Bancorp, Inc.
Form 10-K
March 16, 2010

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

FORM 10-K

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

For the fiscal year ended December 31, 2009

OR

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

For the transition period from to

Commission File Number 51018

The Bancorp, Inc.
(exact name of registrant as specified in its charter)

| Delaware | 23-3016517 |
|---|---|
| (State or other jurisdiction of 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

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

| Title of each Class | Name of each Exchange on which Registered |
|---|---|
| None | None |

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

Common Stock, par value $1.00 per share

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

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

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 ¨ No ¨

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

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

| | |
|---|---|
| Large accelerated filer ¨ | Accelerated filer x |
| Non-accelerated filer ¨ | Smaller Reporting Company ¨ |

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

The aggregate market value of the common shares of the registrant held by non-affiliates of the registrant, based upon the closing price of such shares on June 30, 2009 of $6.00, was approximately $75.5 million.

As of February 28, 2010, 26,181,291 shares of common stock, par value $1.00 per share, of the registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for registrant's 2009 Annual Meeting of Shareholders are incorporated by reference in Part III of this Form 10-K.

THE BANCORP, INC.
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## FORWARD-LOOKING STATEMENTS

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

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

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

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

- the risk factors discussed and identified in Item 1A of this report and in other of our public filings with the SEC;
- recessionary conditions in the U.S. economy and significant dislocations in the current markets have had, and we expect will continue to have, significant adverse effects on our assets and operating results, including increases in payment defaults and other credit risks, decreases in the fair value of some assets and increases in our provision for loan losses;
- current economic and credit market conditions, if they continue, may result in a reduction in our capital base, reducing our ability to maintain deposits at current levels;
- operating costs may increase;
- adverse governmental or regulatory policies may be enacted, including policies affecting institutions such as ours which have obtained funds under the U.S. government's Troubled Asset Relief Program;

- management and other key personnel may be lost;
- competition may increase;
- the costs of our interest-bearing liabilities, principally deposits, may increase relative to the interest received on our interest-bearing assets, principally loans, thereby decreasing our net interest income;
- the geographic concentration of our loans could result in our loan portfolio being adversely affected by economic factors unique to the geographic area and not reflected in other regions of the country;
- the market value of real estate that secures our loans has been and may continue to be, adversely affected by current economic and market conditions, and may be affected by other conditions outside of our control such as lack of demand for real estate of the type securing of our loans, natural disasters, changes in neighborhood values, competitive overbuilding, weather, casualty losses, occupancy rates and other similar factors.

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

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PART I

Item 1. Business.

Overview

We are a Delaware bank holding company with a wholly owned subsidiary, The Bancorp Bank, which we refer to as the Bank. Through the Bank, we provide a wide range of commercial and retail banking services and related other banking services, which include private label banking, health savings accounts and prepaid debit cards, to both regional and national markets.

Regionally, we focus on providing our banking services directly to retail and commercial customers in the Philadelphia-Wilmington metropolitan area, consisting of the 12 counties surrounding Philadelphia, Pennsylvania and Wilmington, Delaware including Philadelphia, Delaware, Chester, Montgomery, Bucks and Lehigh Counties in Pennsylvania, New Castle County in Delaware and Mercer, Burlington, Camden, Ocean and Cape May Counties in New Jersey. We believe that changes over the past ten years in this market have created an underserved base of small and middle-market businesses and high net worth individuals that are interested in banking with a company headquartered in and with decision-making authority based in, the Philadelphia-Wilmington area. We believe that our presence in the area provides us with insights as to the local market and, as a result, with the ability to tailor our products and services, and particularly the structure of our loans, more closely to the needs of our targeted customers. We seek to develop overall banking relationships with our targeted customers so that our lending operations serve as a generator of deposits and our deposit relationships serve as a source of loan assets. We believe that our regional presence also allows us to oversee and further develop our existing customer relationships.

Nationally, we focus on providing our services to organizations with a pre-existing customer base who can use one or more selected banking services tailored to support or complement the services provided by these organizations to their customers. These services include private label banking; credit and debit card processing for merchants affiliated with independent service organizations; healthcare savings accounts for healthcare providers and third-party plan administrators; and prepaid debit 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, card processing, health savings account and stored value card programs are a source of fee income and low-cost deposits .

Our offices are located at 409 Silverside Road, Wilmington, Delaware 19809 and our telephone number is (302) 385-5000. We also maintain executive offices at 1818 Market Street, Philadelphia, Pennsylvania 19103. Our web address is www.thebancorp.com. We make available free of charge on our website our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports as soon as reasonably practicable after we file them with the SEC.

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Our Strategy

Our principal strategies are to:

Build upon the Network of Relationships Developed by our Senior Management. We seek to build upon our senior managers' network of relationships through the regional division of the Bank that target individuals and businesses in the greater Philadelphia-Wilmington metropolitan area with which our senior management has developed relationships. This division seeks to offer these customers products and services that meet their banking and financing needs, and to provide them with the attention of senior management which we believe is often lacking at larger financial institutions. The division offers a staff of people experienced in dealing with, and solving, the banking and financing needs of small to mid-size businesses.

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

Develop Relationships with Small to Mid-Size Businesses and Their Principals. Our target market regionally is small to mid-size businesses and their principals. We believe that satisfactory attention to this market requires a combination of the ability to provide a high level of service, including customized financing to meet a customer's needs, and the personal attention of senior management. Because of the significant consolidation of banking institutions in the Philadelphia-Wilmington metropolitan area, we believe that many of the financial institutions with which we compete may have become too large to provide those services efficiently and cost-effectively.

Use Our Existing Infrastructure as a Platform for Growth. We have made significant investments in our banking infrastructure in order to be able to support our growth. We believe that this infrastructure can accommodate significant additional growth without substantial additional expenditure. We believe that this infrastructure enables us to maximize efficiencies in both our regional market and our national affinity group market through economies of scale as we grow without adversely affecting our relationships with our customers.

Commercial Banking Operations

Deposit Products and Services. We offer our depositors a wide range of products and services, including:

- checking accounts, featuring no required minimum balance, no service fees, competitive interest rates, rebates on automated teller machine fees, free debit Visa check card and overdraft protection plans; premium checking accounts have free online bill paying, an enhanced debit Visa check card or an automated teller machine (ATM) card;
- savings accounts;
- health savings accounts;
- money market accounts;

- individual retirement accounts, including Roth and education IRAs as well as traditional IRAs;
- commercial accounts, including general commercial checking, small business checking, business savings and business money market accounts;
- certificates of deposit; and
- stored value and payroll cards.

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Lending Activities. At December 31, 2009, we had a loan portfolio of $1.52 billion, representing 74.6% of our total assets at that date. We originate substantially all of our portfolio loans, although from time to time we purchase individual residential mortgages, leases and lease pools and in two instances in 2008 purchased participations in loans originated by an affiliated third party, of which one was paid off in 2008. Where a proposed loan exceeds our lending limit, we typically sell a participation in the loan to another financial institution. We generally separate our lending function into commercial term loans, commercial mortgage loans, commercial lines of credit, construction loans, direct lease financing and personal loans. We focus primarily on lending to small to mid-size businesses and their principals. As a result, commercial, construction and commercial mortgage loans have comprised a majority of our loan portfolio since we commenced operations. At December 31, 2009, commercial, construction and commercial mortgage loans made up $1.18 billion, or 77.4%, of our total loan portfolio. These types of loans are generally viewed as having more risk of default than residential real estate loans or consumer loans and are typically larger than residential real estate and consumer loans.

While originating loans, we rely upon our evaluation of the creditworthiness and debt-servicing capability of a borrower. We typically require that our loans be secured by tangible collateral, usually residential or commercial real property. We do not typically engage in non-recourse lending (that is, lending as to which the lender only looks to the asset securing the loan for repayment) and will typically require the principals of any commercial borrower to personally guarantee the loan. In general, we require that the ratio of the principal amount of a loan to the value of the collateral securing the loan be no greater than between 65% to 85% depending on the type of property and its use. The maturity dates on our loans are generally short to mid-term. We typically seek to structure our loans with variable rates of interest based upon either a stated prime rate or the London Inter-Bank Offered Rate, or LIBOR, although we do lend at fixed rates when appropriate for a particular customer.

Commercial Term Lending. We make loans to businesses to finance fixed assets, acquisitions and other long-term needs of our business customers. While the loans are generally secured, the loans are underwritten principally upon our evaluation of the future cash flows of the borrower. Maturities of these loans are typically five years or less and have amortization schedules that do not exceed the useful life of the asset to be acquired with the financing. As of December 31, 2009, commercial term loans were 18.1% of our total loan portfolio.

Commercial Mortgage Lending. We make loans to businesses to finance the acquisition of, or to refinance, income-producing real property. The principal repayment source for these loans is the property and the income it produces, which depends upon the operation of the property and its market value, although we also evaluate the creditworthiness of the borrower and guarantors as a second repayment source. These loans typically are secured by real estate which is either for rent or sale. Maturities on these loans generally do not exceed 10 years, although they may have an extended amortization schedule resulting in a balloon payment due at maturity. As of December 31, 2009, commercial mortgages were 37.4% of our total loan portfolio.

Commercial Lines of Credit. Lines of credit are typically short-term facilities intended to support seasonal cash needs. They may be secured or unsecured, depending on the purpose, anticipated repayment source and financial condition of the borrower. This form of financing is typically self-liquidating as repayment comes from the conversion of the financed assets to cash. All lines of credit are payable on demand and the availability of the line of credit is subject to a periodic review of the borrower’s financial information. Generally, lines of credit terminate between one year and 18 months after they have been established. Lines of credit that have termination dates in excess of one year typically must be paid out at least annually. As of December 31, 2009, loans drawn from our outstanding commercial lines of credit were 8.3% of our total loan portfolio.

1-4 Family Construction Loans. We make loans to residential developers for acquisition of land, site improvements and construction of single and multi-family residential units for sale. Terms of the loans are generally for no longer

than two years. Repayment of these loans typically depends on the sale of the residential units to consumers or sale of the property to another developer. As of December 31, 2009, construction loans were 6.6% of our total loan portfolio.

Commercial Construction, Acquisition and Development. We make construction loans on industrial properties that later require permanent financing. As of December 31, 2009, construction loans were 7.0% of our total loan portfolio.

Direct Lease Financing. Substantially all of our leases are for financing commercial automobile fleets and fleets of government municipalities and agencies. As of December 31, 2009, direct lease financing made up 5.2% of our total loan portfolio.

Consumer Loans. We provide loans to consumers to finance personal residences, automobiles, home improvements and other personal items. The majority of our consumer loans are secured by either the borrower’s residence, typically in a first or second lien position, or the borrower’s securities portfolio. The ratio of loan amount to the value of the collateral securing the loan is typically less than 85% on loans collateralized by real estate and less than 50% on loans collateralized by securities; however, based on a borrower’s financial strength, we may increase the ratio. As of December 31, 2009, consumer loans were 17.4% of our total loan portfolio.

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Affinity Banking

Private Label Banking. For our private label banking, we create unique banking websites for each affinity group, enabling the affinity group to provide its members with the banking services and products we offer or just those banking services and products it believes will be of interest to its members. We design each website to carry the brand of the affinity group and carry the "look and feel" of the affinity group's own website. Each such website, however, indicates that we provide all banking services. To facilitate the creation of these individualized banking websites, we have packaged our products and services into a series of modules, with each module providing a specific service, such as basic banking, electronic payment systems and loan and mortgage centers. Each affinity group selects from our menu of service modules those services that it wants to offer its members or customers. We and the affinity group also may create products and services, or modify products and services already on our menu, that specifically relate to the needs and interests of the affinity group's members or customers. We pay fees to certain affinity groups, based upon deposits and loans they generate. These fees vary, and certain fees increase as market interest rates increase, while other fee rates are fixed. We include these fees as a component of expense in calculating our net interest margin. For the year ended December 31, 2009, these fees aggregated $2.3 million. The $2.3 million total includes amounts related to healthcare accounts, merchant card processing and stored value (prepaid) cards which are described below.

Healthcare Accounts. We have developed relationships with healthcare providers, third-party administrators and benefit administrators who facilitate the enrollment of both groups and individuals in high deductible health plans and health savings accounts. Our health savings account program provides entities a turnkey, low-cost way to provide this benefit to their members. Under these programs, we open health savings accounts offered in a privately labeled banking environment, which enables the affinity group's members to access account information, conduct transactions and process payments to healthcare providers. The health savings accounts provide us with a low-cost source of deposits.

Merchant Card Processing. We operate systems and act as the depository institution for the processing of credit and debit card transactions by merchant establishments. We also act as the bank sponsor and the depository institution for independent service organizations that operate similar systems. We have created banking products that enable those organizations to more easily process electronic payments and to better manage their risk of loss from the parties with which they deal. Our services also enable independent service organizations to provide their members with access to their account balances through the Internet. These relationships are a source of demand deposits and fee income.

Stored Value Cards. We have developed stored value card programs for insurance indemnity payments, flexible spending account funds, corporate and incentive rewards, payroll cards, consumer gift cards and general purpose re-loadable cards. Our cards are offered to end users through our relationships with insurers, benefits administrators, third-party administrators, corporate incentive companies, rebate fulfillment organizations, payroll administrators, large retail chains and consumer service organizations. We also provide consumer use cards branded with network or association logos such as Visa, MasterCard, and Discover. Our stored value program provides prepaid programs that generate non-interest revenue through interchange and cardholder fees, and low-cost deposits from the amounts delivered to us to fund the cards.

Private Client Services. We have developed strategic relationships with limited-purpose trust companies, registered investment advisors, broker-dealers, and other firms in the wealth management marketplace. Through these relationships we provide customized, privately labeled demand, money market and loan products to the client base of our affinity customers.

Other Operations

Account Services. Account holders may access our products and services through the website of their affinity group or other organizational affiliate, or through our website, from any personal computer with a secure web browser, regardless of its location. This access allows account holders to apply for loans, review account activity, enter transactions into an online account register, pay bills electronically, receive statements by mail and print bank statement reports. To open a new account, a customer must complete a simple online enrollment form. Customers can make deposits into an open account via direct deposit programs, by transferring funds between existing accounts, by wire transfer, by mail, at any deposit-taking automated teller machine, at any of the more than 3,400 UPS Stores throughout the United States, or in person at our Delaware offices (although we do not maintain a teller line). Customers may also make withdrawals and have access to their accounts at automated teller machines.

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Call Center. We have a call center that operates as an inbound customer support center. The call center provides account holders or potential account holders with assistance in opening accounts, applying for loans or otherwise accessing the Bank's products and services, and in resolving any problems that may arise in the servicing of accounts, loans or other banking products. The call center operates from 8:30 a.m. to 9:00 p.m. EST Monday through Friday. Outside these hours, and on weekends, we outsource call center operations to M&I Direct, a third-party service provider.

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

- fulfillment functions and similar operating services, including check processing, check imaging, electronic bill payment and statement rendering;
- issuance and servicing of debit cards;
- compliance and internal audit;
- call center customer support;
- access to automated teller machine networks;
- processing and temporarily funding residential mortgage loans where we will not hold the loans in our portfolio;
- bank accounting and general ledger system; and
- data warehousing services.

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

Sales and Marketing

Commercial Banking. Our regional banking operation targets a customer base of successful individuals and business owners in the Philadelphia-Wilmington area and uses a personal contact/targeted media advertising approach. This program consists of:

- direct e-mail and letter introductions to senior management's contacts;
- invitation-only, private receptions with prominent business leaders in the Philadelphia community;
- advertisements in local media outlets, principally newspapers and radio stations; and
- charitable sponsorships.

Affinity Group Banking. Because of the national scope of our affinity group banking operation, we use a personal sales/targeted media advertising approach. This program consists of:

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

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- direct mailing; and
- direct contact with potential affinity organizations by our marketing staff, with relationship managers focusing on particular regional markets.

Loan Production Offices. We maintain two loan production offices in the Philadelphia metropolitan area. We established these offices to serve suburban areas south (our Exton, Pennsylvania office) and north (our Warminster, Pennsylvania office) of center city Philadelphia. In addition, we maintain two offices to market and administer our automobile leasing programs, one in Maryland and one in Florida.

Marketing Staff. Our marketing staff focuses on marketing to particular affinity group communities and the targeted audience of our Philadelphia regional banking operations.

