

Bancorp, Inc.
Form 10-Q
November 09, 2011

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 2011

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
(State or other jurisdiction of
incorporation or organization)

23-3016517
(IRS Employer
Identification No.)

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

19809
(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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during

the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer 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

Non-accelerated filer

Smaller reporting company

(Do not check if a 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

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

As of October 2, 2011 there were 33,196,281 outstanding shares of common stock, \$1.00 par value.

THE BANCORP, INC

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

THE BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET

	September 30, 2011 (unaudited)	December 31, 2010
	(in thousands)	
ASSETS		
Cash and cash equivalents		
Cash and due from banks	\$259,116	\$157,411
Interest bearing deposits	932,152	314,908
Total cash and cash equivalents	1,191,268	472,319
Investment securities, available-for-sale, at fair value	421,716	231,165
Investment securities, held-to-maturity (fair value \$13,623 and \$16,550, respectively)	18,095	21,364
Loans, net of deferred loan costs	1,715,648	1,619,195
Allowance for loan and lease losses	(27,671)	(24,063)
Loans, net	1,687,977	1,595,132
Premises and equipment, net	8,307	8,767
Accrued interest receivable	8,541	8,878
Intangible assets, net	8,254	9,005
Other real estate owned	6,415	2,115
Deferred tax asset, net	19,902	24,365
Other assets	22,538	22,613
Total assets	\$3,393,013	\$2,395,723
LIABILITIES		
Deposits		
Demand (non-interest bearing)	\$1,866,259	\$945,605
Savings, money market and interest checking	1,171,349	975,973
Time deposits	25,552	90,862
Time deposits, \$100,000 and over	10,341	11,657
Total deposits	3,073,501	2,024,097
Securities sold under agreements to repurchase	25,057	14,383
Short-term borrowings	-	87,000
Federal funds purchased	-	49,000
Accrued interest payable	113	124
Subordinated debenture	13,401	13,401
Other liabilities	12,262	8,812
Total liabilities	3,124,334	2,196,817

SHAREHOLDERS' EQUITY

Common stock - authorized, 50,000,000 shares of \$1.00 par value; 33,196,281 and 26,181,281

shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively

	33,196	26,181
Additional paid-in capital	241,473	192,711
Accumulated deficit	(12,565)	(18,195)
Accumulated other comprehensive income (loss)	6,575	(1,791)
Total shareholders' equity	268,679	198,906

Total liabilities and shareholders' equity	\$3,393,013	\$2,395,723
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The accompanying notes are an integral part of these statements.

THE BANCORP, INC. AND SUBSIDIARY
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the three months ended September 30,		For the nine months ended September 30,	
	2011	2010	2011	2010
	(in thousands, except per share data)			
Interest income				
Loans, including fees	\$19,011	\$18,419	\$55,448	\$54,708
Interest on investment securities:				
Taxable interest	2,732	1,641	6,629	4,651
Tax-exempt interest	651	523	1,993	1,260
Interest bearing deposits	296	176	1,041	610
	22,690	20,759	65,111	61,229
Interest expense				
Deposits	2,783	3,470	8,238	10,462
Securities sold under agreements to repurchase	96	5	173	19
Short-term borrowings	-	17	3	81
Subordinated debt	216	217	647	648
	3,095	3,709	9,061	11,210
Net interest income	19,595	17,050	56,050	50,019
Provision for loan and lease losses	5,019	5,121	16,654	15,075
Net interest income after provision for loan and lease losses	14,576	11,929	39,396	34,944
Non-interest income				
Service fees on deposit accounts	691	602	2,001	1,510
Merchant credit card deposit and ACH fees	591	478	1,750	1,541
Stored value income	4,030	2,785	13,175	8,112
Gain on sales of investment securities	20	2	623	1,221
Other than temporary impairment on securities held-to-maturity (1)	-	(135)	(75)	(135)
Leasing income	538	733	1,887	1,908
Debit card income	134	139	697	481
Other	669	181	2,085	600
Total non-interest income	6,673	4,785	22,143	15,238
Non-interest expense				
Salaries and employee benefits	8,030	6,422	22,560	19,262
Depreciation and amortization	767	768	2,219	2,231
Rent and related occupancy cost	749	670	2,182	1,947
Data processing expense	2,080	2,129	6,646	5,437
Printing and supplies	395	247	1,075	998
Audit expense	295	192	805	794
Legal expense	662	668	1,858	1,723
Amortization of intangible assets	250	250	750	750
Loss on sale of other real estate owned	64	2	555	22

