Bancorp, Inc.
Form 10-Q
November 06, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 2013

OR

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

For the transition period from: to

Commission file number: 51018

THE BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

Yes [X] No [ ]

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

Yes [X] No [ ]

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

(Check one):

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

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

Yes [ ] No [X]

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

As of November 6, 2013 there were 37,720,945 outstanding shares of common stock, $1.00 par value.

THE BANCORP, INC

Form 10-Q Index

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

THE BANCORP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS

	September 30, 2013 (in thousands)	December 31, 2012
ASSETS		
Cash and cash equivalents		
Cash and due from banks	$ 32,026	$ 19,981
Interest earning deposits at Federal Reserve Bank	657,618	948,111
Securities purchased under agreements to resell	40,811	-
Total cash and cash equivalents	730,455	968,092
Investment securities, available-for-sale, at fair value	1,083,154	718,065
Investment securities, held-to-maturity (fair value $94,806 and $41,008, respectively)	97,459	45,179
Federal Home Loan and Atlantic Central Bankers Bank stock	3,209	3,621
Commercial loans held for sale	25,557	11,341
Loans, net of deferred loan fees and costs	1,991,455	1,902,854
Allowance for loan and lease losses	(39,151)	(33,040)
Loans, net	1,952,304	1,869,814
Premises and equipment, net	14,252	10,368
Accrued interest receivable	12,556	9,857
Intangible assets, net	6,253	7,004
Other real estate owned	20,111	4,241
Deferred tax asset, net	26,434	22,789
Other assets	28,538	29,288
Total assets	$ 4,000,282	$ 3,699,659
LIABILITIES		
Deposits		
Demand and interest checking	$ 3,050,167	$ 2,775,207
Savings and money market	504,447	517,098
Time deposits	9,920	12,582
Time deposits, $100,000 and over	4,683	8,334
Total deposits	3,569,217	3,313,221

Securities sold under agreements to repurchase	22,057	18,548
Accrued interest payable	73	103
Subordinated debenture	13,401	13,401
Other liabilities	42,201	17,709
Total liabilities	3,646,949	3,362,982
SHAREHOLDERS' EQUITY		
Common stock - authorized, 50,000,000 shares of $1.00 par value; 37,720,945 and 37,246,655 shares issued at at September 30, 2013 and December 31, 2012, respectively	37,721	37,247
Treasury stock, at cost (100,000 shares)	(866)	(866)
Additional paid-in capital	292,715	282,708
Retained earnings	20,291	7,347
Accumulated other comprehensive income	3,472	10,241
Total shareholders' equity	353,333	336,677
Total liabilities and shareholders' equity	$ 4,000,282	$ 3,699,659

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

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THE BANCORP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
	(in thousands, except per share data)			
Interest income				
Loans, including fees	$ 20,845	$ 19,787	$ 62,075	$ 57,993
Interest on investment securities:				
Taxable interest	4,057	3,507	11,345	10,068
Tax-exempt interest	1,326	709	2,924	2,114
Federal funds sold/securities purchased under agreements to resell	157	-	279	-
Interest bearing deposits	438	356	1,781	2,014
	26,823	24,359	78,404	72,189
Interest expense				
Deposits	2,578	2,556	7,552	8,104
Securities sold under agreements to repurchase	13	24	39	75
Subordinated debenture	115	218	433	652
	2,706	2,798	8,024	8,831
Net interest income	24,117	21,561	70,380	63,358
Provision for loan and lease losses	8,000	5,540	23,000	15,047
Net interest income after provision for loan and lease losses	16,117	16,021	47,380	48,311
Non-interest income				

