa Europe shared in the sales proceeds.

Non-Interest Expense. Total non-interest expense was $112.3 million for the first six months of 2016, an increase of $25.0 million or 28.6% over $87.3 million for the first six months of 2015. The increase reflected an increase of $12.8 million in BSA and lookback consulting expenses. Salaries and employee benefits amounted to $40.9 million, an increase of $8.0 million or 24.3% over $32.9 million for the first six months of 2015. The increase in salaries and employee benefits reflected staff additions and related expense for increased BSA and other compliance, information technology, institutional banking, SBA loan production, leasing business development and internal audit. Depreciation and amortization increased $113,000 or 4.7% to $2.5 million in the first six months of 2016 from

$2.4 million in the first six months of 2015 which reflected increased depreciation costs related to leasehold improvements and equipment for staff additions and information technology upgrades. Rent and occupancy increased $44,000 or 1.6% to $2.8 million in the first six months of 2016 from $2.8 million in the first six months of 2015 which reflected a newly leased San Francisco sales office. Data processing expense increased $702,000 or 10.0% to $7.7 million in the first six months of 2016 from $7.0 million in the first six months of 2015. The increase reflected increased account and transaction volume. Printing and supplies increased $186,000 or 15.7% to $1.4 million in the first six months of 2016 from $1.2 million in the first six months of 2015, reflecting mailings related to service charge increases and other periodic communications with customers. Audit expense decreased $699,000 or 58.3% to $500,000 in the first six months of 2016 from $1.2 million in the first six months of 2015 reflecting lower compliance audit expense and the transfer of certain audit functions in house. Legal expense increased $919,000 or 44.8% to $3.0 million for the first six months of 2016 from $2.1 million in the first six months of 2015 reflecting higher regulatory legal costs and fees associated with the purchase of $60 million of lease contracts. FDIC insurance expense decreased $924,000 or 16.5% to $4.7 million for the first six months of 2016 from $5.6 million in the first six months of 2015, reflecting the impact of decreased average deposits. Software expense increased $2.1 million or 73.5% to $5.0 million in the first six months of 2016 from $2.9 million in the first six months of 2015 reflecting additional information technology infrastructure to improve efficiency and scalability, including BSA software required to satisfy regulatory requirements. Insurance expense increased $105,000 or 10.9% to $1.1 million in the first six months of 2016 from $959,000 in the first six months of 2015. The increase reflected higher coverages and increased premiums on other coverages. Telecom and IT network communications increased $3,000 or 0.3% to $965,000 in the first six months of 2016 from $962,000 in the first six months of 2015. Securitization and servicing expense decreased $105,000 or 12.3% to $747,000 in the first six months of 2016 from $852,000 in the first six months of 2015 reflecting decreased volume. Consulting expense increased $293,000 or 13.2% to $2.5 million in the first six months of 2016 from $2.2 million in the first six months of 2015. The increased expense reflected consulting for a more efficient loan processing system and marketing and investor relations consulting. Other non-interest expense increased $1.4 million or 16.3% to $10.2 million in the first six months of

2016 from $8.8 million in the first six months of 2015. The $1.4 million increase reflected increases of $320,000 in credit bureau expense, $308,000 in customer identification verification expense, $210,000 in small business lending loan expense, $207,000 in other furniture and equipment expense, $297,000 in travel expense, $158,000 in prepaid card fraud losses and $136,000 in directors’ fees. The increase in directors’ fees reflected the addition of new Board committees for compliance and risk functions.

Income Taxes. Income tax benefit for continuing operations was $15.3 million for the first six months of 2016 compared to $5.1 million in the first six months of 2015. The increased tax benefit reflected the higher loss in 2016.

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 funding has been deposits. We have been exiting deposit relationships to reduce excess balances at the Federal Reserve which earn nominal rates of interest. Significant progress in reducing such balances was made during the quarter compared to prior periods. Investment securities available-for-sale also provide a significant source of liquidity. Loan repayments, also a source of funds, were exceeded by new loan disbursements during the first six months of 2016. 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 believe that the rate on our deposits is at or below competitors’ rates. However, the focus of our business model is to identify affinity groups that control significant 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. Nonetheless, certain components of the deposits do experience seasonality, creating greater excess liquidity at certain times during the year, especially the first quarter as a result of tax refund prepaid card balances. We plan to exit additional deposit relationships to continue to manage excess liquidity.