Technology

Core and Internet Banking Systems. We obtain a significant portion of our core and internet banking systems and operations under non-exclusive licenses between us and Fidelity National Information Services, Inc. (previously M&I Data Services). These systems principally include those for general ledger and deposit, loan and check processing. We utilize an internet banking platform offered by Digital Insight Corporation. The Digital Insight platform is a front end system used by customers to access their account via the Internet.

Software. We have internally-developed software to provide our online and traditional banking products and services. We have developed a series of financial service modules that are easy to deploy and that we can readily adopt to serve our customers' needs. We developed these modules using an open architecture and object-oriented technologies. We use the modules to extend the functionality of our core and internet banking systems and to personalize financial services to the constituencies we serve.

System Architecture. We provide financial products and services through a highly-secured four-tiered architecture using the Microsoft Windows Server 2003 and 2008 operating system, Microsoft Internet Information Server web server software, Microsoft SQL 2005, Microsoft .NET Framework, CheckPoint Systems and Cisco Systems firewalls, and our licensed and proprietary financial services software. User activity is distributed and load-balanced across multiple servers on each tier through our proprietary software and third-party equipment, which maintain replicated, local storage of underlying software and data, resulting in minimal interdependencies among servers. Each server is backed up to a storage area network that replicates across locations. The system's flexible architecture is designed to have the capacity, or to be easily expanded to add capacity, to meet future demand. In addition to built-in redundancies, we continuously operate automated internal monitoring tools and independent third parties continuously monitor our websites.

Our primary website hosting facility is in Wilmington, Delaware and connects to the Internet by Cisco routers through Internap Technology's New York network operating center and U.S. LEC's Bethlehem, Pennsylvania network operating center. We also maintain a completely redundant standby hosting facility at our Sioux Falls, South Dakota office. Internap's Denver network operating center provides Internet connectivity to the Sioux Falls offices.

Intellectual Property and Other Proprietary Rights

Since a significant portion of the core and internet banking systems and operations we use come from third-party providers, our primary proprietary intellectual property is the software for creating affinity group bank websites. We

rely principally upon trade secret and trademark law to protect our intellectual property. We do not typically enter into confidentiality agreements with our employees or our affinity group customers because we maintain control over the software used to create the sites and their banking functions rather than licensing them for customers to use. Moreover, we believe that factors such as the relationships we develop with our affinity group and banking customers, the quality of our banking products, the level and reliability of the service we provide, and the customization of our products and services to meet the need of our affinity group and other customers are substantially more significant to our ability to succeed.

Competition

We believe that our principal competitors are mid-Atlantic regional banks such as Citizens Bank, Sovereign Bank, TD Bank, Royal Bank, Wilmington Trust and Metro Bank. We also face competition from Internet-based banks, and from bank divisions, such as ING Direct and E-Trade Bank, that provide Internet banking services as part of their overall banking environment. We also directly compete with National Interbanc and Virtual Bank, Internet-based banks that provide private labeled financial services to affinity groups and communities. We compete more generally with numerous other banks and thrift institutions, mortgage brokers and other financial institutions such as finance companies, credit unions, insurance companies, money market funds, investment firms and private lenders, as well as on-line computerized services and other non-traditional competitors. We believe that our ability to compete successfully depends on a number of factors, including:

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- our ability to build upon the customer relationships developed by our senior management and through our marketing programs;
- our ability to expand our affinity group banking program;
- competitors' interest rates and service fees;
- the scope of our products and services;
- the relevance of our products and services to customer needs and demands and the rate at which we and our competitors introduce them;
- satisfaction of our customers with our customer service;
- our perceived safety as a depository institution, including our size, credit rating, capital strength and earnings strength;
- our perceived ability to withstand current turbulent economic conditions;
- ease of use of our banking website; and
- the capacity, reliability and security of our network infrastructure.

If we experience difficulty in any of these areas, our competitive position could be materially adversely affected, which would affect our growth, our profitability and, possibly, our ability to continue operations. While the banking industry is highly competitive, we believe we can compete effectively as a result of our focus on small to mid-size businesses and their principals, a market segment we believe is under-served in our region. However, many of our competitors have larger customer bases, greater name recognition and brand awareness, greater financial and other resources and longer operating histories which may make it difficult for us to compete effectively. Our future success will depend on our ability to compete effectively in a highly competitive market and geographic area.

Regulation Under Banking Law

We are extensively regulated under both federal and state banking law. We are a Delaware corporation and a registered bank holding company registered with the Board of Governors of the Federal Reserve System, or the Federal Reserve. Until September 2009, we had elected to be treated as a financial holding company. Because we had not engaged in the expanded range of businesses permitted to a financial holding company; we changed to the more simplified bank holding company structure at that time. We are also subject to supervision and regulation by the Federal Reserve and the Delaware Office of the State Bank Commissioner. The Bank, as a state-chartered, nonmember depository institution, is supervised by the Delaware Office of the State Bank Commissioner, as well as the Federal Deposit Insurance Corporation, or FDIC.

The Bank is subject to requirements and restrictions under federal and state law, including requirements to maintain reserves against deposits, restrictions on the types and amount of loans that may be made and the interest that may be charged, and limitations on the types of investments that may be made and the types of services that may be offered. Various consumer laws and regulations also affect the Bank's operations.

Federal Regulation

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

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The BHCA generally limits the activities of a bank holding company and its subsidiaries to that of banking, managing or controlling banks, or any other activity that is determined to be so closely related to banking or to managing or controlling banks that an exception is allowed for those activities. These activities include, among other things, and subject to limitations, operating a mortgage company, finance company, credit card company or factoring company; performing data processing operations; provide investment and financial advice; acting as an insurance agent for particular types of credit related insurance and providing specified securities brokerage services for customers. We have no present plans to engage in any of these activities other than through the Bank.

Transactions with Affiliates. There are various legal restrictions on the extent to which a bank holding company and its nonbank subsidiaries can borrow or otherwise obtain credit from banking subsidiaries or engage in other transactions with or involving those banking subsidiaries. In general, these restrictions require that any such transaction must be on terms that would ordinarily be offered to unaffiliated entities and secured by designated amounts of specified collateral. Transactions between a banking subsidiary and its holding company or any nonbank subsidiary are limited to 10% of the banking subsidiary's capital stock and surplus and, as to the holding company and all such nonbank subsidiaries in the aggregate, up to 20% of the bank's capital stock and surplus.

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

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

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

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

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

Regulatory Restrictions on Dividends. It is the policy of the Federal Reserve that bank 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 bank holding companies should not maintain a level of cash dividends that undermines the bank holding company's ability to serve as a source of strength to its banking subsidiaries. See "Holding Company Liability," below. Federal Reserve policies also affect the ability of a bank holding company to pay in-kind dividends.

Various federal and state statutory provisions limit the amount of dividends that subsidiary banks can pay to their holding companies without regulatory approval. The Bank is also subject to limitations under state law regarding the payment of dividends, including the requirement that dividends may be paid only out of net profits. See “Delaware Regulation” below. In addition to these explicit limitations, federal and state regulatory agencies are authorized to prohibit a banking subsidiary or bank holding company from engaging in unsafe or unsound banking practices. Depending upon the circumstances, the agencies could take the position that paying a dividend would constitute an unsafe or unsound banking practice.

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

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As a result of our participation in the Troubled Asset Relief Program's Capital Purchase Program, we are required to obtain the consent of the U.S. Treasury Department to declare or pay any dividend or make any distribution on our common stock until we have redeemed its Series B Fixed Rate Cumulative Perpetual Preferred Stock or Treasury has transferred the Series B Preferred Stock to a third party.

Holding Company Liability. Under Federal Reserve policy, a bank holding company is expected to act as a source of financial strength to each of its banking subsidiaries and commit resources to their support. Such support may be required at times when, absent this Federal Reserve policy, a holding company may not be inclined to provide it. As discussed below under "—Prompt Corrective Action," a bank holding company in certain circumstances could be required to guarantee the capital plan of an undercapitalized banking subsidiary.

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

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

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

The standards classify total capital for this risk-based measure into two tiers, referred to as Tier 1 and Tier 2. Tier 1 capital consists of common shareholders' equity, certain non-cumulative perpetual preferred stock, and minority interests in equity accounts of consolidated subsidiaries, less certain adjustments. Tier 2 capital consists of the allowance for loan and lease losses (within certain limits), perpetual preferred stock not included in Tier 1, hybrid capital instruments, term subordinate debt, and intermediate-term preferred stock, less certain adjustments. Together, these two categories of capital comprise a bank's or bank holding company's "qualifying total capital." However, capital that qualifies as Tier 2 capital is limited in amount to 100% of Tier 1 capital in testing compliance with the total risk-based capital minimum standards. Banks and bank holding companies must have a minimum ratio of 8% of qualifying total capital to risk-weighted assets, and a minimum ratio of 4% of qualifying Tier 1 capital to risk-weighted assets. On October 22, 2008, the Federal Reserve issued an interim final rule that specifically permits bank holding companies that issue new senior perpetual preferred stock to the Treasury Department under the Capital Purchase Program (discussed below), such as us, to include such capital instruments in Tier 1 capital for purposes of the Federal Reserve Board's risk-based and leverage capital rules and guidelines for bank holding companies. At December 31, 2009, we and the Bank had total capital to risk-adjusted assets ratios of 17.06% and 12.22%, respectively, and Tier 1 capital to risk-adjusted assets ratios of 15.81% and 10.97%, respectively including the Capital Purchase Program funds.

In addition, the Federal Reserve and the FDIC have established minimum leverage ratio guidelines. The principal objective of these guidelines is to constrain the maximum degree to which a financial institution can leverage its equity capital base. It is intended to be used as a supplement to the risk-based capital guidelines. These guidelines provide for a minimum ratio of Tier 1 capital to adjusted average total assets of 3% for bank holding companies that meet certain specified criteria, including those having the highest regulatory rating. Other financial institutions generally must maintain a leverage ratio of at least 3% plus 100 to 200 basis points. The guidelines also provide that financial institutions experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above minimum supervisory levels, without significant reliance on intangible assets. Furthermore, the banking agencies have indicated that they may consider other indicia of capital strength in evaluating proposals for expansion or new activities. At December 31, 2009, we and the Bank had leverage ratios of 12.68% and 8.78%, respectively.

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

Prompt Corrective Action. Federal banking agencies must take prompt supervisory and regulatory actions against undercapitalized depository institutions pursuant to the Prompt Corrective Action provisions of the Federal Deposit Insurance Act. Depository institutions are assigned one of five capital categories—"well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized"—and are subjected to differential regulation corresponding to the capital category within which the institution falls. Under certain circumstances, a well capitalized, adequately capitalized or undercapitalized institution may be treated as if the institution were in the next lower capital category. As we describe in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources," an institution is deemed to be well capitalized if it has a total risk-based capital ratio of at least 10%, a Tier 1 risk-based capital ratio of at least 6.0% and a leverage ratio of at least 5%. An institution is adequately capitalized if it has a total risk-based capital ratio of at least 8%, a Tier 1 risk-based capital ratio of at least 4% and a leverage ratio of at least 4%. At December 31, 2009, our total risk-based capital ratio was 17.06%, our Tier 1 risk-based capital ratio was 15.81% and our leverage ratio was 12.68%, while the Bank's ratios were 12.22%, 10.97% and 8.78%, respectively. A depository institution is generally prohibited from making capital distributions (including paying dividends) or paying management fees to a holding company if the institution would thereafter be undercapitalized. Adequately capitalized institutions cannot accept, renew or roll over brokered deposits except with a waiver from the FDIC, and are subject to restrictions on the interest rates that can be paid on such deposits. Undercapitalized institutions may not accept, renew, or roll over brokered deposits. As of December 31, 2009, both we and the Bank were "well capitalized" within the meaning of the regulatory categories.

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

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

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

bankruptcy. Failure to implement a capital plan, or failure to have a capital restoration plan accepted, may result in a conservatorship or receivership.

Insurance of Deposit Accounts. The Bank's deposits are insured to the maximum extent permitted by the Deposit Insurance Fund ("DIF"). Upon enactment of the Emergency Economic Stabilization Act of 2008 on October 3, 2008, federal deposit insurance coverage levels under the DIF temporarily increased from $100,000 to $250,000 per deposit category, per depositor, per institution, through December 31, 2009. On May 20, 2009, the Helping Families Save Their Homes Act extended the temporary increase through December 31, 2013.

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

The FDIC has implemented a risk-based assessment system under which FDIC-insured depository institutions pay annual premiums at rates based on their risk classification. A bank's risk classification is based on its capital levels and the level of supervisory concern the bank poses to the regulators. Institutions assigned to higher risk classifications (that is, institutions that pose a greater risk of loss to the DIF) pay assessments at higher rates than institutions that pose a lower risk. A decrease in a bank's capital ratios or the occurrence of events that have an adverse effect on a bank's asset quality, management, earnings or liquidity could result in a substantial increase in deposit insurance premiums paid by a bank, which would adversely affect earnings. In addition, the FDIC can impose special assessments in certain instances. The range of assessments in the risk-based system is a function of the reserve ratio in the DIF. Each insured institution is assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other factors. An institution's assessment rate depends upon the category to which it is assigned. Risk Category I, which contains the least risky depository institutions, is expected to include more than 90% of all institutions. Unlike the other categories, Risk Category I contains further risk differentiation based on the FDIC's analysis of financial ratios, examination component ratings and other information. Assessment rates are determined by the FDIC and, including potential adjustments to reflect an institution's risk profile, currently range from seven to twenty-four basis points for the healthiest institutions (Risk Category I) to 77.5 basis points of assessable deposits for the riskiest (Risk Category IV). The FDIC may adjust rates uniformly from one quarter to the next, except that no single adjustment can exceed three basis points. At December 31, 2009, the Bank's DIF assessment rate was 15.58 basis points.

On November 12, 2009, in order to strengthen the cash position of the FDIC's Deposit Insurance Fund immediately, the FDIC required our banking subsidiary to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. In addition, the FDIC adopted a three-basis point increase in assessment rates effective on January 1, 2011. Under the rule each institution's deposit assessment base would be calculated using its third quarter 2009 deposit assessment base, adjusted quarterly for an estimated 5 percent annual growth rate in the deposit assessment base through the end of 2012. The prepaid assessment was collected on December 30, 2009 and was mandatory for all institutions (subject to the exercise of the FDIC's discretion to exempt an institution if the FDIC determines that the prepayment would affect the safety and soundness of the institution). We have recorded a prepaid assessment of approximately $10.0 million, which according to the rule was recorded as a prepaid expense (assets) as of December 30, 2009. The prepaid assessment will be amortized and recognized as an expense over the following three years.

In addition, the FDIC announced on February 27, 2009 an interim rule pursuant to which it would be imposing an emergency special assessment of $0.20 per $100 of domestic deposits for all banks to be collected on September 30, 2009. The assessment base for the emergency special assessment would be the same as the assessment base for the second quarter risk-based assessment. The FDIC stated that this emergency special assessment was being imposed because recent and anticipated failures of banks have significantly increased losses to the DIF, resulting in a large decline in the DIF's reserve ratio, which has reached its lowest level since 1993. In addition, the FDIC's interim rule provides the FDIC with authority to impose an additional emergency special assessment of up to 10 basis points if at the end of any quarter the FDIC determines that the DIF's reserve ratio has fallen close to zero or negative. In May 2009, the FDIC adopted the final rule, effective June 30, 2009, that imposed a special assessment of five cents for every $100 on each insured depository institution's assets minus its Tier 1 capital as of June 30, 2009, subject to a cap equal to $0.10 per $100 of assessable deposits for the second quarter.

Loans-to-One Borrower. Generally, a bank may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of its unimpaired capital and surplus. An additional amount may be lent, equal to 10% of unimpaired capital and surplus, if such loan is secured by specified collateral, generally readily marketable collateral (which is defined to include certain financial instruments and bullion) and real estate. At December 31, 2009, the Bank's limit on loans-to-one borrower was $27.9 million ($46.4 million for secured loans). At December 31, 2009, the Bank's largest aggregate outstanding balance of loans-to-one borrower was $33.9 million, which was secured by real estate.

Transactions with Related Parties. The Bank's authority to engage in transactions with related parties or "affiliates" (that is, any company that controls or is under common control with an institution, including us and our non-bank subsidiaries) is limited by Sections 23A and 23B of the Federal Reserve Act and Regulation W promulgated thereunder. Section 23A restricts the aggregate amount of covered transactions with any individual affiliate to 10% of the Bank's capital and surplus. At December 31, 2009, we were not indebted to the Bank. The aggregate amount of covered transactions with all affiliates is limited to 20% of the Bank's capital and surplus. Certain transactions with affiliates are required to be secured by collateral in an amount and of a type described in Section 23A and the purchase of low quality assets from affiliates is generally prohibited. Section 23B generally provides that certain transactions with affiliates, including loans and asset purchases, must be on terms and under circumstances, including credit standards, that are substantially the same or at least as favorable to the institution as those prevailing at the time for comparable transactions with non-affiliated companies.