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FDIC Insurance	705	1,170	2,628	3,024
Software, maintenance and equipment	429	347	1,176	933
Other real estate owned expense	357	20	841	97
Other	2,975	3,085	9,685	8,197
Total non-interest expense	17,758	15,970	52,980	45,415
Net income before income tax	3,491	744	8,559	4,767
Income tax provision	1,209	156	2,929	1,586
Net income	2,282	588	5,630	3,181
Less preferred stock dividends and accretion	-	-	-	(6,242)
Net income (loss) available to common shareholders	\$2,282	\$588	\$5,630	\$(3,061)
Net income (loss) per share - basic	\$0.07	\$0.02	\$0.18	\$(0.12)
Net income (loss) per share - diluted	\$0.07	\$0.02	\$0.18	\$(0.12)

(1) Other than temporary impairment was due to credit loss and therefore did not include amounts due to market conditions.

The accompanying notes are an integral part of these statements.

THE BANCORP INC. AND SUBSIDIARY
 UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
 For the nine months ended September 30, 2011
 (in thousands, except share data)

	Common stock shares	Common stock	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive gain/(loss)	Comprehensive income	Total
Balance at January 1, 2011	26,181,281	\$26,181	\$192,711	\$ (18,195)	\$ (1,791)		\$198,906
Net income				5,630		\$ 5,630	5,630
Issuance of common stock	7,015,000	7,015	47,486	-	-	-	54,501
Stock-based compensation	-	-	1,276	-	-	-	1,276
Other comprehensive income, net of reclassification adjustments and tax	-	-	-	-	8,366	8,366	8,366
						\$ 13,996	
Balance at September 30, 2011	33,196,281	\$33,196	\$241,473	\$ (12,565)	\$ 6,575		\$268,679

The accompanying notes are an integral part of this statement.

THE BANCORP, INC. AND SUBSIDIARY
 UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (dollars in thousands)

	For the nine months ended September 30,	
	2011	2010
Operating activities		
Net income	\$5,630	\$3,181
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	2,969	2,981
Provision for loan and lease losses	16,654	15,075
Net amortization of investment securities discounts/premiums	483	157
Stock-based compensation expense	1,276	372
Mortgage loans originated for sale	(458)	(1,048)
Sale of mortgage loans originated for resale	462	1,055
Gain on sale of mortgage loans originated for resale	(4)	(7)
Deferred income tax benefit	-	1,441
(Gain) loss on sales of fixed assets	(26)	11
Other than temporary impairment on securities held-to-maturity	75	135
Loss on sales of other real estate owned	555	22
Gain on sales of investment securities	(623)	(1,221)
Decrease (increase) in accrued interest receivable	337	(674)
Decrease in interest payable	(11)	(253)
Increase in other assets	(335)	(3,875)
Increase (decrease) in other liabilities	3,450	(14,552)
Net cash provided by operating activities	30,434	2,800
Investing activities		
Purchase of investment securities available-for-sale	(283,914)	(261,943)
Proceeds from call of securities held-to-maturity	4,000	-
Proceeds from sale of investment securities available-for-sale	23,846	34,188
Proceeds from redemptions and repayment of securities available-for-sale	81,680	77,607
Proceeds from sale of other real estate owned	894	423
Net increase in loans	(115,248)	(79,374)
Proceeds from sale of fixed assets	68	63
Purchases of premises and equipment	(1,390)	(2,729)
Net cash used in investing activities	(290,064)	(231,765)
Financing activities		
Net increase in deposits	1,049,404	767,878
Net increase in securities sold under agreements to repurchase	10,674	6,841
Repayment of short-term borrowings and federal funds purchased	(136,000)	(100,000)
Proceeds from issuance of common stock	54,501	-
Redemption of preferred stock	-	(45,220)
Repurchase of warrants	-	(4,755)