Historically, we have also used sources outside of our deposit products to fund our loan growth, including Federal Home Loan Bank advances, repurchase agreements, and institutional (brokered) certificates of deposit. In the first six month of 2016, the vast majority of our funding was derived from prepaid cards and transaction accounts. While the FDIC now classifies prepaid and most of our other deposits obtained with the cooperation of third parties as brokered, they continue to acknowledge that such deposits are stable and low cost. We maintain secured borrowing lines with the Federal Home Loan Bank of Pittsburgh and the Federal Reserve Bank. As of June 30, 2016 we had a $527 million line of credit with the Federal Home Loan Bank and $160 million line of credit with the Federal Reserve Bank. These lines may be collateralized by specified types of loans or securities. As of June 30, 2016, we had no amounts outstanding on our borrowing lines. We expect to continue to maintain our facility with the Federal Home Loan Bank and Federal Reserve Bank. We actively monitor our positions and contingent funding sources on a daily basis.

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 June 30, 2016, we had approximate cash reserves of $10.0 million at the holding company. Current quarterly interest payments on the $13.4 million of trust preferred securities are approximately $120,000 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.

Included in our cash and cash-equivalents at June 30, 2016 were $528.1 million of interest earning deposits which primarily consisted of deposits with the Federal Reserve and included deposits for reserve requirements. Traditionally, we sell our excess funds overnight to other financial institutions, with which we have correspondent relationships, to obtain better returns. As the federal funds rates decreased to the same 50 basis point level offered by the Federal Reserve, we have adjusted our strategy to retain our excess funds at the Federal Reserve, which also offers the full guarantee of the federal government.

Funding was directed primarily at cash outflows required for net loan growth of $104.1 for the six months ended June 30, 2016 and $93.9 million for the six months ended June 30, 2015. Net purchases of investment securities were $244.8 million compared to net purchases of $110.2 million for the prior year to date ended June 30, 2015. Deposit outflows resulted from exiting higher cost deposit relationships without adequate offsetting fee income or loan production potential in the six months ended June 30, 2016. We had outstanding commitments to fund loans, including unused lines of credit, of $932.9 million and $831.5 million as of June 30, 2016 and December 31, 2015, respectively. The majority of our commitments originate with security backed lines of credit. Such commitments are normally based on the full amount of collateral in a customers investment account. However, such commitments have historically been drawn at only a fraction of the total commitment. The funding requirements for such commitments occur on a measured basis over time and would be funded by normal deposit growth. 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, $471.1 million of loans remain as assets held for sale on the balance sheet, reflecting related sales and paydowns. We are attempting to sell those remaining loans. Additionally, the balance sheet reflects $162.3 million in investment in unconsolidated entity, which is comprised of notes owned by us as a result of the sale of certain discontinued loans.

We must comply with capital adequacy guidelines issued by the FDIC. A bank must, in general, have a Tier 1 leverage ratio of 5.00%, a ratio of Tier I capital to risk-weighted assets of 8.0%, a ratio of total capital to risk-weighted assets of 10.0% and a ratio of common equity tier 1 to risk weighted assets of 6.5% 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 June 30, 2016 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	Common equity tier 1 to risk weighted assets
As of June 30, 2016				
The Bancorp, Inc.	6.78%	12.72%	12.97%	12.72%
The Bancorp Bank	6.35%	11.87%	12.12%	11.87%
"Well capitalized" institution (under FDIC regulations-Basel III)	5.00%	8.00%	10.00%	6.50%
As of December 31, 2015				
The Bancorp, Inc.	7.17%	14.67%	14.88%	14.67%
The Bancorp Bank	6.90%	13.98%	14.18%	13.98%
"Well capitalized" institution (under FDIC regulations)	5.00%	8.00%	10.00%	6.50%

Asset and Liability Management

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

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

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

The following table sets forth the estimated maturity or repricing structure of our interest earning assets and interest bearing liabilities at June 30, 2016. We estimate the repricing characteristics of deposits based on historical performance, past experience at other institutions 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. The table does not assume any prepayment of fixed-rate loans and mortgage-backed securities, which are scheduled based on their anticipated cash flow, including prepayments based on historical data and current market trends. The table does not necessarily indicate the impact of general interest rate movements on our net interest income because the repricing of certain categories of assets and liabilities is beyond our control as, for example, prepayments of loans and withdrawal of deposits. As a result, certain assets and liabilities indicated as repricing within a stated period may in fact reprice at different times and at different rate levels.