Service fees on deposit accounts	1,286	928	3,430	2,512
Card payment and ACH processing fees	1,027	740	2,940	2,222
Prepaid card fees	10,177	7,459	33,682	23,570
Gain on sale of loans	4,739	-	12,665	-
Gain on sales of investment securities	42	107	785	107
Other than temporary impairment on securities held-to-maturity	-	-	(20)	(126)
Leasing income	624	552	1,853	2,345
Debit card income	158	98	555	402
Affinity fees	722	792	2,428	1,979
Other	827	557	2,778	961
Total non-interest income	19,602	11,233	61,096	33,972
Non-interest expense				
Salaries and employee benefits	13,766	9,991	39,670	28,706
Depreciation and amortization	934	692	2,665	2,013
Rent and related occupancy cost	1,041	898	2,986	2,500
Data processing expense	2,783	2,547	8,186	7,915
Printing and supplies	369	422	1,238	1,336
Audit expense	347	284	963	859
Legal expense	1,522	1,243	2,932	2,386
Amortization of intangible assets	250	250	750	750
Losses on sale and write downs on other real estate owned	403	533	1,469	2,405
FDIC insurance	895	716	2,729	2,404
Software	938	551	2,729	1,744
Other real estate owned expense	286	(30)	521	509
Other	5,363	3,801	14,125	11,197
Total non-interest expense	28,897	21,898	80,963	64,724
	6,822	5,356	27,513	17,559

Income before income tax								
Income tax provision	2,034		1,795		9,727		6,172	
Net income	$	4,788	$	3,561	$	17,786	$	11,387
Net income per share - basic	$	0.13	$	0.11	$	0.48	$	0.34
Net income per share - diluted	$	0.13	$	0.11	$	0.47	$	0.34

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

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THE BANCORP INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the nine months ended September 30,			
	2013		2012	
	(in thousands)			
Net income	$	17,786	$	11,387
Other comprehensive income, net of reclassifications into net income:				
Other comprehensive income (loss)				
Change in net unrealized gain/(loss) during the period	(9,717)		6,403	
Reclassification adjustments for gains included in income	(785)		(27)	
Amortization of losses previously held as available-for-sale	87		8	
Net unrealized gain/(loss) on investment securities	(10,415)		6,384	
Deferred tax expense (benefit)				
Securities available-for-sale				
Change in net unrealized gain/(loss) during the period	(3,401)		2,232	
Reclassification adjustments for gains included in income	(275)		-	
Amortization of losses previously held as available-for-sale	30		3	
Income tax expense (benefit) related to items of other comprehensive income (loss)	(3,646)		2,235	
Other comprehensive income (loss), net of tax and reclassifications into net income	(6,769)		4,149	
Comprehensive income	$	11,017	$	15,536

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

THE BANCORP INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the nine months ended September 30, 2013

(in thousands, except share data)

	Common stock shares	Common stock	Treasury stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensiv income
Balance at January 1, 2013	37,246,655	$ 37,247	$ (866)	$ 282,708	$ 7,347	$ 10
Net income					17,786	
Issuance of common stock	175,790	176	-	1,453	-	-
Common stock issued from option exercises, net of tax benefits	158,272	158	-	1,495	-	-
Common stock issued from option exercises, cashless exercise, net of tax benefits	140,228	140	-	4,702	(4,842)	-
Stock-based compensation	-	-	-	2,357	-	-
Other comprehensive loss net of reclassification adjustments and tax	-	-	-	-	-	(6,769)
Balance at September 30,	37,720,945	$ 37,721	$ (866)	$ 292,715	$ 20,291	$ 3

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

THE BANCORP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

	For the nine months ended September 30, 2013	2012
Operating activities		
Net income	$ 17,786	$ 11,387
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	4,341	3,258
Provision for loan and lease losses	23,000	15,047
Net amortization of investment securities discounts/premiums	4,660	1,360
Stock-based compensation expense	2,357	1,872
Loans originated for sale	(189,327)	(8,047)
Sale of loans originated for resale	215,092	237
Gain on sales of loans originated for resale	(12,665)	(160)
Loss (gain) on sales of fixed assets	1	(29)
Other than temporary impairment on securities held-to-maturity	20	126
Losses on sale and write downs on other real estate owned	1,469	2,405
Gain on sales of investment securities	(785)	(107)
Increase in accrued interest receivable	(2,699)	(1,585)
Decrease in interest payable	(30)	(23)
Decrease (increase) in other assets	808	(4,691)
Increase in other liabilities	16,190	711
Net cash provided by operating activities	80,218	21,761
Investing activities		
Purchase of investment securities available-for-sale	(607,528)	(282,669)
Purchase of securities held-to-maturity	(52,899)	-
Proceeds from sale of investment securities available-for-sale	61,962	6,297
Proceeds from prepayments of securities held-to-maturity	606	-
Proceeds from redemptions and prepayments of securities available-for-sale	174,895	90,951
Proceeds from sale of other real estate owned	1,980	5,157
Net increase in loans	(152,124)	(126,930)
Proceeds from sale of premises and equipment	99	171
Purchases of premises and equipment	(6,649)	(3,599)
Net cash used in investing activities	(579,658)	(310,622)