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Dividends paid on Series B preferred stock	-	(433)
Net cash provided by financing activities	978,579	624,311
Net increase in cash and cash equivalents	718,949	395,346
Cash and cash equivalents, beginning of period	472,319	354,459
Cash and cash equivalents, end of period	\$1,191,268	\$749,805
Supplemental disclosure:		
Interest paid	\$9,072	\$11,463
Taxes paid	\$5,132	\$681
Transfers of loans to other real estate owned	\$5,749	\$189

The accompanying notes are an integral part of these statements.

THE BANCORP, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Formation and Structure of Company

The Bancorp, Inc. (the Company) is a Delaware corporation and a registered financial holding company with a wholly owned subsidiary bank, The Bancorp Bank (the Bank). The Bank is a Delaware chartered commercial bank located in Wilmington, Delaware and is a Federal Deposit Insurance Corporation (FDIC) insured institution. 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, wealth management and private label banking. 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, 2011 and for the three and nine month periods ended September 30, 2011 and 2010, 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, 2010 (Form 10-K report). The results of operations for the three and nine month periods ended September 30, 2011 may not necessarily be indicative of the results of operations for the full year ending December 31, 2011.

Note 3. Share-based Compensation

The Company accounts for its share-based compensation according to the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) topic 718, Compensation—Stock Compensation, that addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. Under ASC topic 718, all forms of share-based payments to employees, including employee stock options and phantom stock units, are treated the same as other forms of compensation by recognizing the related cost in expense. The expense of the award generally is measured at fair value at the grant date. The impact of ASC topic 718 is reflected in net earnings and related per share amounts for the three and nine months ended September 30, 2011 and 2010. At September 30, 2011, 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 23, 2011, incorporated therein by reference.

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

The fair value of each grant of stock option and stock appreciation right is estimated on the date of the grant using the Black-Scholes option pricing model. The significant assumptions utilized in applying the Black-Scholes options-pricing model are the risk-free interest rate, expected term, dividend yield and expected volatility. The risk-free interest rate is the implied yield currently available on U.S. Treasury zero-coupon issues with a remaining term equal to the expected term used in the assumption for the model. The expected term of an option or stock appreciation right is based on historical experience of similar awards. The dividend yield is determined by dividing per share and stock appreciation rights unit dividends by the grant date stock price. The expected volatility is based on the volatility of the Company's stock price over a historical period as comparable as possible to the expected term. During the third quarter of 2011, the Company granted 460,000 stock options at a fair value of \$3.68 which vest evenly over four years and 40,000 stock options at a fair value of \$3.36 which vest over one year. During the third quarter of 2010, the Company granted no stock options. The weighted average assumptions used in the Black-Scholes valuation model for the stock options are shown below.

	September 30,			
	2011		2010	
Risk-free interest rate	2.19	%	3.45	%
Expected dividend yield	-		-	
Expected volatility	53.10	%	55.40	%
Expected lives (years)	5.47		5.08	

As of September 30, 2011, there was \$5,570,000 of total unrecognized compensation cost related to unvested share-based compensation arrangements granted under the plans; that cost is expected to be recognized over a weighted average period of 2.95 years. There were no stock options exercised for the nine month periods ending September 30, 2011 and 2010. Related compensation expense for the nine months ended September 30, 2011 and 2010 was \$1,276,000 and \$372,000 respectively. The following tables are a summary of activity in the plans for the periods shown:

For the nine months ended September 30, 2011

Stock options:

	Shares	Weighted average exercise price	Weighted- average remaining contractual term (years)	Aggregate intrinsic value
	(in thousands, except per share data)			
Outstanding at January 1, 2011	2,244,864	\$10.71		
Granted	510,000	7.40	-	-
Exercised	-	-	-	-
Forfeited	(8,749)	9.12	-	-
Outstanding at September 30, 2011	2,746,115	\$10.10	6.65	\$-
Exercisable at September 30, 2011	1,295,365		3.73	\$-

Stock appreciation rights:

	Shares	Weighted- average price	Average remaining contractual term (years)
Outstanding at beginning of the year	60,000	\$11.41	
Granted	-	-	-
Exercised	-	-	-
Expired/forfeited	-	-	-
Outstanding at end of period	60,000	\$11.41	6.45

Note 4. Earnings Per Share

Basic earnings per share is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period.

Diluted earnings per share is calculated by dividing net income available to common shareholders by the weighted average number of common shares and common share equivalents. The Company's only outstanding common share equivalents are stock appreciation rights and options to purchase its common stock.

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

	For the three months ended September 30, 2011		
	Income (numerator) (dollars in thousands except per share data)	Shares (denominator)	Per share amount
Basic earnings per share			
Net income available to common shareholders	\$2,282	33,196,281	\$0.07
Effect of dilutive securities			
Stock options	-	7,381	-
Diluted earnings per share			
Net income available to common shareholders	\$2,282	33,203,662	\$0.07

Stock options for 2,766,115 shares and stock appreciation rights for 60,000 shares, exercisable at prices between \$7.36 and \$25.43 per share, were outstanding at September 30, 2011 but were not included in the diluted earnings per share computation because the exercise price per share was greater than the average market price of the common stock.

	For the nine months ended September 30, 2011		
	Income (numerator) (dollars in thousands except per share data)	Shares (denominator)	Per share amount
Basic earnings per share			
Net income available to common shareholders	\$5,630	31,500,347	\$0.18
Effect of dilutive securities			
Stock options	-	6,461	-
Diluted earnings per share			
Net income available to common shareholders	\$5,630	31,506,808	\$0.18

Stock options for 2,766,115 shares and stock appreciation rights for 60,000 shares, exercisable at prices between \$7.36 and \$25.43 per share, were outstanding at September 30, 2011 but were not included in the diluted earnings per share computation because the exercise price per share was greater than the average market price of the common stock.

	For the three months ended September 30, 2010		
	Income	Shares	Per share

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	(numerator)	(denominator)	amount
	(dollars in thousands except per share data)		
Basic earnings per share			
Net income available to common shareholders	\$588	26,181,281	\$0.02
Effect of dilutive securities			
Common stock warrants	-	388,284	-
Diluted earnings per share			
Net income available to common shareholders	\$588	26,569,565	\$0.02

Stock options for 1,755,114 shares and stock appreciation rights for 60,000 shares, exercisable at prices between \$7.81 and \$25.43 per share, were outstanding at September 30, 2010 but were not included in the diluted earnings per share computation because the exercise share price was greater than the average market price.

	For the nine months ended September 30, 2010		
	Income (numerator) (dollars in thousands except per share data)	Shares (denominator)	Per share amount
Basic loss per share			
Net loss available to common shareholders	\$(3,061)	26,181,281	\$(0.12)
Effect of dilutive securities			
Stock options	-	-	-
Diluted loss per share			
Net loss available to common shareholders	\$(3,061)	26,181,281	\$(0.12)

Stock options for 1,755,114 shares, common stock warrants for 980,203 shares and stock appreciation rights for 60,000 shares, exercisable at prices between \$3.46 and \$25.43 per share, were outstanding for the nine months ended September 30, 2010 but were not included in the diluted loss per share computation because the Company had a net loss available to common shareholders for the period.