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

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

Privacy. Financial institutions are required to disclose their policies for collecting and protecting confidential information. Customers generally may prevent financial institutions from sharing nonpublic personal financial information with nonaffiliated third parties except under narrow circumstances, such as the processing of transactions requested by the consumer or when the financial institution is jointly sponsoring a product or service with a nonaffiliated third party. Additionally, financial institutions generally may not disclose consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing to consumers. The federal banking agencies have proposed changes to the form of customer notice of a bank's privacy policies. When finalized, such amendments could require the Bank to amend its current form of privacy notice.

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

The federal banking agencies also finalized a joint rule implementing Section 315 of the FACT Act that requires each financial institution or creditor to develop and implement a written Identity Theft Prevention Program to detect, prevent and mitigate identity theft in connection with the opening of certain accounts or certain existing accounts. The rule became effective January 1, 2008 and mandatory compliance commenced on November 1, 2008. Among the requirements under the new rule, the Bank is required to adopt "reasonable policies and procedures" to:

- identify relevant red flags for covered accounts and incorporate those red flags into the program;

- detect red flags that have been incorporated into the program;
- respond appropriately to any red flags that are detected to prevent and mitigate identity theft; and

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- ensure the program is updated periodically, to reflect changes in risks to customers or to the safety and soundness of the financial institution or creditor from identity theft.

USA PATRIOT Act. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act, which we refer to as the USA PATRIOT Act, amended, in part, the Bank Secrecy Act, by providing for the facilitation of information sharing among governmental entities and financial institutions for the purpose of combating terrorism and money laundering by enhancing anti-money laundering and financial transparency laws, as well as enhanced information collection tools and enforcement mechanisms for the U.S. government, including: (1) requiring standards for verifying customer identification at account opening; (2) rules to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering; (3) reports by non-financial trades and businesses filed with the Treasury Department's Financial Crimes Enforcement Network for transactions exceeding $10,000; (4) filing suspicious activity reports by brokers and dealers if they believe a customer may be violating U.S. laws or regulations; and (5) requiring enhanced due diligence requirements for financial institutions that administer, maintain, or manage private bank accounts or correspondent accounts for non-U.S. persons.

Under the USA PATRIOT Act, the Federal Bureau of Investigation can send bank regulatory agencies lists of the names of persons suspected of involvement in terrorist activities. The Bank can be requested to search its records for any relationships or transactions with persons on those lists. If the Bank finds any relationships or transactions, it must file a suspicious activity report and contact the FBI.

The Office of Foreign Assets Control, which we refer to as OFAC, which is a division of the U.S. Treasury Department, is responsible for helping to insure that United States entities do not engage in transactions with "enemies" of the United States, as defined by various Executive Orders and Acts of Congress. OFAC has sent, and will send, bank regulatory agencies lists of names of persons and organizations suspected of aiding, harboring or engaging in terrorist acts. If the Bank finds a name on any transaction, account or wire transfer that is on an OFAC list, the Bank must freeze such account, file a suspicious activity report and notify the FBI. The Bank checks high-risk OFAC areas such as new accounts, wire transfers and customer files. The Bank performs these checks utilizing software, which is updated each time a modification is made to the lists provided by OFAC and other agencies of Specially Designated Nationals and Blocked Persons.

Other regulations. Interest and other charges collected or contracted for by the Bank will be subject to state usury laws and federal laws concerning interest rates. The Bank's loan operations are also subject to federal laws applicable to credit transactions, such as:

- the federal "Truth-In-Lending Act," governing disclosures of credit terms to consumer borrowers;
- the "Home Mortgage Disclosure Act of 1975," requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- the "Equal Credit Opportunity Act," prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- the "Fair Credit Reporting Act of 1978," as amended by the "Fair and Accurate Credit Transactions Act," governing the use and provision of information to credit reporting agencies, certain identity theft protections and certain credit and other disclosures;

- the "Fair Debt Collection Act," governing the manner in which consumer debts may be collected by collection agencies;

- the Home Ownership and Equity Protection Act and Regulation prohibiting unfair, abusive or deceptive home mortgage lending practices, restricting certain mortgage lending activities and advertising and mortgage disclosure standards;

- the "Service Members Civil Relief Act;" and

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- the rules and regulations of the various federal agencies charged with the responsibility of implementing these federal laws.

The deposit operations of the Bank will be subject to:

- the "Truth in Savings Act," which imposes disclosure obligations to enable consumers to make informed decisions about accounts at depository institutions;

- the "Right to Financial Privacy Act," which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records; and

- the "Electronic Funds Transfer Act" and Regulation E issued by the Federal Reserve to implement that act, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services.

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

- a lending test which compares the institution's market share of loans in low and moderate-income areas to its market share of loans in its entire service area and the percentage of the institution's outstanding loans to low-and moderate-income areas or individuals;

- a services test, which evaluates the provision of services that promote the availability of credit to low-and moderate-income areas; and

- an investment test, which evaluates an institution's record of investments in organizations designed to foster community development, small and minority-owned businesses and affordable housing lending, including state and local government housing or revenue bonds.

The Bank was examined for CRA compliance in 2007 and received a "satisfactory" rating.

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

Federal Reserve System. Federal Reserve regulations require banks to maintain non-interest bearing reserves against their transaction accounts (primarily negotiated order of withdrawal, or NOW, and regular checking accounts). For 2009, Federal Reserve regulations generally required that reserves be maintained against aggregate transaction accounts as follows: for accounts aggregating $43.9 million or less (subject to adjustment by the Federal Reserve), the reserve requirement is 3%; and, for accounts aggregating greater than $43.9 million, the reserve requirement is $1.317 million plus 10% (subject to adjustment by the Federal Reserve to between 8% and 14%) of that portion of total transaction accounts in excess of $43.9 million. The first $9.3 million of otherwise reservable balances (subject to adjustments by the Federal Reserve) are exempt from the reserve requirements. At December 31, 2009, the Bank met these requirements.

Actions taken by Congress and bank regulatory agencies in response to market instability. In response to the widely-publicized deteriorating conditions in the U.S. banking and financial system, the U.S. Treasury Department and federal banking agencies have taken various actions as part of a comprehensive strategy to stabilize the financial system and housing markets, and to strengthen U.S. financial institutions.

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Emergency Economic Stabilization Act of 2008. The Emergency Economic Stabilization Act of 2008, enacted on October 3, 2008, provided the Secretary of the U.S. Treasury Department with authority to, among other things, establish the Troubled Asset Relief Program, or TARP, to purchase from financial institutions up to $700 billion of troubled assets, which include residential or commercial mortgages and any securities, obligations, or other instruments that are based on or related to such mortgages, that in each case were originated or issued on or before March 14, 2008. The term “troubled assets” also included any other financial instrument that the Secretary, after consultation with the Chairman of the Federal Reserve determines the purchase of which is necessary to promote financial market stability, upon transmittal of such determination in writing to the appropriate committees of the U.S. Congress.

Under this authority, the Treasury Department implemented the TARP Capital Purchase Program, or CPP, whereby the Treasury Department committed to purchase up to $250 billion of senior preferred shares from qualifying banks, savings associations, and certain bank and savings and loan holding companies engaged only in financial activities. Under the CPP, in conjunction with the purchase of senior preferred shares, the Treasury Department also receives warrants to purchase common stock with an aggregate market price equal to 15 percent of the senior preferred investment.

Recipients of CPP funding under TARP are subject to the Treasury Department’s standards for executive compensation and corporate governance, for the period during which the Treasury Department holds equity issued under the CPP. The executive compensation requirements apply to the chief executive officer, chief financial officer, plus the next three most highly compensated executive officers. Requirements include: (1) ensuring that incentive compensation for senior executives does not encourage unnecessary and excessive risks that threaten the value of the financial institution; (2) required clawback of any bonus or incentive compensation paid to a senior executive based on statements of earnings, gains or other criteria that are later proven to be materially inaccurate; (3) prohibition from making any golden parachute payment to a senior executive based on the Internal Revenue Code provision; and (4) an agreement not to deduct for tax purposes executive compensation in excess of $500,000 for each senior executive. Moreover, recipients of CPP funding must agree, as a condition to participating in the program, that the Treasury Department is empowered to unilaterally amend the terms of the CPP program or impose new restrictions on recipients, in order to comply with any changes in applicable federal statutes.

We entered into a transaction with the Treasury Department on December 12, 2008 pursuant to which we received $45.2 million in exchange for issuing 45,220 shares of the Company’s Series B preferred stock at a 5% annual dividend rate for the first five years, and a 9% annual dividend thereafter if the preferred shares are not redeemed by us. All of that preferred stock was repurchased on March 10, 2010. See Recent Developments in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 of this report. Furthermore, the Treasury Department received 10-year warrants to purchase 1,960,405 shares of our common stock at a purchase price $3.46 per share. The number of warrants issued to the Treasury Department was reduced by 50%, to 980,203 as the company subsequently raised an amount of qualifying capital which, by regulation, resulted in that reduction. We are also subject to the various requirements of the CPP including executive compensation limitations and ability of the Treasury Department to impose future restrictions. We cannot predict whether additional restrictions or requirements will be implemented or the extent to our business may be affected by such limitations.

Temporary Liquidity Guarantee Program. The FDIC established a Temporary Liquidity Guarantee Program on October 14, 2008 (i) guaranteeing certain debt issued by FDIC-insured institutions and certain holding companies on or after October 14, 2008 through June 30, 2009; or, in certain instances, October 31, 2009 and (ii) providing unlimited insurance coverage for non-interest bearing transaction accounts.

Debt Guarantee Program. Under the Debt Guarantee Program, or DGP, the FDIC temporarily guaranteed all newly-issued senior unsecured debt incurred by banks up to prescribed limits. Although we opted to participate in the DGP, we determined to not issue any debt securities under the DGP.

Transaction Account Guarantee Program. Under the Transaction Account Guarantee Program, or TAGP, non-interest bearing transaction accounts are fully insured through June 30, 2010. Non-interest bearing transaction accounts are any deposit accounts with respect to which interest is neither accrued nor paid and on which the insured depository institution does not reserve the right to require advance notice of an intended withdrawal, including traditional demand deposit checking accounts that allow for an unlimited number of deposits and withdrawals at any time. Transaction accounts do not include interest-bearing money market deposit accounts or sweep arrangements that result in funds being placed in an interest-bearing account as the result of the sweep. The unlimited guarantee under the TAGP is in addition to, and separate from, the general deposit insurance coverage provided for under the DIF, currently at $250,000 per depositor, per institution through December 31, 2013. On January 1, 2014 coverage returns to $100,000. We do not participate in the TAGP.

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Term Asset-Backed Securities Loan Facility. Among other liquidity programs, the Federal Reserve Board has established the Term Asset-Backed Securities Loan Facility, or TALF, to provide non-recourse loans secured by eligible asset-backed securities, or ABS. The TALF was designed to increase credit availability and support economic activity by facilitating the issuance of ABS that are collateralized by certain consumer and small business loans. As part of the Treasury Department's Financial Stability plan, announced on February 10, 2009, eligible ABS were expanded to include certain newly-issued commercial mortgage backed securities, or CMBS. The Federal Reserve announced on August 17, 2009 that the TALF will cease making loans secured by ABS on March 31, 2010 and by newly-issued CMBS on June 30, 2010.

Financial Stability Plan. On February 10, 2009, Treasury Secretary Timothy Geithner announced a Financial Stability Plan consisting of both new proposals and expansion of existing programs. The Financial Stability Plan included the following principal aspects:

- a capital assistance plan to provide new capital to institutions;
- an expansion of the TALF program;
- the making home affordable program; and
- the small business and community lending institute.

We do not participate in the capital assistance plan or the TALF and are not affected by the other aspects of the Financial Stability Plan.

The new "making home affordable" program offers assistance to homeowners unable to refinance their loans by providing access to low-cost refinancing on conforming loans owned by the Federal National Mortgage Association, or FNMA, or the Federal Home Loan Mortgage Corporation, or FHLMC. In addition, the program provides a $75 billion homeowner stability initiative to prevent foreclosures, increased funding to FNMA and FHLMC and an increase in the size of the mortgage portfolios that FNMA and FHLMC may retain.

American Recovery and Reinvestment Act. On February 17, 2009, the President signed the American Recovery and Reinvestment Act of 2009 into law as a $787 billion dollar economic stimulus. The stimulus included discretionary spending for among other things, infrastructure projects; increased unemployment benefits and food stamps; as well as tax relief for individuals and businesses. The stimulus also included compensation restrictions that apply retroactively to companies that receive TARP funds.

Unfair or deceptive acts or practices. The federal bank regulatory agencies have issued a joint, final rule on unfair or deceptive acts or practices, specifically as they pertain to banks, savings associations, and federal credit unions, which we refer to collectively as Banks. The rule establishes the agencies' respective authorities to regulate any unfair or deceptive acts or practices engaged in by Banks; and prohibits five specific acts or practices relating to credit card accounts that the agencies identified as "unfair." The five rules pertaining to credit card accounts relate to (1) time to make payments; (2) allocation of payments; (3) interest rate increases; (4) two-cycle billing; and (5) financing of security deposits and fees. While the Bank has until July 1, 2010 to comply with the new rules pertaining to credit card accounts, pending legislation in Congress may accelerate the effective date of the new rules.

Truth in Lending Act regulatory amendments. The Federal Reserve adopted a final rule amending regulations implementing the Truth in Lending Act to revise the disclosures that consumers receive in connection with credit card

accounts and other revolving credit plans. The final rule imposes new format, timing, and content requirements for credit card applications and solicitations, as well as for the disclosures that consumers receive with regard to open-end accounts. While the Bank has until July 1, 2010, to comply with the new rules pertaining to credit card accounts, pending legislation in Congress may accelerate the effective date of the new rules.

Truth in Savings Act regulatory amendments. The Federal Reserve adopted a final rule amending regulations implementing the Truth in Savings Act to address depository institutions' disclosure practices related to overdrafts. The final rule extends to all institutions the requirement to disclose on periodic statements the total amounts charged for overdraft fees and returned item fees, for both the statement period as well as the year-to-date. The final rule also requires institutions that provide account balance information through an automated system to provide a balance that excludes additional funds that may be made available to cover overdrafts.

Electronic Fund Transfer Act regulatory amendments. The Federal Reserve has adopted a rule addressing certain consumer protection proposals relating to the assessment of overdraft fees by banks. This rule is effective July 1, 2010. The rule allows consumers to either opt-out or opt-in to an institution's overdraft service for the payment of ATM and one-time debit card overdrafts before the institution may charge a fee for the service. The rule also prohibits institutions from conditioning the payment of overdrafts for checks or other types of transactions on the consumer also opting in to the institution's payment of overdrafts for ATM and one-time debit card transactions. It is not anticipated that these regulations will materially impact us.

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Proposed legislation and regulatory action. New statutes, regulations and guidance are regularly proposed that contain wide-ranging potential changes to the statutes, regulations and competitive relationships of financial institutions operating and doing business in the United States. As a result of the problems encountered during the past three years in the U.S. financial and banking systems, a number of reform measures are currently under active consideration. For example, the Treasury Department, in its June 17, 2009, "white paper" proposed a comprehensive financial regulatory reform, including:

- establishment of a permanent Financial Service Oversight Council to coordinate information sharing among federal regulators and analyze market risk;
- designation of the Federal Reserve as the primary regulator of all Tier 1 financial holding companies;
- strengthened capital and additional corporate governance requirements;
- establishment of a national bank supervisor for all federally chartered banks and elimination of the federal thrift charter;
- enhanced regulation of financial markets, including derivatives and securitizations;
- regulation of hedge fund and private equity advisors;
- strengthened regulation of money market funds;
- establishment of a Consumer Financial Protection Agency; and
- establishment of an Office of National Insurance to monitor and coordinate policies in the insurance sector.

We cannot predict whether, or in what form any proposed regulation or statute will be adopted or the extent to which our business may be affected by any new regulation or statute.