Financing activities		
Net increase in deposits	255,996	98,624
Net increase (decrease) in securities sold under agreements to repurchase	3,509	(14,375)
Proceeds from issuance of common stock	1,629	-
Proceeds from the exercise of options	1,653	98
Excess tax benefit from share-based payment arrangements	(984)	(2)
Net cash provided by financing activities	261,803	84,345
Net decrease in cash and cash equivalents	(237,637)	(204,516)
Cash and cash equivalents, beginning of period	968,092	749,174
Cash and cash equivalents, end of period	$ 730,455	$ 544,658
Supplemental disclosure:		
Interest paid	$ 8,054	$ 8,854
Taxes paid	$ 11,445	$ 8,367
Transfers of loans to other real estate owned	$ 19,318	$ 3,222
Transfers of loans to held for sale	$ 27,316	$ -

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

THE BANCORP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLDIATED FINANCIAL STATEMENTS

Note 1. Structure of Company

The Bancorp, Inc. (the Company) is a Delaware corporation and a registered financial holding company. Its primary subsidiary is The Bancorp Bank (the Bank) which is wholly owned by the Company. The Bank is a Delaware chartered commercial bank located in Wilmington, Delaware and is a Federal Deposit Insurance Corporation (FDIC) insured institution. Through the Bank, the Company provides retail and commercial banking services in the Philadelphia, Pennsylvania and Wilmington, Delaware areas and other banking services nationally, which include prepaid debit cards, health savings accounts, institutional banking and private label banking. In Europe, the Company maintains three operational service subsidiaries and one subsidiary through which it offers e-money (prepaid card) issuing services. The principal medium for the delivery of the Company's banking services is the Internet.

Note 2. Significant Accounting Policies

Basis of Presentation

The financial statements of the Company, as of September 30, 2013 and for the three and nine month periods ended September 30, 2013 and 2012, are unaudited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted in this Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission. However, in the opinion of management, these interim financial statements include all necessary adjustments to fairly present the results of the interim periods presented. The unaudited interim consolidated financial statements should be read in conjunction with the audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 (Form 10-K report). The results of operations for the nine month period ended September 30, 2013 may not necessarily be indicative of the results of operations for the full year ending December 31, 2013.

Note 3. Share-based Compensation

The Company recognizes compensation expense for stock options in accordance with Financial Accounting Standards Board (FASB) Accounting Series Codification (ASC) Topic 718, Stock Based Compensation. The expense of the option is generally measured at fair value at the grant date with compensation expense recognized over the service period, which is usually the vesting period. For grants subject to a service condition, the Company utilizes the Black-Scholes option-pricing model to estimate the fair value of each option on the date of grant. The Black-Scholes model takes into consideration the exercise price and expected life of the options, the current price of the underlying stock and its expected volatility, the expected dividends on the stock and the current risk-free interest rate for the expected life of the option. The Company's estimate of the fair value of a stock option is based on expectations derived from historical experience and may not necessarily equate to its market value when fully vested. In accordance with ASC Topic 718, the Company estimates the number of options for which the requisite service is expected to be rendered. At September 30, 2013, the Company had three stock-based compensation plans, which are more fully described in its Form 10-K report and the portions of the Company's Proxy Statement dated March 20, 2013, incorporated therein by reference.

The Company granted 215,000 common stock options in the first quarter of 2013, 35,000 common stock options with a vesting period of one year and 180,000 common stock options with a vesting period of four years. The weighted-average fair value of the stock options issued was $4.85. During the first quarter of 2012, the Company granted 500,000 common stock options, 40,000 with a vesting period of one year and 460,000 with a vesting period of four years. The weighted-average fair value of the stock options issued was $5.06. There were 605,494 common stock options exercised for the nine month period ended September 30, 2013 and 7,500 common stock options exercised for the nine month period ended September 30, 2012. The total intrinsic value of the options exercised during the nine months ended September 30, 2013 and 2012 was $523,000 and $14,000, respectively.