	1-90 Days (dollars in thousands)	91-364 Days	1-3 Years	3-5 Years	Over 5 Years
Interest earning assets:					
Commercial loans held for sale	$ 175,638	$ 13,018	$ 53,404	$ 40,936	$ 158,597
Loans net of deferred loan costs	820,095	36,992	154,558	143,756	26,705
Investment securities	500,295	142,815	163,875	105,855	509,390
Interest earning deposits	528,094	-	-	-	-
Securities purchased under agreements to resell	39,360	-	-	-	-
Total interest earning assets	2,063,482	192,825	371,837	290,547	694,692
Interest bearing liabilities:					
Demand and interest checking	2,269,882	134,531	134,531	-	-
Savings and money market	97,463	194,925	97,463	-	-
Time deposits	101,160	-	-	-	-
Securities sold under agreements to	318	-	-	-	-

repurchase										
Subordinated debenture	13,401		-		-		-		-	
Total interest bearing liabilities	2,482,224		329,456		231,994		-		-	
Gap	$	(418,742)	$	(136,631)	$	139,843	$	290,547	$	694,692
Cumulative gap	$	(418,742)	$	(555,373)	$	(415,530)	$	(124,983)	$	569,709
Gap to assets ratio	-10%		-3%		3%		7%		16%	
Cumulative gap to assets ratio	-10%		-13%		-9%		-3%		13%	

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

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

Financial Condition

General. Our total assets at June 30, 2016 were $4.40 billion, of which our total loans were $1.18 billion. At December 31, 2015 our total assets were $4.77 billion, of which our total loans were $1.08 billion.

Interest earning deposits and federal funds sold. At June 30, 2016, we had a total of $528.1 million of interest earning deposits compared to $1.15 billion at December 31, 2015 a decrease of $619.4 million or 54.0%. These deposits were comprised primarily of balances at the Federal Reserve, which pays interest on such balances. Reductions in such balances reflected deployment of such funds into higher yielding loans and securities and the exit of less profitable deposit relationships.

Investment portfolio. For detailed information on the composition and maturity distribution of our investment portfolio, see Note 5 to the Financial Statements. Total investment securities increased to $1.42 billion at June 30, 2016, an increase of $258.5 million or 22.2% from year-end 2015. The increase in investment securities was primarily a result of purchases of residential mortgage-backed securities and collateralized loan obligation securities. Other securities, included in the held-to-maturity classification at June 30, 2016, consisted of three securities secured by diversified portfolios of corporate securities, one bank senior note, two single issuer trust preferred securities and one pooled trust preferred security.

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

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A total of $75.5 million of other debt securities – pooled is comprised of the following: (i) one pooled trust preferred security for $22,000, which was collateralized by bank trust preferred securities; and (ii) book value of three securities consisting of diversified portfolios of corporate securities of $75.5 million.

The following table provides additional information related to our single issuer trust preferred securities as of June 30, 2016 (in thousands):

Single issuer	Book value	Fair value	Unrealized gain/(loss)	Credit rating
Security A	$ 1,907	$ 2,015	$ 108	Not rated
Security B	9,039	5,653	(3,386)	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 June 30, 2016:

Pooled issue	Class	Book value	Fair value	Unrealized gain	Credit rating	Excess subordination
Pool A (7 performing issuers)	Mezzanine	$ 22	$ 22	$ -	CAA1	*

* 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 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 capital losses equal to the difference between the fair value and amortized cost basis of the security. For those other-than-temporarily impaired debt securities which do not meet the first condition and for which we do not expect to recover the entire amortized cost basis, the difference between the security's amortized cost basis and the fair value is separated into the portion representing a credit impairment, which is recorded in net realized capital losses, and the remaining impairment, which is recorded in other comprehensive income. Generally, a security's credit impairment is the difference between its amortized cost basis and the best estimate of its expected future cash flows discounted at the security's effective yield prior to impairment. The previous amortized cost basis less the impairment recognized in net realized capital losses becomes the security's new cost basis. For the six months ended June 30, 2016 and June 30, 2015, we recognized no other-than-temporary impairment charges related to trust preferred securities classified in our held-to-maturity portfolio.