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

Delaware Regulation

General. As a Delaware bank holding company, we are subject to the supervision of and periodic examination by the Delaware Office of the State Bank Commissioner and must comply with the reporting requirements of the Delaware Office of the State Bank Commissioner. The Bank, as a banking corporation chartered under Delaware law, is subject to comprehensive regulation by the Delaware Office of the State Bank Commissioner, including regulation of the conduct of its internal affairs, the extent and exercise of its banking powers, the issuance of capital notes or

debentures, any mergers, consolidations or conversions, its lending and investment practices and its revolving and closed-end credit practices. The Bank also is subject to periodic examination by the Delaware Office of the State Bank Commissioner and must comply with the reporting requirements of the Delaware Office of the State Bank Commissioner. The Delaware Office of the State Bank Commissioner has the power to issue cease and desist orders prohibiting unsafe and unsound practices in the conduct of a banking business.

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Limitation on Dividends. Under Delaware banking law, the Bank's directors may declare dividends on common or preferred stock of so much of its net profits as they judge expedient; but the Bank must, before the declaration of a dividend on common stock from net profits, carry 50% of its net profits of the preceding period for which the dividend is paid to its surplus fund until its surplus fund amounts to 50% of its capital stock and thereafter must carry 25% of its net profits for the preceding period for which the dividend is paid to its surplus fund until its surplus fund amounts to 100% of its capital stock.

Employees

As of February 15, 2010, we have 367 employees and believe our relationships with our employees to be good. Our employees are not employed under a collective bargaining agreement.

Item 1A. Risk Factors.

Risks Relating to Our Business

Recessionary conditions in the U.S. economy and significant dislocations in the credit markets have had, and we expect they will continue to have, significant adverse effects on our assets and operating results.

Beginning in mid-2007 and continuing through the date of this report, the financial system in the United States, including credit markets and markets for real estate and real-estate related assets, have been subject to unprecedented turmoil. This turmoil has resulted in substantial declines in the availability of credit, the values of real estate and real estate–related assets, the availability of ready markets for those assets, and impairment of the ability of many borrowers to repay their obligations. As a result of these conditions, we incurred significant impairment charges on investment securities, materially increased our provision for loan losses, and experienced an increase in the amount of loans charged off and non-performing assets, and our income and the price of our common stock have declined significantly. Continuation of current conditions could further harm our financial condition and results of operations.

Actions taken by the U.S. government and governmental agencies to respond to current economic conditions may not have a beneficial impact upon us.

In response to current economic conditions, the U.S. Government and a number of governmental agencies have established or proposed a series of programs designed to stabilize the financial system and credit markets. See item 1, "Business-Regulation under Banking Law." We cannot predict whether these programs will have their intended effect or, if they do, whether they will have a beneficial impact upon our financial condition and results of operations.

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

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

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

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

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We are subject to lending risks.

There are risks inherent in making all loans. These risks include interest rate changes over the time period in which loans may be repaid and changes in the national economy or the economy of our regional market that impact the ability of our borrowers to repay their loans or the value of the collateral securing those loans. Our loan portfolio contains a high percentage of commercial, construction and commercial mortgage loans in relation to our total loans and total assets. At December 31, 2009, commercial loans were 26.4% of total loans, construction loans were 13.6% of total loans and commercial mortgage loans were 37.4% of total loans. These types of loans are generally viewed as having more risk of default than residential real estate loans or consumer loans. These types of loans are also typically larger than residential real estate loans and consumer loans. Because our loan portfolio contains a significant number of commercial, construction and commercial mortgage loans with relatively large balances, the deterioration of one or a few of these loans would cause a significant increase in non-performing loans. Current economic conditions have caused increases in our delinquent and defaulted loans. We cannot assure you that we will not experience further increases in delinquencies and defaults or that any such increases will not be material. On a consolidated basis, an increase in non-performing loans could result in an increase in our provision for loan losses or in loan charge-offs and a consequent reduction of our earnings.

Our lending operations are concentrated in the Philadelphia-Wilmington metropolitan area.

Our loan activities are largely based in the Philadelphia-Wilmington metropolitan area. To a lesser extent, our deposit base is also generated from this area. As a result, our consolidated financial performance depends largely upon economic conditions in this area. Local economic conditions that are worse than economic conditions in the United States generally could cause us to experience an increase in loan delinquencies, a reduction in deposits, an increase in the number of borrowers who default on their loans and a reduction in the value of the collateral securing their loans greater than similarly situated institutions in other regions.

We depend to some extent upon wholesale and brokered deposits to satisfy funding needs.

We have relied to some extent on funds provided by wholesale and brokered deposits to support the growth of our loan portfolio. Although funding sources amounted 7.6% of our total deposits at December 31, 2009, a decrease from 23.5% of total deposits at December 31, 2008, if we are not successful in obtaining wholesale funding, we may be unable to continue our growth, or could experience contraction in our total assets. In addition, to the extent that we are unable to match the maturities of the interest rates we pay for wholesale and brokered funds to the maturities of the loans we make using those funds; increases in the interest rates we pay for such funds could decrease our consolidated net interest income. Moreover, if the Bank ceases to be categorized as “well capitalized” under banking regulations, it will be prohibited from accepting, renewing or rolling over brokered deposits except with a waiver from FDIC. Although the Bank is currently deemed to be well capitalized, a failure to continue to be well capitalized could also hurt our growth or cause our total assets to contract.

We operate in a highly competitive market and geographic area.

We face substantial competition in all phases of our operations from a variety of different competitors, including commercial banks and their holding companies, savings and loan associations, mutual savings banks, credit unions, consumer finance companies, factoring companies, insurance companies and money market mutual funds. Competition for financial services in the Philadelphia-Wilmington metropolitan area, which is our principal service area, is very strong. This geographic area includes offices of many of the largest financial institutions in the nation. Most of those competing institutions have much greater financial and marketing resources than we have and, because

we are a relatively newly-formed entity, far greater name recognition. Due to their size, many of our competitors can achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing structures for those products and services. Moreover, because we are smaller and less well-established, we may have to pay higher rates on our deposits or offer more free or reduced-cost services in order to attract and retain customers. Some of the financial services organizations with which we compete are not subject to the same degree of regulation as federally-insured and regulated financial institutions such as ours. As a result, those competitors may be able to access funding and provide various services more easily or at less cost than we can.

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

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

Our lending limit may adversely affect our competitiveness.

Our regulatory lending limit as of December 31, 2009 to any one customer or related group of customers was $27.9 million for unsecured loans and $46.4 million for secured loans. Our lending limit is substantially smaller than those of most financial institutions with which we compete. While we believe that our lending limit is sufficient for our targeted market of small to mid-size businesses, individuals and affinity group members, it may affect our ability to attract or maintain customers or to compete with other financial institutions. Moreover, to the extent that we incur losses and do not obtain additional capital, our lending limit, which depends upon the amount of our capital, will decrease.

Environmental liability associated with lending activities could result in losses.

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

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

We operate an independent Internet bank, as distinguished from the Internet banking service of an established conventional bank. Independent Internet banks often have found it difficult to achieve profitability and revenue growth. Several factors contribute to the unique problems that Internet banks face. These include concerns for the security of personal information, the absence of personal relationships between bankers and customers, the absence of loyalty to a conventional hometown bank, the customer’s difficulty in understanding and assessing the substance and financial strength of an Internet bank, a lack of confidence in the likelihood of success and permanence of Internet banks and many individuals’ unwillingness to trust their personal assets to a relatively new technological medium such as the Internet. As a result, many potential customers may be unwilling to establish a relationship with us.

Conventional financial institutions, in growing numbers, are offering the option of Internet banking and financial services to their existing and prospective customers. The public may perceive conventional financial institutions as being safer, more responsive, more comfortable to deal with and more accountable as providers of their banking and financial services, including their Internet banking services. We may not be able to offer Internet banking and

financial services and personal relationship characteristics that have sufficient advantages over the Internet banking and financial services and other characteristics of established conventional financial institutions to enable us to compete successfully.

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

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

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

Security concerns may adversely affect Internet banking.

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

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

We obtain essential technological and customer services support for the systems we use from third-party providers. We outsource our check processing, check imaging, electronic bill payment, statement rendering, internal audit and other services to third party vendors. For a description of these services, you should read Item 1, “Business—Other Operations—Third Party Service Providers.” Our agreements with each service provider are generally cancelable without cause by either party upon specified notice periods. If one of our third-party service providers terminates its agreement with us and we are unable to replace it with another service provider, our operations may be interrupted. If an interruption were to continue for a significant period of time, our earnings could decrease, we could experience losses and we could lose customers.

We may be affected by government regulation.

We are subject to extensive federal and state banking regulation and supervision. The regulations are intended primarily to protect our depositors’ funds, the federal deposit insurance funds and the safety and soundness of the Bank, not our shareholders. Regulatory requirements affect lending practices, capital structure, investment practices, dividend policy and growth. A failure by either the Bank or us to meet regulatory capital requirements will result in the imposition of limitations on our operations and could, if capital levels drop significantly, result in our being required to cease operations. Changes in governing law, regulations or regulatory practices could impose additional costs on us or impair our ability to obtain deposits or make loans and, as a consequence, our consolidated revenues and profitability.

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

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Our success will depend on our ability to retain Betsy Z. Cohen, our Chief Executive Officer, and our senior management.

We believe that our future success will depend upon the expertise of, and customer relationships established by Betsy Z. Cohen, our chief executive officer, and other members of senior management. If Mrs. Cohen were to become unavailable for any reason, or if we are unable to hire highly qualified and experienced personnel, our ability to attract deposits or loan customers may be materially adversely affected. The executive compensation restrictions currently, or that may in the future be, imposed on us as a result of our participation in the CPP or other government programs, may adversely affect our ability to retain or attract qualified personnel. If we cannot do so, we expect that our operations, income, and financial condition and competitive position will be harmed.

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

Like all financial institutions, the Bank maintains an allowance for loan losses to provide for probable losses. The Bank's allowance for loan losses may not be adequate to cover actual loan losses and future provisions for loan losses could materially and adversely affect the Bank's operating results. The Bank's allowance for loan losses is determined by analyzing historical loan losses, current trends in delinquencies and charge-offs, plans for problem loan resolution, changes in the size and composition of the loan portfolio, and industry information. Also included in management's estimates for loan losses are considerations with respect to the impact of economic events, the outcome of which are uncertain. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates that may be beyond the Bank's control, and these losses may exceed current estimates. Bank regulatory agencies, as an integral part of their examination process, review the Bank's loans and allowance for loan losses. Although we believe that the Bank's allowance for loan losses is adequate to provide for probable losses, we cannot assure you that we will not need to increase the Bank's allowance for loan losses or that regulators will not require us to increase this allowance. Either of these occurrences could materially and adversely affect our earnings and profitability.

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

The Bank seeks to mitigate the risks inherent in its loan portfolio by adhering to specific underwriting practices. These practices include analysis of a borrower's prior credit history, financial statements, tax returns and cash flow projections, valuation of collateral based on reports of independent appraisers and verification of liquid assets. Although the Bank believes that its underwriting criteria are appropriate for the various kinds of loans it makes, the Bank may incur losses on loans that meet its underwriting criteria, and these losses may exceed the amounts set aside as reserves in the Bank's allowance for loan losses.

Potential acquisitions may disrupt our business and dilute stockholder value.

In recent years we have been an active acquirer of other entities. We have sought merger or acquisition partners that are culturally similar and have experienced management and possess either significant market presence or have potential for improved profitability through financial management, economies of scale or expanded services. Acquiring other banks or businesses involves various risks commonly associated with acquisitions, including, among other things:

- potential exposure to unknown or contingent liabilities of the target entity;
- exposure to potential asset quality issues of the target entity;

- difficulty and expense of integrating the operations and personnel of the target entity;
- potential disruption to our business;
- potential diversion of our management's time and attention;
- the possible loss of key employees and customers of the target entity;

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- difficulty in estimating the value of the target entity; and
- potential changes in banking or tax laws or regulations that may affect the target entity.

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

Risks related to ownership of our common stock

The trading volume in our common stock is less than that of other larger financial services companies, which may adversely affect the price of our common stock.

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

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

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

There may be future sales or other dilutions of our equity that may adversely affect the market price of our common stock.

We cannot predict whether future issuances of shares of our common stock or the availability of shares for resale in the open market will decrease the market price per share of our common stock. We are not restricted from issuing additional shares of common stock, including any securities that are convertible into or exchangeable for, or that represent the right to receive shares of common stock. Sales of a substantial number of shares of our common stock in the public market or the perception that such sales might occur could materially adversely affect the market price of the shares of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our stockholders bear the risk of any future stock issuances reducing the market price of our common stock and diluting their stock holdings in us. The exercise of the warrant held by the U.S. Treasury, the exercise of any options granted to directors, executive officers and other employees under our stock compensation plans, the issuance of shares of common stock in acquisitions and other issuances of our common stock could have an adverse effect on the market price of the shares of our common stock, and the existence of options, or shares of our

common stock reserved for issuance as restricted shares of our common stock may materially adversely affect the terms upon which we may be able to obtain additional capital in the future through the sale of equity securities.

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

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

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

We are a separate legal entity from the Bank and our other subsidiaries, and we do not have significant operations of our own. We have historically depended on the Bank's cash and liquidity as well as dividends to pay our operating expenses. Various federal and state statutory provisions limit the amount of dividends that subsidiary banks can pay to their holding companies without regulatory approval. The Bank is also subject to limitations under state law regarding the payment of dividends, including the requirement that dividends may be paid only out of net profits. In addition to these explicit limitations, it is possible, depending upon the financial condition of the Bank and other factors, that the federal and state regulatory agencies could take the position that payment of dividends by the Bank would constitute an unsafe or unsound banking practice. In the event the Bank is unable to pay dividends sufficient to satisfy our obligations or is otherwise unable to pay dividends to us, we may not be able to service our obligations as they become due or to pay dividends on our common stock or preferred stock. Consequently, the inability to receive dividends from the Bank could adversely affect our financial condition, results of operations, cash flows and prospects.

There can be no assurance that Treasury warrants can be repurchased.

We have repurchased the Series B Preferred Stock (see Recent Developments in Management Discussion & Analysis), and may repurchase the related warrants, there can be no assurance as to when or if the warrants can be repurchased. Until such time as the warrants are repurchased, we will remain subject to the terms and conditions of the CPP. Further, our continued participation in the CPP subjects us to increased regulatory and legislative oversight. The recently enacted American Recovery and Reinvestment Act of 2009 includes amendments to the executive compensation provisions of the Emergency Economic Stabilization Act of 2008 under which the CPP was established, all of which apply to us. These new and any future legal requirements under the CPP may have unforeseen or unintended adverse effects on the financial services industry as a whole, and particularly on CPP participants such as ourselves. They may require significant time, effort, and resources on our part to ensure compliance, and the evolving regulations concerning executive compensation may impose limitations on us that affect our ability to compete successfully with financial institutions that are not subject to the same limitations for executive and management talent.

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

Certain provisions of our certificate of incorporation and bylaws could make a merger, tender offer or proxy contest more difficult, even if such events were perceived by many of our stockholders as beneficial to their interests. In addition, as a Delaware corporation, we are subject to Section 203 of the Delaware General Corporation Law which, in general, prevents an interested stockholder, defined generally as a person owning 15% or more of a corporation's outstanding voting stock, from engaging in a business combination with our company for three years following the date that person became an interested stockholder unless certain specified conditions are satisfied.

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Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

We are the lessee of ten premises. Our banking and operations facilities occupy 33,950 square feet in Wilmington, Delaware under a lease expiring in 2018. The rent is currently $60,028 per month and escalates yearly based upon scheduled increases in base rent and actual increases in taxes and premises operating costs over specified base rates. We also hold a lease on 24,531 square feet of space in Philadelphia, Pennsylvania expiring in 2014. The rent is currently $56,845 per month and escalates yearly based upon scheduled increases in base rent and actual increases in premises operating costs over specified base rates. As of December 31, 2009, we had a letter of credit for $65,106 as security for the lease the requirement for which will be eliminated in 2010. We sublease portions of our Philadelphia space to affiliated entities. We use the Philadelphia space for our executive offices. We pay aggregate rent of $8,270 per month for our two Philadelphia-area loan production offices, and $5,213 per month for our Maryland automobile leasing offices. We pay $6,920 per month to a related party for our Florida leasing office. We also pay rent of $603 per month for a customer service space, principally an ATM, at a Philadelphia location. We pay rents of $1,462 and $1,045 per month for our Minnesota and Illinois offices. We also hold a sublease on 23,255 square feet of space in Sioux Falls, South Dakota for our stored value (prepaid) card and various other operations expiring in 2014. The rent is currently $59,183 per month. We believe these facilities are adequate for our current needs and for the reasonably foreseeable future.