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

	September 30,	
	2013	2012
Risk-free interest rate	1.86%	1.97%
Expected dividend yield	-	-
Expected volatility	55.65%	72.90%
Expected lives (years)	4.19	4.83

Expected volatility is based on the historical volatility of the Company's stock and peer group comparisons over the expected life of the grant. The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury strip rate in effect at the time of the grant. The life of the option is based on historical factors which include the contractual term, vesting period, exercise behavior and employee terminations. In accordance with the ASC Topic 718, Stock Based Compensation, stock based compensation expense for the nine month period ended September 30, 2013 is based on awards that are ultimately expected to vest and has been reduced for estimated forfeitures. The Company estimates forfeitures using historical data based upon the groups identified by management.

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

	Shares	Weighted average exercise price		Weighted-average remaining contractual term (years)	Aggregate intrinsic value	
	(in thousands, except per share data)					
Outstanding at January 1, 2013	3,045,493	$	9.90			
Granted	215,000	10.45				
Exercised	(605,494)	10.73				
Expired	-	-				
Forfeited	(23,125)	9.62				
Outstanding at September 30, 2013	2,631,874	$	9.76	5.21		
Exercisable at September 30, 2013	1,531,999	$	10.44	5.53	$	11,187,174

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

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

	Shares	Weighted-average price	Average remaining contractual term (years)
Outstanding at January 1, 2013	-		
Granted	197,841	$ 10.46	3.3
Exercised	-	-	-
Expired/forfeited	-	-	-
Outstanding at September 30, 2013	197,841	$ 10.46	3.3

As of September 30, 2013, there was a total of $5.9 million of unrecognized compensation cost related to unvested awards under share-based plans. This cost is expected to be recognized over a weighted average period of 1.7 years. Related compensation expense for the nine months ended September 30, 2013 and 2012 was $2.5 million and $1.9 million respectively.

Note 4. Earnings Per Share

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

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

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

Stock options for 13,000 shares, exercisable at prices between $20.98 and $25.43 per share, were outstanding at September 30, 2013 but were not included in the dilutive shares because the exercise price per share was greater than the average market price.

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

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

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

	For the three months ended September 30, 2012				
	Income (numerator)		Shares (denominator)	Per share amount	
	(dollars in thousands except per share data)				
Basic earnings per share					
Net income available to common shareholders	$	3,561	33,105,194	$	0.11
Effect of dilutive securities					
Common stock options	-		67,658	-	
Diluted earnings per share					
Net income available to common shareholders	$	3,561	33,172,852	$	0.11

Stock options for 1,528,367 shares, exercisable at prices between $9.58 and $25.43 per share, were outstanding at September 30, 2012 but were not included in the dilutive shares because the exercise price per share was greater than the average market price.

	For the nine months ended September 30, 2012		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except per share data)		
Basic earnings per share			
Net income available to common shareholders	$ 11,387	33,101,281	$ 0.34
Effect of dilutive securities			
Common stock options	-	32,026	-
Diluted earnings per share			
Net income available to common shareholders	$ 11,387	33,133,307	$ 0.34

Stock options for 1,528,367 shares, exercisable at prices between $9.58 and $25.43 per share, were outstanding at September 30, 2012 but were not included in the dilutive shares because the exercise share price was greater than the average market price.