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, 2011 and December 31, 2010 are summarized as follows (in thousands):

Available-for-sale	September 30, 2011			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Government agency securities	\$9,224	\$183	\$-	\$9,407
Tax-exempt obligations of states and political subdivisions	72,438	2,619	(73)	74,984
Taxable obligations of states and political subdivisions	45,337	2,215	(35)	47,517
Residential mortgage-backed securities	204,876	5,554	(67)	210,363
Commercial mortgage-backed securities	30,326	5	(264)	30,067
Other debt securities	40,150	1,261	(342)	41,069
Other equity securities	3,000	-	(45)	2,955
Federal Home Loan and Atlantic Central Bankers Bank stock	5,354	-	-	5,354
	\$410,705	\$11,837	\$(826)	\$421,716

Held-to-maturity	September 30, 2011			
	Amortized	Gross unrealized	Gross unrealized	Fair

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	cost	gains	losses	value
Other debt securities - single issuers	\$16,339	\$136	\$(4,291)) \$12,184
Other debt securities - pooled	1,756	-	(317)	) 1,439
	\$18,095	\$136	\$(4,608)	) \$13,623

Available-for-sale	December 31, 2010			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Tax-exempt obligations of states and political subdivisions	\$78,046	\$335	\$(3,070)	) \$75,311
Taxable obligations of states and political subdivisions	28,870	261	(454)	) 28,677
Residential mortgage-backed securities	76,275	704	(64)	) 76,915
Other debt securities	42,700	1,510	(186)	) 44,024
Federal Home Loan and Atlantic Central Bankers Bank stock	6,238	-	-	6,238
	\$232,129	\$2,810	\$(3,774)	) \$231,165

Held-to-maturity	December 31, 2010			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Other debt securities - single issuers	\$19,526	\$128	\$(4,632)	) \$15,022
Other debt securities - pooled	1,838	-	(310)	) 1,528
	\$21,364	\$128	\$(4,942)	) \$16,550

Available-for-sale security fair values are based on the fair market value supplied by a third-party market data provider while fair values for 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 amortized cost and fair value of the Company's investment securities at September 30, 2011, 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	\$26,476	\$26,467	\$-	\$-
Due after one year through five years	62,689	64,331	-	-
Due after five years through ten years	24,366	25,062	3,273	2,842
Due after ten years	288,820	297,547	14,822	10,781
Other equity securities	3,000	2,955	-	-
Federal Home Loan and Atlantic Central Bankers Bank stock	5,354	5,354	-	-
	\$410,705	\$421,716	\$18,095	\$13,623

At September 30, 2011 and December 31, 2010, investment securities with a book value of approximately \$32.0 million and \$19.8 million, respectively, were pledged as collateral under repurchase agreements as required or permitted by law. There were \$623,000 gross gains on sales of securities in the first nine months of 2011 as compared to gains of \$1.2 million in the first nine months of 2010.

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The table below indicates the length of time individual securities had been in a continuous unrealized loss position at September 30, 2011 (dollars in thousands):

September 30, 2011 Available-for-sale		Less than 12 months		12 months or longer		Total	
Description of Securities	Number of securities	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Unrealized losses
Tax-exempt obligations of states and political subdivisions	9	\$ 8,572	\$ (27)	\$ 3,145	\$ (46)	\$ 11,717	\$ (73)
Taxable obligations of states and political subdivisions	8	13,827	(35)	-	-	13,827	(35)
Residential mortgage-backed securities	5	13,953	(59)	519	(8)	14,472	(67)
Commercial mortgage-backed securities	5	18,048	(264)	-	-	18,048	(264)
Other debt securities	3	12,270	(21)	2,542	(321)	14,812	(342)
Other equity securities	1	2,955	(45)	-	-	2,955	(45)
Total temporarily impaired investment securities	31	\$ 69,625	\$ (451)	\$ 6,206	\$ (375)	\$ 75,831	\$ (826)

September 30, 2011 Held-to-maturity		Less than 12 months		12 months or longer		Total	
Description of Securities	Number of securities	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Unrealized losses
Other debt securities - single issuers	2	\$ -	\$ -	\$ 7,778	\$ -	\$ 7,778	\$ -