Investments in Federal Home Loan and Atlantic Central Bankers Bank stock are recorded at cost and amounted to $12.3 million at June 30, 2016 compared to $1.1 million at December 31, 2015. The increase resulted from additional Federal Home Loan Bank stock required for larger daily advances to enhance liquidity management.

Investment securities with a carrying value of $583.5 million at June 30, 2016 and $472.7 million at December 31, 2015, were pledged as collateral for Federal Home Loan Bank advances and to secure securities sold under repurchase agreements as required or permitted by law.

Loans held for sale. Loans held for sale are comprised of commercial mortgage loans, SBA loans and residential mortgage loans originated for sale in the secondary market. The fair value of commercial mortgage loans and the SBA loans originated for sale is based on purchase commitments or quoted prices for the same or similar loans. Commercial loans held for sale decreased to $441.6 million at June 30, 2016 from $489.9 million at December 31, 2015.

Loan portfolio. Total loans increased to $1.18 billion at June 30, 2016 from $1.08 billion at December 31, 2015.

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

	June 30, 2016		December 31, 2015	
SBA non real estate	$	71,596	$	68,887
SBA commercial mortgage	116,617		114,029	
SBA construction	3,751		6,977	
SBA loans *	191,964		189,893	
Direct lease financing	315,639		231,514	
SBLOC	607,017		575,948	
Other specialty lending	40,543		48,315	
Other consumer loans	20,005		23,180	
	1,175,168		1,068,850	
Unamortized loan fees and costs	6,938		9,227	
Total loans, net of deferred loan costs	$	1,182,106	$	1,078,077

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

The second phase of our analysis represents an allocation of the allowance. This methodology analyzes pools of loans that have similar characteristics and applies historical loss experience and other factors for each pool including management's experience with similar loan and lease portfolios at other institutions, the historic loss experience of our peers and a review of statistical information from various industry reports to determine the allocable portion of the allowance. This estimate is intended to represent the potential unconfirmed and inherent losses within the portfolio. Individual loan pools are created for major loan categories: 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 Credit Officer oversees the loan review department processes and measures the adequacy of the allowance for loan and lease losses independently of loan production officers. A description of loan review coverage targets is as follows.

At June 30, 2016, approximately 48% of the total continuing loan portfolio had been reviewed as a result of the coverage of each loan portfolio type. The loan review policy guidelines were revised in December 2015 to establish minimum coverages for each loan portfolio. The targeted coverages and scope of the reviews are risk-based and vary according to each portfolio. These thresholds are planned to be achieved by December 31, 2016 and maintained as follows:

Securities Backed Lines of Credit – The targeted review threshold for 2016 is 40% with the largest 25% of SBLOCs by commitment to be reviewed annually. A random sampling of a minimum of 20 of the remaining loans will be reviewed each quarter. At June 30, 2016 approximately 42% of the SBLOC portfolio had been reviewed.

SBA Loans – The targeted review threshold for 2016 is 100%, less guaranteed portions of any purchased loans and loans funded within 90 days of quarter end. The 100% coverage includes loan review work performed by designated SBA department personnel. Although loans are not typically purchased, loans for Community Reinvestment Act, or CRA purposes are periodically purchased. At June 30, 2016, approximately 83% of the government guaranteed loan portfolio had been reviewed. The review threshold for the independent loan review department is $1,000,000. The portion not reviewed includes $29 million in purchased loans which are subject to government guarantees and not subject to review and $5 million in newly funded loans which will be subject to review.

Leasing – The targeted review threshold for 2016 is 50%. At June 30, 2016, approximately 32% of the leasing portfolio had been reviewed. The review threshold is $1,000,000.

CMBS (Floating Rate) – The targeted review threshold for 2016 is 100%. Floating rate loans will be reviewed initially within 90 days of funding and will be monitored on an ongoing basis as to payment status. Subsequent reviews will be performed based on a sampling each quarter. Each floating rate loan will be reviewed if any available extension options are exercised. At June 30, 2016, approximately 67% of the CMBS floating rate portfolio had been reviewed.