Note 5. Investment Securities

The amortized cost, gross unrealized gains and losses, and fair values of the Company's investment securities classified as available-for-sale and held-to-maturity at September 30, 2013 and December 31, 2012 are summarized as follows (in thousands):

Available-for-sale	September 30, 2013			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Government agency securities	$ 14,299	$ 68	$ -	$ 14,367
Federally insured student loan securities	148,940	718	(622)	149,036
Tax-exempt obligations of states and political subdivisions	348,069	3,190	(1,208)	350,051
Taxable obligations of states and political subdivisions	81,424	1,701	(490)	82,635
Residential mortgage-backed securities	228,645	1,928	(1,071)	229,502

Commercial mortgage-backed securities	93,880	3,118	(288)	96,710
Corporate and other debt securities	161,484	609	(1,240)	160,853
	$ 1,076,741	$ 11,332	$ (4,919)	$ 1,083,154

Held-to-maturity	September 30, 2013			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Other debt securities - single issuers	$ 21,022	$ 292	$ (4,179)	$ 17,135
Other debt securities - pooled	76,437	1,320	(86)	77,671
	$ 97,459	$ 1,612	$ (4,265)	$ 94,806

Available-for-sale	December 31, 2012			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Government agency securities	$ 7,255	$ 245	$ -	$ 7,500
Federally insured student loan securities	142,851	1,002	(83)	143,770
Tax-exempt obligations of states and political subdivisions	112,393	5,314	(2)	117,705
Taxable obligations of states and political subdivisions	38,291	3,118	(21)	41,388
Residential mortgage-backed securities	275,197	3,389	(779)	277,807
Commercial mortgage-backed securities	92,765	4,298	(32)	97,031
Corporate and other debt securities	32,399	769	(304)	32,864
	$ 701,151	$ 18,135	$ (1,221)	$ 718,065

Held-to-maturity	December 31, 2012			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Other debt securities - single issuers	$ 18,980	$ 218	$ (4,241)	$ 14,957
Other debt securities - pooled	26,199	36	(184)	26,051
	$ 45,179	$ 254	$ (4,425)	$ 41,008

Investments in Federal Home Loan and Atlantic Central Bankers Bank stock are recorded at cost and amounted to $3.2 million at September 30, 2013 and $3.6 million at December 31, 2012.

The amortized cost and fair value of the Company's investment securities at September 30, 2013, by contractual maturity are shown below (in thousands). Expected maturities may differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-sale		Held-to-maturity	
	Amortized cost	Fair value	Amortized cost	Fair value
Due before one year	$ 111,263	$ 111,303	$ -	$ -
Due after one year through five years	365,446	367,797	-	-
Due after five years through ten years	146,470	146,833	10,230	10,082
Due after ten years	453,562	457,221	87,229	84,724
	$ 1,076,741	$ 1,083,154	$ 97,459	$ 94,806

At September 30, 2013 and December 31, 2012, investment securities with a book value of approximately $24.8 million and $34.3 million, respectively, were pledged to secure securities sold under repurchase agreements as required or permitted by law.

Available-for-sale securities fair values are based on the fair market value supplied by a third-party market data provider while held-to-maturity securities are based on the present value of cash flows, which discounts expected cash flows from principal and interest using yield to maturity at the measurement date. The Company periodically reviews its investment portfolio to determine whether unrealized losses are other than temporary, based on an evaluations of the creditworthiness of the issuers/guarantors as well as the underlying collateral if applicable, in addition to the continuing performance of the securities. The amount of the credit impairment was calculated by estimating the discounted cash flows for those securities.

The table below indicates the length of time individual securities had been in a continuous unrealized loss position at September 30, 2013 (dollars in thousands):

Available-for-sale		Less than 12 months		12 months or longer		Total	
	Number of securities	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Unreali losses
Description of Securities							
U.S. Government agency securities	4	$ 7,479	$ -	$ -	$ -	$ 7,479	$
Federally insured student loan securities	8	53,262	(602)	2,020	(20)	55,282	(622)
Tax-exempt obligations of states and political subdivisions	201	137,141	(1,208)	-	-	137,141	(1,208)
Taxable obligations of states and political subdivisions	52	47,138	(479)	1,819	(11)	48,957	(490)
Residential mortgage-backed securities	30	124,240	(1,031)	12,781	(40)	137,021	(1,071)
Commercial mortgage-backed securities	19	27,314	(262)	3,361	(26)	30,675	(288)
Corporate and other debt securities	109	103,996	(1,044)	5,261	(196)	109,257	(1,240)
Total temporarily impaired investment securities	423	$ 500,570	$ (4,626)	$ 25,242	$ (293)	$ 525,812	$ (