Item 3. Legal Proceedings.

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

Item 4. [Reserved and Omitted Pursuant to SEC Release No. 33-9089A.]

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PART II

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

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

| Quarter Ended | Price Range | |
|---|---|---|
| | High | Low |
| 2008 | | |
| March 31, 2008 | $ 15.52 | $ 10.50 |
| June 30, 2008 | $ 13.10 | $ 7.58 |
| September 30, 2008 | $ 8.82 | $ 4.42 |
| December 31, 2008 | $ 5.80 | $ 2.09 |
| | | |
| 2009 | | |
| March 31, 2009 | $ 4.54 | $ 2.35 |
| June 30, 2009 | $ 7.90 | $ 3.86 |
| September 30, 2009 | $ 8.07 | $ 5.25 |
| December 31, 2009 | $ 7.30 | $ 5.01 |

As of February 28, 2010, there were 26,181,291 shares of common stock outstanding held of record by 2,154 persons.

We have not paid cash dividends on our common stock since our inception, and do not plan to pay cash dividends on our common stock for the foreseeable future. We intend to retain earnings, if any, to increase our capital and fund the development and growth of our operations. Our board of directors will determine any changes in our dividend policy based upon its analysis of factors it deems relevant. We expect that these factors will include our earnings, financial condition, cash requirements, regulatory capital levels and available investment opportunities.

Our payment of dividends is subject to restrictions discussed below and in Item 1, "Business—Regulation under Banking Law." In addition, before we may pay a cash dividend on our common stock in any quarter, we must pay that quarter's dividends on our preferred stock.

Share Repurchase Plan

In June 2007 we adopted a share repurchase plan that authorized us to purchase up to 750,000 shares of our common stock, currently representing approximately 2.9% of our current total common shares outstanding. Under the plan, we may make purchases from time to time through open market or privately negotiated transactions. This plan may be modified or discontinued at any time. Under the TARP agreement between us and the Treasury Department, we must obtain consent from the Treasury Department before we may pay any dividend on our common stock or before we may repurchase our common stock or any other equity securities, other than in connection with benefits plans consistent with prior practice. We have not repurchased any of our common stock under this plan.

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Securities authorized for issuance under equity compensation plans *

| | Number of securities to be issued upon exercise of outstanding options and stock appreciation rights | Weighted-average exercise price of outstanding options and stock appreciation rights | Number of securities remaining available for future issuance |
|---|---|---|---|
| 1999 Omnibus plan | 537,250 | $11.98 | 348,500 |
| 2003 Omnibus plan | 540,364 | $10.87 | - |
| 2005 Omnibus plan | 305,250 | $15.40 | 625,375 |
| Total | 1,382,864 | $12.30 | 973,875 |

* All plans authorized have been approved by shareholders.

Performance graph

The following graph compares the performance of our common stock to the Nasdaq Composite Index and the Nasdaq Bank Stock Index. The graph shows the value of $100 invested in our common stock and both indices on December 23, 2004 (the date our common stock began trading on NASDAQ) and the change in the value of our common stock compared to the indices as of the end of each year. The graph assumes the reinvestment of all dividends. Historical stock price performance is not necessarily indicative of future stock price performance.

| | Period ending | | | | | | |
|---|---|---|---|---|---|---|---|
| Index | 12/23/2004 | 12/31/2004 | 12/31/2005 | 12/31/2006 | 12/31/2007 | 12/31/2008 | 12/31/2009 |
| The Bancorp, Inc. | 100.00 | 100.00 | 106.25 | 185.00 | 84.13 | 23.44 | 42.88 |
| Nasdaq Bank Stock Index | 100.00 | 99.25 | 95.62 | 106.14 | 82.68 | 62.93 | 51.28 |
| Nasdaq Composite Stock Index | 100.00 | 100.82 | 102.07 | 111.79 | 123.76 | 72.99 | 105.02 |

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Item 6. Selected Financial Data.

The following table sets forth selected financial data as of and for the years ended December 31, 2009, 2008, 2007, 2006 and 2005. We derived the selected financial data for the years ended December 31, 2009, 2008, 2007, 2006 and 2005 from our financial statements for those periods, which have been audited by Grant Thornton LLP, independent registered public accounting firm. You should read the selected financial data in this table together with, and such selected financial data is qualified by reference to our financial statements and the notes to those financial statements in Item 8 of this report and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this report.

| | As of and for the Year Ended | | | | |
|---|---|---|---|---|---|
| | December 31, 2009 | December 31, 2008 | December 31, 2007 | December 31, 2006 | December 31, 2005 |
| Income Statement Data: | (dollars in thousands, except per share data) | | | | |
| Interest income | $79,989 | $95,062 | $106,537 | $80,968 | $47,134 |
| Interest expense | 16,280 | 40,843 | 53,868 | 36,695 | 14,975 |
| Net interest income | 63,709 | 54,219 | 52,669 | 44,273 | 32,159 |
| Provision for loan and lease losses | 13,000 | 12,500 | 5,400 | 2,975 | 2,100 |
| Net interest income after provision for loan and lease losses | 50,709 | 41,719 | 47,269 | 41,298 | 30,059 |
| Non-interest income (loss) | 11,819 | (7,603) | 7,614 | 5,038 | 4,323 |
| Non-interest expense | 56,178 | 97,388 | 31,205 | 25,505 | 22,754 |
| Net income (loss) before income tax provision (benefit) | 6,350 | (63,272) | 23,678 | 20,831 | 11,628 |
| Income tax provision (benefit) | 2,248 | (20,892) | 9,338 | 8,331 | 4,181 |
| Net income (loss) | 4,102 | (42,380) | 14,340 | 12,500 | 7,447 |
| Less preferred stock dividends and accretion | (3,760) | (243) | (68) | (75) | (598) |
| Less preferred stock conversion premium | - | - | - | - | (459) |
| Income allocated to Series A preferred shareholders | - | - | (115) | (110) | (72) |
| Net income (loss) available to common shareholders | $342 | $(42,623) | $14,157 | $12,315 | $6,318 |
| Net income (loss) per share - basic | $0.02 | $(2.93) | $1.02 | $0.90 | $0.49 |
| Net income (loss) per share - diluted | $0.02 | $(2.93) | $0.98 | $0.86 | $0.48 |
| | | | | | |
| Balance Sheet Data: | | | | | |
| Total Assets | $2,043,534 | $1,792,375 | $1,568,382 | $1,334,838 | $917,471 |
| Total loans, net of unearned costs (fees) | 1,523,722 | 1,449,349 | 1,286,789 | 1,064,819 | 681,582 |
| Allowance for loan and lease losses | 19,123 | 17,361 | 10,233 | 8,400 | 5,513 |
| Total cash and cash equivalents | 354,459 | 179,506 | 82,158 | 137,121 | 117,093 |
| Deposits | 1,654,509 | 1,519,847 | 1,278,317 | 1,069,255 | 732,588 |
| Federal Home Loan Bank advances | 100,000 | 61,000 | 90,000 | 100,000 | 40,000 |
| Shareholders' equity | 245,203 | 180,403 | 176,259 | 148,908 | 134,947 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Selected Ratios: | | | | | | | | | | |
| Return on average assets | 0.22 | % | | nm | 1.04 | % | 1.19 | % | 1.02 | % |
| Return on average common equity | 1.99 | % | | nm | 9.15 | % | 8.90 | % | 5.69 | % |
| Net interest margin | 3.74 | % | 3.44 | % | 3.90 | % | 4.32 | % | 4.57 | % |
| Book value per common share | $7.64 | | $9.21 | | $12.01 | | $10.76 | | $9.80 | |
| | | | | | | | | | | |
| Selected Capital and Asset Quality Ratios: | | | | | | | | | | |
| Equity/assets | 12.00 | % | 10.07 | % | 11.24 | % | 11.16 | % | 14.71 | % |
| Tier I capital to average assets | 12.68 | % | 10.10 | % | 9.18 | % | 12.28 | % | 15.90 | % |
| Tier 1 capital to total risk-weighted assets | 15.81 | % | 11.72 | % | 10.15 | % | 13.50 | % | 17.94 | % |
| Total Capital to total risk-weighted assets | 17.06 | % | 12.87 | % | 10.95 | % | 14.28 | % | 18.69 | % |
| Allowance for loan and lease losses to total loans | 1.26 | % | 1.20 | % | 0.80 | % | 0.79 | % | 0.81 | % |

nm---not meaningful

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

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

Recent Developments

On April 1, 2009, we entered into a Stock Purchase Agreement with American Home Mortgage Holdings, Inc. and its wholly-owned subsidiary, American Home Bank, a federal savings association ("AHB") to acquire all of the outstanding shares of capital stock of AHB. Due to continuing delays in attempting to consummate this transaction, the stock purchase agreement has been terminated. We are currently pursuing the establishment of a de novo Federal Savings Bank to be located in southern New Jersey, contiguous with our Philadelphia/ Wilmington area market. The pursuit of establishing that institution replaces the pursuit of the AHB acquisition. The application for the Federal Savings Bank will entail all of the allowable activities of such institutions, which include generating mortgage loans, various deposit accounts and other banking services.

Repurchase and retirement of preferred stock

On March 10, 2010, we repurchased 100% of the preferred stock issued under the United States Treasury Capital Purchase Program as further described in Note J, totaling $45.2 million. We will record a non-cash charge of $5.6 million for the unaccreted discount related to these preferred shares. As a result, $3.7 million of annualized accretion and dividends which had previously served to reduce net income available to common shareholder will be eliminated on a going forward basis. After consideration of repaying the TARP funds, our leverage capital ratio as of December 31, 2009 continued to exceed 10%, compared to a well capitalized requirement of 5%.

Overview

We are a Delaware bank holding company with a wholly owned subsidiary, The Bancorp Bank, which we refer to as the Bank. Through the Bank, we provide a wide range of commercial and retail banking services and related other banking services, which include private label banking, health savings accounts and prepaid debit cards, to both regional and national markets.

Regionally, we focus on providing our banking services directly to retail and commercial customers in the Philadelphia-Wilmington metropolitan area, consisting of the 12 counties surrounding Philadelphia, Pennsylvania and Wilmington, Delaware including Philadelphia, Delaware, Chester, Montgomery, Bucks and Lehigh Counties in Pennsylvania, New Castle County in Delaware and Mercer, Burlington, Camden, Ocean and Cape May Counties in New Jersey. We believe that changes over the past ten years in this market have created an underserved base of small and middle-market businesses and high net worth individuals that are interested in banking with a company headquartered in and with decision-making authority based in, the Philadelphia-Wilmington area. We believe that our presence in the area provides us with insights as to the local market and, as a result, with the ability to tailor our products and services, and particularly the structure of our loans, more closely to the needs of our targeted customers. We seek to develop overall banking relationships with our targeted customers so that our lending operations serve as a generator of deposits and our deposit relationships serve as a source of loan assets. We believe that our regional presence also allows us to oversee and further develop our existing customer relationships.

Nationally, we focus on providing our services to organizations with a pre-existing customer base who can use one or more selected banking services tailored to support or complement the services provided by these organizations to their

customers. These services include private label banking; credit and debit card processing for merchants affiliated with independent service organizations; healthcare savings accounts for healthcare providers and third-party plan administrators; and prepaid debit 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, card processing, health savings account and stored value card programs are a source of fee income and low-cost deposits.

In August 2009, we issued 11.5 million shares of our common stock to investors at a price of $5.75 per share resulting in net proceeds of approximately $62.1 million, $45.2million of which was utilized to repay TARP. See Recent Developments above.

Beginning in mid-2007 and continuing through the date of this report, the financial system in the United States, including credit markets and markets for real estate and real estate-related assets, have been subject to unprecedented turmoil. This turmoil has resulted in substantial declines in the availability of credit, the values of real estate and real estate-related assets, the availability of ready markets for those assets, and impairment of the ability of many borrowers to repay their obligations. As a result of these conditions, we have incurred significant impairment charges on investment securities, materially increased our provision for loan losses, and experienced an increase in the amount of loans charged off and non-performing assets, and our income and the price of our common stock have declined significantly. These conditions also resulted in the impairment of goodwill and other-than-temporary impairment on investment securities, which caused us to record a non-cash charge to earnings in 2008 of $51.9 million for goodwill impairment and a non-cash charge of $2.2 million and $19.9 million for other than temporary impairment of investment securities in 2009 and 2008, respectively. Continuation of current conditions could further harm our financial condition and results of operations. We discuss these effects in more detail elsewhere in this Item 7.

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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 involves 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. All of these factors may be susceptible to significant change. 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.

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. Credit losses are recognized through the income statement. If management believes market value losses are temporary and it believes that we have the ability and intention to hold those securities to maturity, the reduction in value is recognized in other comprehensive income, through equity.

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

We account for income taxes under the liability method whereby we determine deferred tax assets and liabilities based on the difference between the carrying values on our 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.

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Results of operations

Net Income: 2009 compared to 2008. Net income for 2009 was $4.1 million, compared to a net loss of $42.4 million for 2008. Diluted earnings per share were $0.02 for 2009 compared to a net loss per share of $2.93 for 2008. As a result of our participation in the TARP Capital Purchase Program, 2009 earnings per common share reflected $2.3 million of preferred stock dividends and accretion of $1.5 million for the imputed dividend cost related to our issuance of common stock purchase warrants to the Treasury Department. The resulting after tax total of $3.8 million, which served to reduce income available to common shareholders, compared to $243,000 in 2008 and $183,000 in 2007. Amounts in 2008 and 2007 primarily reflected the Series A preferred stock.

Net Loss: 2008 compared to 2007. The net loss for 2008 was $42.4 million, compared to net income of $14.3 million for 2007. The loss in 2008 reflects a pre-tax goodwill impairment charge of $51.9 million. That charge resulted from goodwill impairment related primarily to the purchase of Stored Value systems. Preferred stock dividends and accretion and net income (loss) allocated to preferred shareholders for 2008 were $243,000 compared to $183,000 for 2007, which resulted in a net loss available to common shareholders of $42.6 million for 2008 as compared to net income of $14.2 million for 2007. The net loss per share was $2.93 for 2008 compared to diluted net income per share of $0.98 for 2007.

Net Interest Income: 2009 compared to 2008. Our net interest income for 2009 increased to $63.7 million from $54.2 million for 2008, while our interest income for 2009 decreased to $80.0 million from $95.1 million for 2008. Our average loans increased to $1.48 billion for 2009 from $1.41 billion for 2008. The decrease in our interest income in 2009 reflected the full year impact of the reductions in rates by the Federal Reserve beginning in the second half of 2007 throughout 2008 as rates remained at historic lows. Net interest income increased as the decrease in interest income was more than offset by the decrease in interest expense.

Our net interest margin (calculated by dividing net interest income by average interest-earning assets) for 2009 increased to 3.74% from 3.44% for 2008, an increase of 30 basis points. For 2009 the average yield on our interest-earning assets decreased to 4.69% from 6.04% for 2008, a decrease of 135 basis points. The cost of interest-bearing deposits decreased to 1.45% for 2009 from 3.22% for 2008, a decrease of 177 basis points, while the cost of interest-bearing liabilities decreased to 1.49% for 2009 from 3.20% for 2008, a decrease of 171 basis points. The net interest margin increase reflected decreases in our cost of funds which exceeded the decrease in yields from our interest-earning assets. The decrease in average yields was driven by market interest rate declines. The decrease in cost of funds further reflected an increase in lower cost transaction accounts and a reduction in certificates of deposit and other higher cost funds. The increase in lower cost transaction accounts allowed the bank to decrease average time deposit balances to $151.8 million for 2009, a decrease of $303.4 million or 66.7% from 2008. As a result of allowing higher cost interest-bearing deposits to roll off our balance sheet, average interest-bearing deposits decreased to $1.03 billion from $1.14 billion, a decrease of $103.5 million or 9.10%. The roll-off of the interest bearing deposits was largely offset by increases in our non-interest bearing demand deposits. Average non-interest bearing demand deposits increased $286.6 million for 2009 compared to 2008.

Net Interest Income: 2008 compared to 2007. Our net interest income for 2008 increased to $54.2 million from $52.7 million for 2007, while our interest income for 2008 decreased to $95.1 million from $106.5 million for 2007. Our average loans increased to $1.4 billion for 2008 from $1.2 billion for 2007. The reason for the decreases in our interest income was the reductions in rates by the Federal Reserve beginning in the second half of 2007 and throughout 2008. The reduction in interest income was partially offset by the interest income generated by the organic growth of our loan portfolio.