CMBS (Fixed Rate) – CMBS fixed rate loans will generally not be reviewed as they are sold on the secondary market in a relatively short period of time. 100% of fixed rate loans that are unable to be readily sold on the secondary market and remain on the Bank's books after nine months will be reviewed at least annually. At June 30, 2016, 11% of the CMBS fixed rate portfolio had been reviewed.

Specialty Lending – Specialty Lending, defined as commercial loans unique in nature that do not fit into other established categories, will have a review coverage threshold of 100% for non CRA loans. At June 30, 2016, approximately 96% of the non CRA loans had been reviewed.

Home Equity Lines of Credit (HELOC) – The targeted review threshold for 2016 is 50%. The largest 25% of HELOCs by commitment will be reviewed annually. A random sampling of a minimum of 10 of the remaining loans will be reviewed each quarter. At June 30, 2106 approximately 86% of the HELOC portfolio had been reviewed.

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

June 30, 2016	30-59 Days past due	60-89 Days past due	Greater than 90 days	Non-accrual	Total past due	Current
SBA non real estate	$ -	$ -	$ -	$ 1,046	$ 1,046	$ 70,5
SBA commercial mortgage	-	-	-	-	-	116,617
SBA construction	-	-	-	-	-	3,751
	5,880	3,021	2,882	-	11,783	303,856

Direct lease financing						
SBLOC	-	190	-	-	190	606,827
Other specialty lending	-	-	-	-	-	40,543
Consumer - other	325	-	-	-	325	5,145
Consumer - home equity	162	-	290	2,101	2,553	11,982
Unamortized loan fees and costs	-	-	-	-	-	6,938
	$ 6,367	$ 3,211	$ 3,172	$ 3,147	$ 15,897	$ 1,166,2

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

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.

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

	As of or for the six months ended June 30, 2016	2015
Ratio of the allowance for loan losses to total loans	0.46%	0.45%
Ratio of the allowance for loan losses to nonperforming loans *	85.42%	132.44%
Ratio of nonperforming assets to total assets *	0.14%	0.07%
Ratio of net charge-offs to average loans	0.00%	0.04%
Ratio of net charge-offs to average loans annualized	0.01%	0.07%

* Includes loans 90 days past due still accruing interest

The ratio of the allowance for loan and lease losses to total loans was 0.46% at June 30, 2016 which was comparable to the 0.45% at June 30, 2015. The ratio of the allowance for loan losses to non-performing loans decreased to 85.42% at June 30, 2016 from 132.44% at June 30, 2015 primarily as a result of an increase in non-performing loans. The ratio of non-performing assets to total assets increased primarily as a result of increases in non-performing loans. Net charge-offs to average loans decreased to 0.00% for the six months ended June 30, 2016 from 0.04% for the six months ended June 30, 2015.

Net charge-offs. Net charge-offs were $62,000 for the six months ended June 30, 2016, a decrease of $399,000 from net charge-offs for the same period of 2015. The majority of the charge-offs in the first six months of 2016 were associated with leasing relationships. The majority of the charge-offs in the first six months of 2015 were associated with consumer loan relationships.

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

	June 30, 2016	December 31, 2015

Non-accrual loans		
SBA non real estate	$ 1,047	$ 733
Consumer	2,100	1,194
Total non-accrual loans	3,147	1,927
Loans past due 90 days or more	3,172	403
Total non-performing loans	6,319	2,330
Other real estate owned	-	-
Total non-performing assets	$ 6,319	$ 2,330

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Loans that were modified as of June 30, 2016 and December 31, 2015 and considered troubled debt restructurings are as follows (dollars in thousands):

	June 30, 2016			December 31, 2015		
	Number	Pre-modification recorded investment	Post-modification recorded investment	Number	Pre-modification recorded investment	Post-modification recorded investment
SBA non real estate	2	$ 416	$ 416	1	$ 171	$ 171
Consumer	2	427	427	2	434	434
Total	4	$ 843	$ 843	3	$ 605	$ 605

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

	June 30, 2016			December 31, 2015		
	Adjusted interest rate	Extended maturity	Combined rate and maturity	Adjusted interest rate	Extended maturity	Combined rate and maturity
SBA non real estate	$ -	$ 157	$ 259	$ -	$ 171	$ -
Consumer	-	323	104	-	330	104
Total	$ -	$ 480	$ 363	$ -	$ 501	$ 104

The following table summarizes as of June 30, 2016 that were restructured within the last 12 months that have subsequently defaulted.