Held-to-maturity		Less than 12 months		12 months or longer		Total	
	Number of securities	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Unrealize losses
Description of Securities							
Single issuers	2	$ -	$ -	$ 7,925	$ (4,179)	$ 7,925	$ (4
Pooled	1	-	-	363	(86)	363	(86)
Total temporarily impaired investment securities	3	$ -	$ -	$ 8,288	$ (4,265)	$ 8,288	$ (4

The table below indicates the length of time individual securities had been in a continuous unrealized loss position at December 31, 2012 (dollars in thousands):

Available-for-sale		Less than 12 months		12 months or longer		Total	
	Number of securities	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Unre losse
Description of Securities							
Federally insured student loan securities	5	$ 33,615	$ (83)	$ -	$ -	$ 33,615	$
Tax-exempt obligations of states and political subdivisions	4	4,511	(2)	-	-	4,511	(2)
Taxable obligations of states and political subdivisions	6	2,357	(11)	4,529	(10)	6,886	(21)
Residential mortgage-backed securities	17	107,926	(779)	-	-	107,926	(779
Commercial mortgage-backed	2	5,447	(32)	-	-	5,447	(32)

securities							
Corporate and other debt securities	4	1,485	(15)	8,623	(289)	10,108	(304
Total temporarily impaired investment securities	38	$ 155,341	$ (922)	$ 13,152	$ (299)	$ 168,493	$

Held-to-maturity		Less than 12 months		12 months or longer		Total	
	Number of securities	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Unrealize losses
Description of Securities							
Single issuers	2	$ -	$ -	$ 7,850	$ (4,241)	$ 7,850	$ (4
Pooled	1	-	-	593	(184)	593	(184)
Total temporarily impaired investment securities	3	$ -	$ -	$ 8,443	$ (4,425)	$ 8,443	$ (4

Other securities, included in the held-to-maturity classification at September 30, 2013, consisted of three securities secured by diversified portfolios of corporate securities, one bank senior note, three single issuer trust preferred securities and two pooled trust preferred securities.

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

The $76.4 million of other debt securities – pooled are comprised of the following. The two pooled trust preferred securities totaled $603,000 and were collateralized by bank trust preferred securities. The book value for the securities consisting of diversified portfolios of corporate securities is $75.8 million.

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 recognized other-than-temporary impairment charges of $20,000 on one trust preferred pooled security in the first nine months of 2013. The Company recognized other-than-temporary impairment charges of $126,000 on one trust preferred pooled security in the first nine months of 2012. The Company evaluates whether a credit impairment exists by considering primarily the following factors: (a) the length of time and extent to which the fair value has been less than the amortized cost of the security, (b) changes in the financial condition, credit rating and near-term prospects of the issuer, (c) whether the issuer is current on contractually obligated interest and principal payments, (d) changes in the financial condition of the security's underlying collateral and (e) the payment structure of the security. The Company's best estimate of expected future cash flows which is used to determine the credit loss amount is a quantitative and qualitative process that incorporates information received from third-party sources along with internal assumptions and judgments regarding the future performance of the security. The Company concluded that most of the securities that are in an unrealized loss position are in a loss position because of changes in interest rates after the securities were purchased. The securities that have been in an unrealized loss position for 12 months or longer include other securities whose market values are sensitive to interest rates and changes in credit quality. The Company's unrealized loss for the debt securities, which includes four single issuer trust preferred securities and two pooled trust preferred securities, is primarily related to general market conditions and the resultant lack of liquidity in the market. The severity of the impairments in relation to the carrying amounts of the individual investments is consistent with market developments. The Company's analysis for each investment is performed at the security level. As a result of its review, the Company concluded that other-than-temporary impairment did not exist due to the Company's ability and intention to hold these securities to recover their amortized cost basis.

Note 6. Loans

At September 30, 2013 the Company had $25.6 million of loans held for sale, which were originated for sale either to institutions which issue commercial mortgage backed securities or to secondary government guaranteed loan markets. The Company has elected fair value treatment for these loans and, during the nine months ended Septembrer 30, 2013, the Company recognized a related fair value gain of $2.4 million. In the nine months ended September 30, 2013 the Company recognized $10.3 million in gains upon the sale of loans.