Our net interest margin (calculated by dividing net interest income by average interest-earning assets) for 2008 decreased to 3.44% from 3.90% for 2007, a decrease of 46 basis points. For 2008 the average yield on our interest-earning assets decreased to 6.04% from 7.89% for 2007, a decrease of 185 basis points. The cost of interest-bearing deposits decreased to 3.22% for 2008 from 4.75% for 2007, a decrease of 153 basis points, while the cost of interest-bearing liabilities decreased to 3.20% for 2008 from 4.77% for 2007, a decrease of 157 basis points. The decrease in our interest margin was due to the rate reductions by the Federal Reserve, as a significant portion of the interest rates on our loans varied with prime, while our ability to reprice our liabilities (principally, deposits and debt facilities) typically lags behind the reductions by the Federal Reserve, and the related reductions in the rates payable by our loan assets. The decrease in both average yield and average cost was driven by market interest rate reductions. Average interest-bearing deposits increased to $1.14 billion from $1.04 billion, an increase of $99.0 million or 9.5%.

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

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| | Year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | | 2008 | | |
| | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate |
| | (dollars in thousands) | | | | | |
| Assets: | | | | | | |
| Interest-earning assets: | | | | | | |
| Loans net of unearned discount | $1,477,614 | $73,304 | 4.96 % | $1,408,041 | $87,966 | 6.25 % |
| Investment securities-taxable | 107,695 | 5,017 | 4.66 % | 120,529 | 6,104 | 5.06 % |
| Investment securities-nontaxable* | 25,449 | 2,041 | 8.02 % | - | - | - |
| Interest bearing deposits | 39,271 | 87 | 0.22 % | 2,493 | 38 | 1.54 % |
| Federal funds sold | 70,061 | 234 | 0.33 % | 42,819 | 954 | 2.23 % |
| Net interest-earning assets | 1,720,090 | 80,683 | 4.69 % | 1,573,882 | 95,062 | 6.04 % |
| Allowance for loan and lease losses | (18,632 ) | | | (13,384 ) | | |
| Other assets | 135,917 | | | 143,765 | | |
| | $1,837,375 | | | $1,704,263 | | |
| Liabilities and Shareholders' Equity: | | | | | | |
| Deposits: | | | | | | |
| Demand (non-interest bearing) | $529,477 | | | $242,859 | | |
| Interest bearing deposits | | | | | | |
| Interest checking | 365,715 | $5,341 | 1.46 % | 183,996 | $4,481 | 2.44 % |
| Savings and money market | 516,356 | 7,191 | 1.39 % | 498,156 | 13,989 | 2.81 % |
| Time | 151,791 | 2,510 | 1.65 % | 455,165 | 18,175 | 3.99 % |
| Total interest bearing deposits | 1,033,862 | 15,042 | 1.45 % | 1,137,317 | 36,645 | 3.22 % |
| Short term borrowings | 44,895 | 329 | 0.73 % | 123,558 | 3,193 | 2.58 % |
| Repurchase agreements | 2,175 | 26 | 1.18 % | 2,568 | 51 | 1.99 % |
| Subordinated debt | 13,401 | 883 | 6.59 % | 13,302 | 954 | 7.17 % |
| Net interest bearing liabilities | 1,094,333 | 16,280 | 1.49 % | 1,276,745 | 40,843 | 3.20 % |
| Other liabilities | 7,608 | | | 5,375 | | |
| Total liabilities | 1,631,418 | | | 1,524,979 | | |
| Shareholders' equity | 205,957 | | | 179,284 | | |
| | $1,837,375 | | | $1,704,263 | | |
| Net interest income on tax equivalent basis* | | 64,403 | | | 54,219 | |
| Tax equivalent adjustment | | 694 | | | - | |
| Net interest income | | $63,709 | | | $54,219 | |
| Net interest margin * | | | 3.74 % | | | 3.44 % |

* Full taxable equivalent basis, using a 34% statutory tax rate

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| | Year ended December 31, 2007 | | | |
|---|---|---|---|---|
| | Average Balance | Interest | Average Rate | |
| | (dollars in thousands) | | | |
| Assets: | | | | |
| Interest-earning assets: | | | | |
| Loans net of unearned discount | $1,172,479 | $96,690 | 8.25 | % |
| Investment securities | 115,078 | 6,699 | 5.82 | % |
| Investment securities-nontaxable* | - | - | - | |
| Interest bearing deposits | 3,319 | 76 | 2.29 | % |
| Federal funds sold | 59,686 | 3,072 | 5.15 | % |
| Net interest-earning assets | 1,350,562 | 106,537 | 7.89 | % |
| Allowance for loan and lease losses | (9,398) | | | |
| Other assets | 41,632 | | | |
| | $1,382,796 | | | |
| Liabilities and Shareholders' Equity: | | | | |
| Deposits: | | | | |
| Demand (non-interest bearing) | $88,889 | | | |
| Interest bearing deposits | | | | |
| Interest checking | 93,491 | $2,841 | 3.04 | % |
| Savings and money market | 520,365 | 23,744 | 4.56 | % |
| Time | 424,448 | 22,728 | 5.35 | % |
| Total interest bearing deposits | 1,038,304 | 49,313 | 4.75 | % |
| Short term borrowings | 86,049 | 4,419 | 5.14 | % |
| Repurchase agreements | 3,006 | 52 | 1.73 | % |
| Subordinated debt | 1,033 | 84 | 8.13 | % |
| Net interest bearing liabilities | 1,128,392 | 53,868 | 4.77 | % |
| Other liabilities | 6,955 | | | |
| Total liabilities | 1,224,236 | | | |
| Shareholders' equity | 158,560 | | | |
| | $1,382,796 | | | |
| Net interest income on tax equivalent basis* | | 52,669 | | |
| Tax equivalent adjustment | | - | | |
| Net interest income | | $52,669 | | |
| Net interest margin * | | | 3.90 | % |

* Full taxable equivalent basis, using a 34% statutory tax rate

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In 2009, average interest-earning assets increased to $1.72 billion, an increase of $146.2 million, or 9.3% from 2008. During the same period, average loan balances increased $69.6 million or 4.9%. In 2008, average interest-earning assets increased to $1.57 billion, an increase of $223.3 million, or 16.5%, from 2007. During the same period, average loan balances increased $235.6 million, or 20.1%.

Volume and Rate Analysis. The following table sets forth the changes in net interest income attributable to either changes in volume (average balances) or to changes in average rates from 2007 through 2009. The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

| | 2009 versus 2008 Due to change in: | | | 2008 versus 2007 Due to change in: | | |
|---|---|---|---|---|---|---|
| | Volume | Rate | Total | Volume | Rate | Total |
| | (in thousands) | | | | | |
| Interest income: | | | | | | |
| Loans net of unearned discount | $4,629 | $(19,291) | $(14,662) | $42,214 | $(50,938) | $(8,724) |
| Investment securities-taxable | (620) | (467) | (1,087) | 341 | (936) | (595) |
| Investment securities-nontaxable | 2,041 | - | 2,041 | - | - | - |
| Interest bearing deposits | 52 | (3) | 49 | (16) | (22) | (38) |
| Federal funds sold | 2,142 | (2,862) | (720) | (704) | (1,414) | (2,118) |
| Total interest earning assets | 8,244 | (22,623) | (14,379) | 41,835 | (53,310) | (11,475) |
| Interest expense: | | | | | | |
| Interest checking | $1,446 | $(586) | $860 | $2,063 | $(423) | $1,640 |
| Savings and money market | 531 | (7,329) | (6,798) | (974) | (8,781) | (9,755) |
| Time | (8,337) | (7,328) | (15,665) | 1,811 | (6,364) | (4,553) |
| Total deposit interest expense | (6,360) | (15,243) | (21,603) | 2,900 | (15,568) | (12,668) |
| Short-term borrowings | (1,348) | (1,516) | (2,864) | 2,330 | (3,556) | (1,226) |
| Subordinated debt | 7 | (78) | (71) | 879 | (9) | 870 |
| Other borrowed funds | (7) | (18) | (25) | 62 | (63) | (1) |
| Total interest expense | (7,708) | (16,855) | (24,563) | 6,171 | (19,196) | (13,025) |
| Net interest income: | $15,952 | $(5,768) | $10,184 | $35,664 | $(34,114) | $1,550 |

Provision for Loan and Lease Losses. Our provision for loan and lease losses was $13.0 million for 2009, $12.5 million for 2008 and $5.4 million for 2007. The increase in the provision is based on our evaluation of the adequacy of our allowance for loan and lease losses, particularly in light of current economic conditions. At December 31, 2009, our allowance for loan and lease losses amounted to $19.1 million or 1.26% of total loans. We believe that our allowance is adequate to cover expected losses. For more information about our provision and allowance for loan and lease losses and our loss experience see “—Allowance for Loan and Lease Losses” and “—Summary of Loan and Lease Loss Experience,” below.

Non-Interest Income. Non-interest income was $14.0 million for 2009 before a $2.2 million impairment charge on a trust preferred security, as compared to $12.3 million before a $19.9 million impairment charge in 2008, an increase of $1.8 million or 14.3%. The primary reason for the increase was a $1.1 million gain on sales of investment securities and $1.1 million increase in leasing income as a result of higher resale values for commercial. These gains were partially offset by a decrease of $803,000 in net stored value processing fees to $8.0 million from $8.8 million for the same period of 2008, due to volume.

Non-Interest Expense. Total non-interest expense was $56.2 million for 2009, compared to $45.5 million before a $51.9 million impairment charge in 2008, an increase of $10.7 million or 23.5%. Salaries and employee benefits amounted to $23.3 million for 2009 compared to $21.3 million for 2008. The increase in salaries and employee benefits reflected staff additions related to prepaid cards, leasing and other areas to accommodate their growth. It also reflected annual salary increases between 0% to 2% to our employees. Depreciation expense increased to $2.7 million for 2009 from $2.5 million in 2008, an increase of $215,000, or 8.6%, and reflected increases associated with leasehold improvements. Rent and related occupancy expense increased to $2.6 million from $2.2 million for 2009, an increase of $425,000 or 19.6% from 2008. The increase reflected relocation of our main operating office in the third quarter of 2008 and the cost associated with renting an additional office. Data processing expense increased to $6.8 million for 2009, an increase of approximately $2.6 million, or 62.5%, and reflected growth in our account base, in particular health savings accounts, as well as increases in our core processing costs. Legal fees increased to $2.0 million for 2009, an increase of $968,000 or 96.1% as a result of loan portfolio related matters as well as legal fees related to our proposed acquisition of American Home Bank. Due to continuing delays in attempting to consummate this transaction, it was terminated after the end of 2009. In addition, during 2009, we sold the property held in other real estate owned for $2.9 million and recognized a $1.7 million loss. The loss resulted from the continued decline in the real estate market where the property was located, which is outside of our regional lending area. FDIC insurance increased to $3.1 million from $795,000 for 2009 due to industry-wide insurance premium increases and a special insurance premium assessed and levied on all banks in 2009.

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Preferred Stock Dividends and Accretion. Our cash dividends on preferred stock and discount accretion increased to $3.8 million, of which cash dividends were $2.3 million and accretion was $1.5 million, in 2009 compared to $243,000 in 2008. The increase is a result of the dividend and accretion for the Series B preferred stock which we issued to the Treasury in December 2008 from our participation in the TARP Capital Purchase Program. The accretion resulted from the fair value applied to the preferred stock which was issued in conjunction with the issuance of the Series B preferred stock.

Income Tax Benefit and Expense

Our income tax expense for 2009 was $2.2 million as compared to a $20.9 million income tax benefit in 2008. Our effective tax rate for 2009 was 35.4% as compared to 33.0% in 2008. The tax benefit in 2008 reflected the OTTI charge and goodwill impairment recorded in that year.

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 operation primarily in overnight federal funds or in our interest-bearing account at the Federal Reserve.

Our primary source of funds has been cash inflows from net increases in deposits, which were $129.1 million in 2009, $247.0 million in 2008 and $209.1 million in 2007. While we do not have a traditional branch system, we believe that our core deposits, which include our demand, interest checking, savings and money market accounts, have similar characteristics to those of a bank with a branch system. We seek to set rates on our deposits at levels competitive with the rates offered in our market; however we do not seek to compete principally on rate. The focus of our business model is to identify affinity groups that control significant amounts of deposits as part of their business. A key component to the model is that the deposits are both stable and “sticky,” in the sense that they do not react to fluctuations in the market. However, certain components of the deposits do experience seasonality, creating excess liquidity at certain times in 2009.

Our principal source of contingent day-to-day liquidity is secured borrowing lines from the Federal Home Loan Bank of Pittsburgh and other unsecured lines from our correspondent banks, which include Atlantic Central Bankers Bank, M&I Bank and PNC Bank. We have a $529.4 million line of credit with the Federal Home Loan Bank and $73.0 million in additional lines of credit with correspondent banks. As of December 31, 2009, we had $100.0 million of outstanding Federal Home Loan Bank advances; we did not have any outstanding amounts on our correspondent bank federal funds lines. We expect to continue to use our facility with the Federal Home Loan Bank and our correspondent banks. At no time during the year did we experience any difficulties accessing these lines and, as a result, we have not experienced the liquidity and credit problems faced by many financial and commercial institutions. However, we continue actively to monitor our positions. Additionally, we maintain collateral with the Federal Reserve, which allowed us to borrow approximately $117.0 million from the discount window at December 31, 2009.

Historically, we have used institutional (brokered) certificates of deposit as a significant funding source. Such funds decreased to $125.3 million at December 31, 2009 from $357.8 million and $390.7 million, at December 31, 2008 and 2007, respectively. These decreases reflected increased levels of transaction accounts generated throughout the Bank. We purposefully reduced our brokered deposits consistent with our strategy to grow transaction accounts.

In addition to the above sources of funding, during 2009, we completed a stock offering and issued 11.5 million shares of common stock at a price of $5.75 per share resulting in proceeds of approximately $62.1 million, net of $4.0

million in costs. Pursuant to the standard terms of the Securities Purchase Agreement with the Treasury Department for the CPP, as a result of raising "qualifying capital" of at least $45.2 million prior to December 31, 2009, the number of shares issuable under the warrant we delivered to the Treasury Department as part of the CPP was reduced by 50%. As a result, the number of shares exercisable under the warrant was reduced from 1,960,405 shares to 980,203 shares. Additionally, all of our remaining shares of Series A preferred stock, which had a liquidation value of $1.1 million, were converted into 117,372 shares of common stock in 2009.

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Included in our cash and cash-equivalents at December 31, 2009 are $219.2 million of interest-bearing deposits which primarily consisted of deposits with the Federal Reserve. 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 level as the interest rates 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 loans, which were $85.6 million in 2009, $167.9 million in 2008 and $225.2 million in 2007. At December 31, 2009, we had outstanding commitments to fund loans, including unused lines of credit, of $316.2 million.

We must comply with capital adequacy guidelines issued by the Federal Reserve, while the Bank must comply with similar FDIC guidelines. Under both sets of guidelines, an institution must, in general, have a leverage ratio of 5.0%, a ratio of Tier 1 capital to risk-weighted assets of 6.0% and a ratio of total capital to risk-weighted assets of 10.0% in order to be considered “well capitalized.” A Tier 1 leverage ratio is the ratio of Tier 1 capital to average assets for the prior quarter. “Tier 1 capital” includes common shareholders’ equity, certain qualifying perpetual preferred stock and minority interests in equity accounts of consolidated subsidiaries less goodwill. At December 31, 2009 both we and the Bank were “well capitalized” under banking regulations.

The following tables set forth the regulatory capital amounts and ratios for both us and the Bank at the dates indicated:

| | Tier 1 capital to average assets ratio | Tier 1 capital to risk-weighted assets ratio | Total capital to risk-weighted assets ratio |
|---|---|---|---|
| AS OF DECEMBER 31, 2009 | | | |
| The Company | 12.68% | 15.81% | 17.06% |
| The Bancorp Bank | 8.78% | 10.97% | 12.22% |
| "Well capitalized" institution (under FDIC regulations) | 5.00% | 6.00% | 10.00% |
| | | | |
| AS OF DECEMBER 31, 2008 | | | |
| The Company | 10.10% | 11.72% | 12.87% |
| The Bancorp Bank | 9.24% | 10.75% | 11.91% |
| "Well capitalized" institution (under FDIC regulations) | 5.00% | 6.00% | 10.00% |

Asset and Liability Management

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

As a financial institution, potential interest rate volatility is a primary component of our market risk. Fluctuations in interest rates will ultimately impact the level of our earnings and the market value of all of our interest-earning assets, other than those with short-term maturities. We do not own any trading assets and we do not have any hedging transactions in place such as interest rate swaps.