	Number	Pre-modification recorded investment
Consumer	1	$ 323
Total	1	$ 323

As of June 30, 2016 and December 31, 2015, we had no commitments to lend additional funds to loan customers whose terms have been modified in troubled debt restructurings.

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The following table provides information about impaired loans at June 30, 2016 and December 31, 2015:

	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment	Interest income recognized
June 30, 2016					
Without an allowance recorded					
SBA non real estate	$ 259	$ 259	$ -	$ 261	$ -
Consumer - other	323	323	-	326	-
Consumer - home equity	1,274	1,274	-	881	-
With an allowance recorded					-
SBA non real estate	945	945	258	711	-
Consumer - other	-	-	-	-	-
Consumer - home equity	827	927	474	639	-
Total					
SBA non real estate	1,204	1,204	258	972	-
Consumer - other	323	323	-	326	-
Consumer - home equity	2,101	2,201	474	1,520	-

December 31, 2015					
Without an allowance recorded					
	$ 263	$ 263	$ -	$ 228	$ -

SBA non real estate					
Consumer - other	330	330	-	338	-
Consumer - home equity	368	368	-	966	-
With an allowance recorded					
SBA non real estate	640	640	123	670	-
Consumer - other	-	-	-	-	-
Consumer - home equity	827	927	26	800	-
Total					
SBA non real estate	903	903	123	898	-
Consumer - other	330	330	-	338	-
Consumer - home equity	1,195	1,295	26	1,766	-

We had $3.1 million of non-accrual loans at June 30, 2016 compared to $1.9 million of non-accrual loans at December 31, 2015. The $1.2 million increase in non-accrual loans was primarily due to $1.8 million of loans placed on non-accrual status partially offset by $586,000 of loan payments. Loans past due 90 days or more still accruing interest amounted to $3.2 million at June 30, 2016 and $403,000 at December 31, 2015. The $2.8 million increase reflected $3.4 million of additions partially offset by $580,000 of loan payments.

We had no other real estate owned at June 30, 2016 and December 31, 2015.

The following table classifies our loans (not including loans held for sale) by categories which are used throughout the industry as of June 30, 2016 and December 31, 2015:

June 30, 2016	Pass	Special mention	Substandard	Doubtful	Loss	Unrated subject to review *	Unrat to rev
	$ 56,744	$ -	$ 2,194	$ -	$ -	$ 375	$

SBA non real estate							
SBA commercial mortgage	96,364	-	-	-	-	735	19,51
SBA construction	3,751	-	-	-	-	-	-
Direct lease financing	101,701	-	939	-	-	43,262	169,7
SBLOC	257,473	-	-	-	-	18,941	330,6

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Other specialty lending	38,787	-	-	-	-	-	1,756
Consumer	11,567	-	3,884	-	-	-	4,554
Unamortized loan fees and costs	-	-	-	-	-	-	6,938
	$ 566,387	$ -	$ 7,017	$ -	$ -	$ 63,313	$
December 31, 2015							
SBA non real estate	$ 55,682	$ -	$ 904	$ -	$ -	$ 8,610	$
SBA commercial mortgage	92,859	-	-	-	-	3,894	17,27
SBA construction	6,977	-	-	-	-	-	-
Direct lease financing	90,588	-	670	-	-	17,200	123,0
SBLOC	204,201	-	-	-	-	19,372	352,3
Other specialty lending	46,520	-	-	-	-	-	1,795
Consumer	7,631	70	3,473	-	-	457	11,54
Unamortized loan fees and costs	-	-	-	-	-	-	9,227
	$ 504,458	$ 70	$ 5,047	$ -	$ -	$ 49,533	$

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

Premises and equipment, net. Premises and equipment amounted to $22.4 million at June 30, 2016 compared to $21.6 million at December 31, 2015. The increase reflected additional information technology upgrades.