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

	September 30, 2013		December 31, 2012	
Commercial	$	470,072	$	470,109
Commercial mortgage *	654,456		617,069	
Construction	255,272		258,684	
Total commercial loans	1,379,800		1,345,862	
Direct lease financing	177,797		156,697	
Residential mortgage	94,564		97,717	
Consumer and other loans	332,427		296,915	
	1,984,588		1,897,191	
Unamortized loan fees and costs	6,867		5,663	
Total loans, net of deferred loan fees and costs	$	1,991,455	$	1,902,854
Supplemental loan data:				
Construction 1-4 family	$	60,989	$	60,343
Commercial construction, acquisition and development	194,283		198,341	
	$	255,272	$	258,684

* At September 30, 2013, our owner-occupied loans amounted to $181.2 million, or 27.7% of commercial mortgages compared to $172.5 million, or 28.0% at December 31, 2012.

The following table provides information about impaired loans at September 30, 2013 and December 31, 2012 (in thousands):

	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment	Interest income recognized
September 30, 2013					
Without an allowance recorded					
Construction	$ 1,466	$ 1,992	$ -	$ 1,607	$ -
Commercial mortgage	4,638	4,638	-	5,388	-
Commercial	8,922	11,032	-	6,513	-
Consumer - home equity	927	927	-	927	-
Residential	1,175	1,175	-	798	-
With an allowance recorded					
Construction	6,676	6,676	3,906	2,906	-
Commercial mortgage	2,942	2,942	1,223	4,700	-
Commercial	20,833	21,262	7,310	14,375	-
Consumer - home equity	330	330	36	129	-
Residential	841	841	84	256	-
Total					
Construction	$ 8,142	$ 8,668	$ 3,906	$ 4,513	$ -
Commercial mortgage	$ 7,580	$ 7,580	$ 1,223	$ 10,088	$ -
Commercial	$ 29,755	$ 32,294	$ 7,310	$ 20,888	$ -
Consumer - home equity	$ 1,257	$ 1,257	$ 36	$ 1,056	$ -
Residential	$ 2,016	$ 2,016	$ 84	$ 1,054	$ -

	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment	Interest income recognized
December 31, 2012					
Without an allowance recorded					
Construction	$ 1,656	$ 5,054	$ -	$ 1,060	$ -
Commercial mortgage	4,583	6,730	-	2,563	-
Commercial	4,356	5,481	-	2,485	-
Consumer - home equity	927	927	-	927	-
Residential	-	-	-	253	-
With an allowance recorded					
Construction	3,158	4,147	1,273	6,650	-
Commercial mortgage	4,806	4,806	1,706	4,233	-
Commercial	6,264	7,067	4,069	5,571	-
Consumer - home equity	-	-	-	65	-
Residential	91	91	69	56	-
Total					
Construction	$ 4,814	$ 9,201	$ 1,273	$ 7,710	$ -
Commercial mortgage	$ 9,389	$ 11,536	$ 1,706	$ 6,796	$ -
Commercial	$ 10,620	$ 12,548	$ 4,069	$ 8,056	$ -
Consumer - home equity	$ 927	$ 927	$ -	$ 992	$ -
Residential	$ 91	$ 91	$ 69	$ 309	$ -

The following tables summarize the Company's non-accrual loans, loans past due 90 days and still accruing and other real estate owned for the periods indicated (the Company had no non-accrual leases at September 30, 2013, September 30, 2012, or December 31, 2012) (in thousands):

	September 30, 2013	September 30, 2012	December 31, 2012
Non-accrual loans			
Construction	$ 8,142	$ 8,886	$ 4,538
Commercial mortgage	7,580	8,894	9,175
Commercial	29,755	7,654	10,459
Consumer	1,257	927	927
Residential	2,016	93	91
Total non-accrual loans	48,750	26,454	25,190
Loans past due 90 days or more	204	3,861	4,435
Total non-performing loans	48,954	30,315	29,625
Other real estate owned	20,111	3,065	4,241
Total non-performing assets	$ 69,065	$ 33,380	$ 33,866

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The Company's loans that were modified as of September 30, 2013 and December 31, 2012 and considered troubled debt restructurings are as follows (in thousands):