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

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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 of our interest-earning assets and interest-bearing liabilities at December 31, 2009. Except as stated below, the amounts of assets or liabilities shown which reprice or mature during a particular period were determined in accordance with the contractual terms of each asset or liability. The majority of interest-bearing demand deposits and savings deposits are assumed to be "core" deposits, or deposits that will generally remain with us regardless of market interest rates. Therefore, 50% of the core interest checking deposits and 25% of core savings and money market deposits are shown as maturing or repricing within the "1 – 90 days" column, a total of 25% of these categories is shown repricing in 1-3 years with the balance in 91-364 days. We estimate the repricing characteristics of these 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 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.

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| | 1-90 Days | 91-364 Days | 1-3 Years | 3-5 Years | Over 5 Years |
|---|---|---|---|---|---|
| | | | (in thousands) | | |
| Interest earning assets: | | | | | |
| Loans net of deferred loan costs | $768,889 | $236,324 | $289,802 | $112,619 | $116,088 |
| Investments securities | - | - | - | 16,962 | 97,984 |
| Interest bearing deposits | 219,213 | - | - | - | - |
| Total interest earning assets | 988,102 | 236,324 | 289,802 | 129,581 | 214,072 |
| | | | | | |
| Interest bearing liabilities: | | | | | |
| Interest checking | 232,260 | 116,130 | 116,130 | - | - |
| Savings and money market | 135,132 | 270,264 | 135,132 | - | - |
| Time deposits | 131,531 | 5,654 | 4,942 | | 693 |
| Securities sold under agreements to repurchase | 2,588 | - | - | - | - |
| Short-term borrowings | 100,000 | - | - | - | - |
| Subordinated debt | 3,401 | - | - | 10,000 | - |
| Total interest bearing liabilities | 604,912 | 392,048 | 256,204 | 10,000 | 693 |
| Gap | $383,190 | $(155,724) | $33,598 | $119,581 | $213,379 |
| Cumulative gap | $383,190 | $227,466 | $261,064 | $380,645 | $594,024 |
| Gap to assets ratio | 19 % | -8 % | 2 % | 6 % | 10 % |
| Cumulative gap to assets ratio | 19 % | 11 % | 13 % | 19 % | 29 % |

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

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

We believe that the assumptions utilized in evaluating our estimated net interest income are reasonable; however, the interest rate sensitivity of our assets, liabilities and off-balance sheet financial instruments as well as the estimated effect of changes in interest rates on estimated net interest income could vary substantially if different assumptions are used or actual experience differs from presumed behavior of various deposit and loan categories. The following table shows the effects of interest rate shocks on our MVPE and net interest income. Rate shocks assume that current interest rates change immediately and sustain parallel shifts. For interest rate increases or decreases of 100 and 200 basis points, our policy dictates that our MVPE ratio should not fluctuate more than 10% and 15%, respectively, and that net interest income should not fluctuate more than 10% and 15%, respectively. As illustrated in the following table, we complied with our asset/liability policy at December 31, 2009. While our modeling suggests an increase in market rates will have a positive impact on margin, as shown in the table below, the amount of such increase cannot be determined, and there can be no assurance any increase will be realized.

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| | Net portfolio value at December 31, 2009 | | Net interest income | |
|---|---|---|---|---|
| Rate scenario | Amount | Percentage change | Amount | Percentage change |
| | (dollars in thousands) | | | |
| +200 basis points | $321,581 | 4.55% | $69,863 | 5.51% |
| +100 basis points | 313,343 | 1.87% | 67,692 | 2.23% |
| Flat Rate | 307,589 | 0.00% | 66,214 | 0.00% |
| -100 basis points | 295,294 | -4.00% | 63,973 | -3.38% |
| -200 basis points | 283,906 | -7.70% | 60,967 | -7.92% |

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

Historically, we have used variable rate commercial loans as the principal means of limiting interest rate risk. We believe our asset/liability strategy will be to maintain a positive gap position (that is, to continue to have interest-bearing assets subject to repricing that exceed in amount interest-earning liabilities subject to repricing) for periods up to a year. We continue to evaluate market conditions and may change our current gap strategy in response to changes in those conditions.

Financial Condition

Genera/. Our total assets at December 31, 2009 were $2.04 billion, of which total loans were $1.52 billion, or 74.6% and investment securities were $114.9 million, or 5.6%, while our total assets at December 31, 2008 were $1.79 billion, of which total loans were $1.45 billion or 80.9% and investment securities were $106.5 million or 5.9%.

Interest bearing deposits and federal funds sold. At December 31, 2009, a total of $219.2 million of interest-bearing deposits was comprised primarily of balances at the Federal Reserve Bank, which now pays interest on such balances. At December 31, 2008, these balances were held as daily federal funds sold at commercial banks.

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

Total investment securities increased to $114.9 million on December 31, 2009, an increase of $8.5 million, or 8.0%, from year-end 2008. The increase in investment securities primarily reflected increased holdings of state and municipal securities. At December 31, 2009, we had $29.3 million state and municipal securities, which were exempt

from federal income tax. In 2009, we began purchasing municipal securities, which increased our investment portfolio, and the tax equivalent yield thereon.

Other securities, included in the held-to-maturity classification at December 31, 2009, consisted of 5 single issuer and 2 pooled trust preferred securities. The amortized cost of the single issuer trust preferred securities was $19.5 million, of which three securities totaling $7.5 million were issued by three different banks and two securities totaling $12.0 million were issued by two different insurance companies. The two pooled trust preferred securities totaled $2.0 million and were collateralized by bank trust preferred securities.

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We adopted new accounting guidance related to the recognition of other-than-temporary impairment charges on debt securities in 2009. Under the new guidance, an impairment on a debt security is deemed to be other-than-temporary if it meets the following conditions: 1) 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 2) 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 its best estimate of 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. As prescribed by the new guidance, for 2009, we recognized an other-than-temporary impairment charge of $2.2 million related to a preferred bond classified in our held-to-maturity portfolio. We reevaluated all of the relevant information available for the other-than-temporary impairment charge in 2008 and determined that the charges were related to credit loss.

The following table presents the book value and the approximate fair value for each major category of our investment securities portfolio. At December 31, 2009, 2008 and 2007, our investments were categorized as either available-for-sale or held-to-maturity (in thousands).

| | Available-for-sale December 31, 2009 | | Held-to-maturity December 31, 2009 | |
|---|---|---|---|---|
| | Amortized cost | Fair value | Amortized cost | Fair value |
| U.S. Government agency securities | $27,000 | $26,759 | $- | $- |
| Obligations of states and political subdivisions | 29,344 | 31,153 | - | - |
| Mortgage-backed securities | 7,929 | 8,048 | - | - |
| Other securities | 21,005 | 20,953 | 21,468 | 15,415 |
| Federal Home Loan and Atlantic Central Bankers Bank stock | 6,565 | 6,565 | - | - |
| | $91,843 | $93,478 | $21,468 | $15,415 |

| | Available-for-sale December 31, 2008 | | Held-to-maturity December 31, 2008 | |
|---|---|---|---|---|
| | Amortized cost | Fair value | Amortized cost | Fair value |
| U.S. Government agency securities | $59,982 | $60,876 | $- | $- |
| Mortgage-backed securities | 15,102 | 15,021 | - | - |
| Other securities | 807 | 711 | 23,529 | 18,408 |
| Federal Home Loan and Atlantic Central Bankers Bank stock | 6,321 | 6,321 | - | - |
| | $82,212 | $82,929 | $23,529 | $18,408 |

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| | Available-for-sale December 31, 2007 | |
|---|---|---|
| | Amortized cost | Fair value |
| U.S. Government agency securities | $ 59,967 | $ 60,319 |
| Mortgage-backed securities | 13,982 | 13,353 |
| Other securities | 46,002 | 42,871 |
| Federal Home Loan and Atlantic Central Bankers Bank stock | 5,672 | 5,672 |
| | $ 125,623 | $ 122,215 |

Investment securities with a carrying value of $6.7 million at December 31, 2009, $30.9 million at December 31, 2008 and $73.7 million at December 31, 2007, were pledged as collateral for Federal Home Loan Bank advances and to secure securities sold under repurchase agreements as required or permitted by law.

The following tables show the contractual maturity distribution and the weighted average yields of our investment securities portfolio as of December 31, 2009 (dollars in thousands):

| Available-for-sale | After one to five years | Average yield | After five to ten years | Average yield | Over ten years | Average yield | Total |
|---|---|---|---|---|---|---|---|
| U.S. Government agencies | | | | | $26,759 | 3.53 % | $26,759 |
| Mortgage-backed securities | | | | | 8,048 | 5.49 % | 8,048 |
| Obligations of states and political subdivisions* | | | | | 31,153 | 5.34 % | 31,153 |
| Other securities | 16,962 | 4.96 % | 3,991 | 5.29 % | | | 20,953 |
| Federal Home Loan and Atlantic Central Banks Bank Stock | | | | | 6,565 | | 6,565 |
| Total | $16,962 | | $3,991 | | $72,525 | | $93,478 |
| Weighted average yield | | 4.96 % | | 5.29 % | | 4.63 % | |

* The yield shown, if adjusted to its taxable equivalent, would approximate 8.02%.

After

| Held-to-maturity | five to ten years | Average yield | Over ten years | Average yield | Total |
|---|---|---|---|---|---|
| Other debt securities | $ 3,332 | 7.11 % | $ 18,136 | 4.26 % | $ 21,468 |
| Total | $ 3,332 | | $ 18,136 | | $ 21,468 |
| | | 7.11 % | | 4.26 % | |

Loan Portfolio: We have developed an extensive credit policy to cover all facets of our lending activities. All of the commercial loans in our portfolio go through our loan committee for approval. The Bank's Chief Executive Officer, Mrs. Cohen, who has over 30 years experience in banking and real estate lending, chairs our loan committee. The remainder of the committee is made up of our President, Chief Lending Officer, head commercial lender, lenders, loan analysts and our Chief Credit Officer, who is present to insure adherence to both regulatory compliance and our internal credit policy. All of the key committee members have lengthy experience and have had similar positions at substantially larger institutions.

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We originate substantially all of our portfolio loans, although from time to time we purchase individual residential mortgages, leases and lease pools and in two instances in 2008 purchased participation in loans originated by an affiliated third party, of which one was paid off in 2008. Where a proposed loan exceeds our lending limit, we typically sell a participation in the loan to another financial institution. At December 31, 2009, we had $66.0 million in participations sold. We typically require that all commercial mortgages and construction loans be secured, generally by real estate. At December 31, 2009, commercial, construction and commercial mortgage loans made up $1.2 billion, or 77.4%, of our total loan portfolio. We expect that the percentage of our loan portfolio represented by commercial, construction and commercial mortgage loans will remain at or about the current percentage for the foreseeable future. However, from time to time we consider acquisitions of loan or lease portfolios and, as a result of any such acquisition, the percentage could change.

The following table summarizes our loan portfolio by loan category for the periods indicated (in thousands):

| | December 31, 2009 Amount | December 31, 2008 Amount | December 31, 2007 Amount | December 31, 2006 Amount | December 31, 2005 Amount |
|---|---|---|---|---|---|
| Commercial | $402,232 | $353,219 | $325,166 | $199,397 | $119,654 |
| Commercial mortgage(1) | 569,434 | 488,986 | 369,124 | 327,639 | 190,153 |
| Construction | 207,184 | 305,889 | 307,614 | 275,079 | 168,149 |
| Total commercial loans | 1,178,850 | 1,148,094 | 1,001,904 | 802,115 | 477,956 |
| Direct financing leases, net | 78,802 | 85,092 | 89,519 | 92,947 | 81,162 |
| Residential mortgage(2) | 85,759 | 57,636 | 50,193 | 62,413 | 62,378 |
| Consumer loans and others | 178,608 | 157,446 | 144,882 | 108,374 | 61,017 |
| | 1,522,019 | 1,448,268 | 1,286,498 | 1,065,849 | 682,513 |
| Deferred loan costs (fees) | 1,703 | 1,081 | 291 | (1,030) | (931) |
| Total loans, net of deferred loan costs (fees) | $1,523,722 | $1,449,349 | $1,286,789 | $1,064,819 | $681,582 |

(1) At December 31, 2009, our loans secured by owner occupied properties amounted to $104. 0 million or 18.3% of commercial mortgages.

(2) Includes loans held for sale of $3.0 million at December 31, 2006 and $805,000 at December 31, 2005. There were no loans available-for-sale in the other reported periods.

At December 31, 2009, construction loans included $100.1 million of 1-4 family construction and $107.1 million of commercial construction, land acquisition and development.

The following table presents selected loan categories by maturity for the periods indicated:

| | December 31, 2009 | | | |
|---|---|---|---|---|
| | Within One Year | One to Five Years | After Five Years | Total |
| | (in thousands) | | | |
| Commercial and commercial mortgage | $447,457 | $375,432 | $148,777 | $971,666 |
| Construction | 181,163 | 21,204 | 4,817 | $207,184 |
| | $628,620 | $396,636 | $153,594 | $1,178,850 |

| | | | |
|---|---|---|---|
| Loans at fixed rates | $145,483 | $27,257 | $172,740 |
| Loans at variable rates | $251,153 | $126,337 | $377,490 |
| Total | $396,636 | $153,594 | $550,230 |

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Allowance for Loan and Lease Losses: We evaluate the adequacy of our allowance for loan and lease losses on at least a quarterly basis to ensure that our provision for loan losses is in the amount necessary to maintain our allowance for loan losses at a level that is appropriate, based on management's estimate of probable 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 topic 450, Contingencies, and ASC topic 310, Receivables. The process of evaluating the adequacy of our allowance 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 the estimated losses at the time we classify the loan or lease. This "specific" portion of the allowance is the total of potential, although unconfirmed, losses for individually classified loans. In this process, specific reserves are established 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 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 review of statistical information from various industry reports to determine its 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: commercial loans, commercial mortgages, construction loans and direct lease financing, and for the various types of loans to individuals. 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, the average loan size, and other factors as appropriate. Our Chief Risk Officer, who reports directly to our audit committee, oversees the loan review department processes and measures the adequacy of the allowance independently of management. The loan review department's oversight parameters include borrower relationships over $3.0 million and loans that are 90 days or more past due or which have been previously adversely classified. Pursuant to these parameters, approximately 70% of our loans are subject to that department's oversight on an annual basis.