Investment in Unconsolidated Entity. On December 30, 2014, the Bank entered into an agreement for, and closed on, the sale of a portion of its commercial loan portfolio. 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, which had a face value of approximately $267.6 million, was approximately $209.6 million, of which approximately $193.6 million was in the form of two notes issued by Walnut Street to the Bank; a senior note in the principal amount of approximately $178.2 million bearing interest at 1.5% per year and maturing in December 2024 and a subordinate note in the principal amount of approximately $15.4 million, bearing interest at 10.0% per year and maturing in December 2024. The balance of these notes comprise the $162.3 million investment in unconsolidated entity at June 30, 2016.

Assets held for sale. Assets held for sale as a result of discontinued operations, primarily commercial, commercial mortgage and construction loans, amounted to $471.1 million at June 30, 2016 compared to $583.9 million at December 31, 2015. The decrease reflected principal paydowns.

Deposits. Our primary source of funding is deposit acquisition. We offer a variety of deposit accounts with a range of interest rates and terms, including demand, checking and money market accounts. One strategic focus is growing these accounts through affinity groups. At June 30, 2016, we had total deposits of $4.06 billion compared to $4.41 billion at December 31, 2015, a decrease of $354.1 million or 8.0%. The decrease reflected the planned exit of higher cost deposit relationships which did not have adequate income components. The following table presents the average balance and rates paid on deposits for the periods indicated (in thousands):

	For the six months ended June 30, 2016			For the year ended December 31, 2015		
	Average balance		Average rate	Average balance		Average rate
Demand and interest checking *	$	3,373,084	0.29%	$	3,975,475	0.28%
Savings and money market	389,270		0.31%	337,168		0.55%
Time	117,117		0.59%	44,789		0.61%
Total deposits	$	3,879,471	0.30%	$	4,357,432	0.30%

* 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 Federal Home Loan Bank as of June 30, 2016 and December 31, 2015. Additionally, we had no outstanding balances on the Bank’s lines of credit as of June 30, 2016 and December 31, 2015. We do not have any policy prohibiting us from incurring debt.

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Other liabilities. Other liabilities amounted to $37.1 million at June 30, 2016 compared to $16.7 million at December 31, 2015, representing an increase of $20.4 million. Other liabilities consist primarily of investment security purchases in process and amounts payable for BSA lookback expenses.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Except as discussed in Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” there has been no material change in our assessment of our sensitivity to market risk since our presentation in our Annual Report on Form 10-K for the year ended December 31, 2015.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended, or the Exchange Act, is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Members of our operational management and internal audit meet regularly to provide an established structure to report any weaknesses or other issues with controls, or any matter that has not been reported previously, to our Chief Executive Officer and Chief Financial Officer, and, in turn to the Audit Committee of our Board of Directors. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

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

There has been no change in our internal control over financial reporting that occurred during the first six months ended June 30, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

For a discussion of certain regulatory proceedings involving the FDIC and FRB, see Part I, Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Financial Statement Restatement; Regulatory Actions”.

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

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

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.

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Explanation of Responses:

Item 6. Exhibits

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

SIGNATURES

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

	THE BANCORP INC (Registrant)
August 9, 2016 Date	/s/ Damian Kozlowski Damian Kozlowski President/Chief Executive Officer
August 9, 2016 Date	/s/ Paul Frenkiel Paul Frenkiel Executive Vice President of Strategy, Chief Financial Officer and Secretary

Exhibit No.	Description
3.1 (a)	Certificate of Incorporation (1)
3.1 (b)	Amendment to Certificate of Incorporation *
3.2	Amended and Restated Bylaws (1)
10.1	Letter Agreement with Damian Kozlowski *
10.2	Letter Agreement with Hugh McFadden *

10.3	Letter Agreement with John Leto *
31.1	Rule 13a-14(a)/15d-14(a) Certifications
31.2	Rule 13a-14(a)/15d-14(a) Certifications
32.1	Section 1350 Certifications
32.2	Section 1350 Certifications
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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* Filed herewith

(1) Filed previously as an exhibit to our From 10-K for the year ended December 31, 2013 and by this reference incorporated herein.

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