	September 30, 2013			December 31, 2012		
	Number	Pre-modification recorded investment	Post-modification recorded investment	Number	Pre-modification recorded investment	Post-modification recorded investment
Commercial	-	$ -	$ -	2	$ 2,416	$ 2,416
Commercial mortgage	3	3,069	3,069	3	3,144	3,144
Construction	2	683	683	3	1,479	1,479
Residential mortgage	-	-	-	-	-	-
Total	5	$ 3,752	$ 3,752	8	$ 7,039	$ 7,039

The balances below provide information as to how the loans were modified as troubled debt restructurings loans as of September 30, 2013 and December 31, 2012 (dollars in thousands):

	September 30, 2013			December 31, 2012		
	Adjusted interest rate	Extended maturity	Combined rate and maturity	Adjusted interest rate	Extended maturity	Combined rate and maturity
Commercial	$ -	$ -	$ -	$ -	$ 2,255	$ 161
Commercial mortgage	681	214	2,174	714	214	2,216
Construction	-	683	-	-	1,479	-
Residential mortgage	-	-	-	-	-	-
Total	$ 681	$ 897	$ 2,174	$ 714	$ 3,948	$ 2,377

The following table summarizes as of September 30, 2013 loans that were restructured within the last 12 months that have subsequently defaulted (dollars in thousands):

	Number	Pre-modification recorded investment

Commercial	-	$	-
Commercial mortgage	-	-	
Construction	-	-	
Residential mortgage	-	-	
Total	-	$	-

As of September 30, 2013 and December 31, 2012, the Company has no commitments to lend additional funds to loan customers whose terms have been modified in troubled debt restructurings.

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

Nine months ended September 30, 2013	Commercial	Commercial mortgage	Construction	Residential mortgage	Consumer	Direct lease financing	Unall
Beginning balance	$ 12,244	$ 6,223	$ 9,505	$ 2,089	$ 1,799	$ 239	$
Charge-offs	(7,040)	(4,853)	(5,440)	(54)	(397)	-	
Recoveries	41	16	766	-	64	8	
Provision (credit)	10,371	6,190	7,893	(864)	(215)	84	(459)
Ending balance	$ 15,616	$ 7,576	$ 12,724	$ 1,171	$ 1,251	$ 331	$
Ending balance: Individually evaluated for impairment	$ 7,310	$ 1,223	$ 3,906	$ 84	$ 36	$ -	$
Ending balance: Collectively evaluated for impairment	$ 8,306	$ 6,353	$ 8,818	$ 1,087	$ 1,215	$ 331	$
Loans:							
	$ 470,072	$ 654,456	$ 255,272	$ 94,564	$ 332,427	$ 177,797	$

Ending balance													
Ending balance: Individually evaluated for impairment	$	29,755	$	7,580	$	8,142	$	2,016	$	1,257	$	-	$
Ending balance: Collectively evaluated for impairment	$	440,317	$	646,876	$	247,130	$	92,548	$	331,170	$	177,797	$

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Twelve months ended December 31, 2012	Commercial	Commercial mortgage	Construction	Residential mortgage	Consumer	Direct lease financing	Unall
Beginning balance	$ 10,214	$ 9,274	$ 5,352	$ 2,090	$ 1,346	$ 254	$
Charge-offs	(3,682)	(5,828)	(11,317)	-	(339)	(87)	-
Recoveries	566	1,528	96	85	-	12	-
Provision (credit)	5,146	1,249	15,374	(86)	792	60	(97)
Ending balance	$ 12,244	$ 6,223	$ 9,505	$ 2,089	$ 1,799	$ 239	$
Ending balance: Individually evaluated for impairment	$ 4,069	$ 1,706	$ 1,273	$ 69	$ -	$ -	$
Ending balance: Collectively evaluated for impairment	$ 8,175	$ 4,517	$ 8,232	$ 2,020	$ 1,799	$ 239	$
Loans: Ending balance	$ 470,109	$ 617,069	$ 258,684	$ 97,717	$ 296,915	$ 156,697	$
Ending balance: Individually evaluated for impairment	$ 10,620	$ 9,389	$ 4,814	$ 91	$ 927	$ -	$