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 presents an allocation of the allowance for loan and lease losses among the types of loans or leases in our portfolio at December 31, 2009, 2008, 2007, 2006 and 2005 (dollars in thousands):

| | December 31, 2009 | | | December 31, 2008 | | | December 31, 2007 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Allowance | % Loan Type to Total Loans | | Allowance | % Loan Type to Total Loans | | Allowance | % Loan Type to Total Loans | |
| Commercial | $4,696 | 26.43 | % | $3,172 | 24.39 | % | $2,290 | 25.28 | % |
| Commercial mortgage | 7,041 | 37.42 | % | 6,124 | 33.76 | % | 2,845 | 28.69 | % |
| Construction | 4,356 | 13.61 | % | 5,543 | 21.12 | % | 2,220 | 23.91 | % |
| Direct financing leases, net | 151 | 5.18 | % | 340 | 5.88 | % | 682 | 6.96 | % |
| Consumer loans | 460 | 11.73 | % | 603 | 10.87 | % | 691 | 11.26 | % |
| Residential mortgage | 2,178 | 5.63 | % | 1,430 | 3.98 | % | 1,181 | 3.90 | % |
| Unallocated | 241 | - | | 149 | - | | 324 | - | |
| | $19,123 | 100.00 | % | $17,361 | 100.00 | % | $10,233 | 100.00 | % |

| | December 31, 2006 | | | December 31, 2005 | | |
|---|---|---|---|---|---|---|
| | Allowance | % Loan Type to Total Loans | | Allowance | % Loan Type to Total Loans | |
| Commercial | $1,666 | 18.71 | % | $1,200 | 17.53 | % |
| Commercial mortgage | 2,440 | 30.74 | % | 1,697 | 27.86 | % |
| Construction | 2,080 | 25.81 | % | 1,118 | 24.64 | % |
| Direct financing leases, net | 1,005 | 8.72 | % | 975 | 11.89 | % |
| Consumer loans | 517 | 10.17 | % | 365 | 8.94 | % |
| Residential mortgage | 684 | 5.85 | % | 139 | 9.14 | % |
| Unallocated | 8 | - | | 19 | - | |
| | $8,400 | 100.00 | % | $5,513 | 100.00 | % |

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Summary of Loan and Lease Loss Experience. The following table summarizes our credit loss experience for each of the periods indicated:

| | 2009 | 2008 | December 31, 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| | | | (in thousands) | | |
| Balance in the allowance for loan and lease losses at beginning of period | $17,361 | $10,233 | $8,400 | $5,513 | $3,593 |
| Loans charged-off: | | | | | |
| Commercial | 6,314 | 733 | 2,545 | 8 | 123 |
| Construction | 4,546 | 2,744 | 1,084 | - | - |
| Lease financing | 49 | 55 | 35 | 93 | 70 |
| Residential mortgage | 328 | 1,992 | - | - | - |
| Consumer | 127 | 9 | 8 | - | 2 |
| Total | 11,364 | 5,533 | 3,672 | 101 | 195 |
| Recoveries: | | | | | |
| Commercial | 53 | - | 73 | 12 | 15 |
| Construction | 32 | 152 | 10 | - | - |
| Lease financing | 27 | 5 | 8 | - | - |
| Residential mortgage | 12 | - | - | - | - |
| Consumer | 2 | 4 | 14 | 1 | - |
| Total | 126 | 161 | 105 | 13 | 15 |
| Net charge-offs | 11,238 | 5,372 | 3,567 | 88 | 180 |
| Provision charged to operations | 13,000 | 12,500 | 5,400 | 2,975 | 2,100 |
| Balance in allowance for loan and lease losses at end of period | $19,123 | $17,361 | $10,233 | $8,400 | $5,513 |
| Net charge-offs/average loans | 0.76 % | 0.38 % | 0.30 % | 0.01 % | 0.03 % |

The increase in charge-offs in 2009 compared to prior years was primarily the result of defaults of three commercial loans, two commercial real estate and one residential construction loan. The charge-offs in 2008 were primarily comprised of one residential mortgage loan and one construction loan.

Non-Performing Loans. Loans are considered to be non-performing if they are on a non-accrual basis or terms have been renegotiated to provide a reduction or deferral of interest or principal because of a weakening in the financial position of the borrowers. 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. The following table summarizes our non –performing loans, other real estate owned and our loans past due 90 days or more still accruing interest.

| | 2009 | 2008 | December 31, 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| | | | (in thousands) | | |
| Non-accrual loans | $12,270 | $8,729 | $1,169 | $- | $- |
| Total Non-performing loans | 12,270 | 8,729 | 1,169 | - | - |

| | | | | | |
|---|---|---|---|---|---|
| Other real estate owned | 459 | 4,600 | - | - | - |
| Total Non-performing assets | $12,729 | $13,329 | $1,169 | $- | $- |
| Loans past due 90 days or more | 12,994 | 4,055 | 8,673 | 668 | 538 |

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Non-accrual loans increased $3.5 million to $12.3 million at December 31, 2009, as compared to $8.7 million at December 31, 2008. The higher level of non-accrual loans was mainly due to increases in the non-accrual status of commercial loans of $3.4 million, commercial mortgages of $591,000 and consumer loans of $149,000. The increases were partially offset by decreases in the non-accrual construction loans of $320,000 and non-accrual residential mortgages of $270,000. The increase in non-accrual commercial loans included one relationship totaling $2.0 million and three relationships totaling $1.5 million. The 2008 non-accrual balance was primarily due to increases in residential construction and commercial mortgages non-accruals.

Deposits. A primary source for funding is deposit accumulation. We offer a variety of deposit accounts with a range of interest rates and terms, including savings accounts, checking accounts, money market savings accounts and certificates of deposit. While the flow of deposits is influenced significantly by general economic conditions, changes in money market rates, prevailing interest rates and competition, we expect continued growth in private label banking, stored value (prepaid), healthcare accounts and merchant card processing balances. We maintain deposits for various affiliated companies totaling approximately $10.4 million at December 31, 2009, as compared to $24.9 million at December 31, 2008. The majority of these deposits are short-term in nature and rates are consistent with market rates. At December 31, 2009, we had total deposits of $1.65 billion as compared to $1.52 billion at December 31, 2008. The increase is primarily a result of growth in our transaction deposits, as time deposits decreased $238.0 million during the same period. The following table presents the average balance and rates paid on deposits for the periods indicated:

| | December 31, 2009 | | December 31, 2008 | | December 31, 2007 | |
|---|---|---|---|---|---|---|
| | Average balance | Average Rate | Average balance | Average Rate | Average balance | Average Rate |
| | ( dollars in thousands) | | | | | |
| Demand (non-interest bearing) | $529,477 | - | $242,859 | - | $88,889 | - |
| Interest checking | 365,715 | 1.46 % | 183,996 | 2.44 % | 93,491 | 3.04 % |
| Savings and money market | 516,356 | 1.39 % | 498,156 | 2.81 % | 520,365 | 4.56 % |
| Time | 151,791 | 1.65 % | 455,165 | 3.99 % | 424,448 | 5.35 % |
| Total deposits | $1,563,339 | 0.96 % | $1,380,176 | 2.66 % | $1,127,193 | 4.37 % |

At December 31, 2009, we had $137.2 million of certificate of deposit accounts maturing in one year or less. At December 31, 2009, 2008 and 2007, approximately 7.6%, 23.5% and 30.6% respectively, of deposits consisted of institutional (brokered) deposits. Such funding has become a significantly less important component of our funding mix in 2009.

The remaining maturity of certificates of deposit greater than $100,000 as of December 31, 2009, was as follows:

| | Amount (in thousands) |
|---|---|
| Three months or less | $ 6,276 |
| Three to six months | 2,605 |
| Six to twelve months | 3,049 |
| Greater than twelve months | 5,635 |
| Total | $ 17,565 |

Borrowings: We had $100.0 million at December 31, 2009, $61.0 million at December 31, 2008, and $90.0 million at December 31, 2007, in advances outstanding from the Federal Home Loan Bank and other financial institutions. The advances mature on a daily basis and are collateralized with investment securities and loans. We also use the federal funds market to cover short-term (generally one day or less) cash demands. To a lesser extent, we have used securities sold under agreements to repurchase to fund short-term cash demands. The Bank also has several lines of credit, which we discussed in “Liquidity and Capital Resources”. We had no outstanding balances on these lines of credit at December 31, 2009. We do not have any policy prohibiting us from incurring debt. We anticipate that, under current circumstances, any borrowing, other than through the federal funds market, securities sold under agreements to repurchase or the lines of credit will continue to be from the Federal Home Loan Bank system.

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| | As of or for the year ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| | (dollars in thousands) | | |
| Securities sold under repurchase agreements | | | |
| Balance at year-end | $ 2,588 | $ 9,419 | $ 3,846 |
| Average during the year | 2,175 | 2,568 | 3,006 |
| Maximum month-end balance | 3,847 | 9,419 | 6,798 |
| Weighted average rate during the year | 1.18 % | 1.99 % | 1.73 % |
| Rate at December 31 | 1.02 % | 1.57 % | 2.07 % |
| | | | |
| Short-term borrowings and federal funds purchased | | | |
| Balance at year-end | $ 100,000 | $ 61,000 | $ 90,000 |
| Average during the year | 44,895 | 123,558 | 86,049 |
| Maximum month-end balance | 105,000 | 203,250 | 230,000 |
| Weighted average rate during the year | 0.73 % | 2.58 % | 5.14 % |
| Rate at December 31 | 0.65 % | 0.67 % | 3.84 % |

As of December 31, 2009, we have two established statutory business trusts: The Bancorp Capital Trust II and The Bancorp Capital Trust III (Trusts). In each case, we own all the common securities of the trust. These trusts issued preferred capital securities to investors and invested the proceeds in us through the purchase of junior subordinated debentures issued by us. These debentures are the sole assets of the trusts.

- The $10.3 million of debentures issued to The Bancorp Capital Trust II on November 28, 2007, mature on March 15, 2038 and bear interest at an annual fixed rate of 7.55% through March 15, 2013, and for each successive distribution date at an annual rate equal to 3-month LIBOR plus 3.25%.

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

Shareholders' equity

At December 31, 2009, we had $245.2 million in shareholders' equity. During the third quarter of 2009, the Company completed a stock offering and issued 11.5 million shares of its common stock at a price of $5.75 per share resulting in gross proceeds of approximately $66.1 million. The Company recorded $11.5 million in common stock and $50.6 million in additional paid in capital from the stocking offering. Additionally, the Company converted all of its shares of series A preferred stock, which had a liquidation value $1,081,360 into 117,372 shares of its common stock.

During 2009, we had $32,000 and $2.3 million in dividends accrued on our Series A and B preferred stock, respectively. In the second quarter of 2009, we finalized our valuation of the allocated fair value of the common stock warrants that were issued in conjunction with the Series B preferred stock that we issued to the U.S. Treasury Department through our participation in the TARP Capital Purchase Program. The final valuation of the warrants resulted in $7.3 million being allocated to additional paid-in capital from preferred stock. We recognized accretion of $1.5 million related to the common stock warrants during 2009.

Off-balance sheet commitments

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

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

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Financial instruments whose contract amounts represent potential credit risk for us at December 31, 2009 were our commitments to extend credit, which were approximately $301.8 million, and standby letters of credit, which were approximately $14.4 million, at December 31, 2009.

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

Contractual Obligations and Other Commitments

The following table sets forth our contractual obligations and other commitments, including off-balance sheet commitments, representing required and potential cash outflows as of December 31, 2009:

| | Total | Less than one year | One to three years | Four to five years | After five years |
|---|---|---|---|---|---|
| | | | (in thousands) | | |
| Minimum annual rentals on noncancellable operating leases | $12,464 | $2,047 | $4,125 | $3,251 | $3,041 |
| Remaining contractual maturities of time deposits | 142,820 | 137,185 | 4,942 | - | 693 |
| Loan commitments | 301,840 | 82,934 | 32,747 | 2,678 | 183,481 |
| Subordinated debenture | 13,401 | - | - | - | 13,401 |
| Interest expense on subordinated debenture (2) | 24,262 | 860 | 1,720 | 1,720 | 19,962 |
| Dividends on preferred stock (1) | 29,273 | 2,261 | 4,522 | 6,426 | 16,064 |
| Standby letters of Credit | 14,369 | 10,207 | 4,162 | - | - |
| Total | $538,429 | $235,494 | $52,218 | $14,075 | $236,642 |

(1) Term is unlimited, presentation assumes a 10 year term for this table.
(2) Presentation assumes a weighted average interest rate of 6.62%.

Impact of Inflation

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

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Recently Issued Accounting Standards

Information on recent accounting pronouncements is set forth in Note B, item 18, to the consolidated financial statements included in this report and is incorporated herein by this reference.

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

Information with respect to quantitative and qualitative disclosures about market risk is included in the information provided under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” at Item 7 hereof.

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Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

The Bancorp, Inc.

We have audited the accompanying consolidated balance sheets of The Bancorp, Inc. (a Delaware Corporation) and its subsidiary as of December 31, 2009 and 2008, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

As discussed in Note B to the consolidated financial statements, the Company adopted FASB ASC 820 Fair Value Measurements and Disclosures, in 2008.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Bancorp, Inc. and its subsidiary as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), The Bancorp, Inc. and its subsidiary's internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 16, 2010 expressed an unqualified opinion.

/s/ Grant Thornton LLP

Philadelphia, Pennsylvania
March 16, 2010

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THE BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| | (in thousands) | |
| ASSETS | | |
| Cash and cash equivalents | | |
| Cash and due from banks | $135,246 | $90,744 |
| Interest bearing deposits | 219,213 | 1,033 |
| Federal funds sold | - | 87,729 |
| Total cash and cash equivalents | 354,459 | 179,506 |
| | | |
| Investment securities, available-for-sale, at fair value | 93,478 | 82,929 |
| Investment securities, held-to-maturity (fair value $15,415 and $18,408, respectively) | 21,468 | 23,529 |
| Loans, net of deferred loan costs | 1,523,722 | 1,449,349 |
| Allowance for loan and lease losses | (19,123) | (17,361) |
| Loans, net | 1,504,599 | 1,431,988 |
| Premises and equipment, net | 7,942 | 8,279 |
| Accrued interest receivable | 7,722 | 7,799 |
| Intangible assets, net | 10,005 | 11,005 |
| Other real estate owned | 459 | 4,600 |
| Deferred tax asset, net | 20,875 | 22,847 |
| Other assets | 22,527 | 19,893 |
| Total assets | $2,043,534 | $1,792,375 |
| | | |
| LIABILITIES | | |
| Deposits | | |
| Demand (non-interest bearing) | $506,641 | $334,498 |
| Savings, money market and interest checking | 1,005,048 | 804,502 |
| Time deposits | 125,255 | 357,831 |
| Time deposits, $100,000 and over | 17,565 | 23,016 |
| Total deposits | 1,654,509 | 1,519,847 |
| | | |
| Securities sold under agreements to repurchase | 2,588 | 9,419 |
| Short-term borrowings | 100,000 | 61,000 |
| Accrued interest payable | 362 | 2,475 |
| Subordinated debenture | 13,401 | 13,401 |
| Other liabilities | 27,471 | 5,830 |
| Total liabilities | 1,798,331 | 1,611,972 |
| | | |
| SHAREHOLDERS' EQUITY | | |
| Preferred stock - authorized 5,000,000 shares, series A, $0.01 par value; 0 and 108,136 shares issued and outstanding at December 31, 2009 and 2008, respectively | - | 1 |
| Series B, $1,000 liquidation value, 45,220 shares issued and outstanding at December 31, 2009 and 2008, respectively | 39,411 | 39,028 |

| | | |
|---|---|---|
| Common stock - authorized, 50,000,000 shares of $1.00 par value; 26,181,291 and 14,563,919 shares issued and outstanding at December 31, 2009 and 2008, respectively | 26,181 | 14,563 |
| Additional paid-in capital | 196,875 | 145,156 |
| Accumulated deficit | (17,175) | (17,517) |
| Accumulated other comprehensive loss | (89) | (828) |
| Total shareholders' equity | 245,203 | 180,403 |
| Total liabilities and shareholders' equity | $2,043,534 | $1,792,375 |

The accompanying notes are an integral part of these statements.

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THE BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF OPERATIONS

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| | (in thousands, except per share data) | | |
| Interest income | | | |
| Loans, including fees | $73,304 | $87,966 | $96,690 |
| Interest on investment securities: | | | |
| Taxable interest | 5,017 | 6,104 | 6,699 |
| Tax-exempt interest | 1,347 | - | - |
| Federal funds sold | 234 | 954 | 3,072 |
| Interest bearing deposits | 87 | 38 | 76 |
| | 79,989 | 95,062 | 106,537 |
| Interest expense | | | |
| Deposits | 15,042 | 36,645 | 49,313 |
| Securities sold under agreements to repurchase | 26 | 51 | 52 |
| Short-term borrowings | 329 | 3,193 | 4,419 |
| Subordinated debt | 883 | 954 | 84 |
| | 16,280 | 40,843 | 53,868 |
| Net interest income | 63,709 | 54,219 | 52,669 |
| Provision for loan and lease losses | 13,000 | 12,500 | 5,400 |
| Net interest income after provision for loan and lease losses | 50,709 | 41,719 | 47,269 |
| | | | |
| Non-interest income | | | |
| Service fees on deposit accounts | 1,375 | 1,184 | 901 |
| Merchant credit card deposit fees | 705 | 973 | 1,004 |
| Stored value processing fees | 7,965 | 8,768 | 369 |
| Gain/loss on sales of investment securities | 1,106 | - | (2) |
| Other than temporary impairment on securities available-for-sale (1) | (2,225) | (19,886) | - |
| Leasing income | 1,183 | 115 | 2,104 |
| ACH processing fees | 543 | 265 | 299 |
| Other | 1,167 | 978 | 2,939 |
| Total non-interest income (loss) | 11,819 | (7,603) | 7,614 |
| | | | |
| Non-interest expense | | | |
| Salaries and employee benefits | 23,317 | 21,302 | 14,917 |
| Depreciation and amortization | 2,710 | 2,495 | 1,644 |
| Rent and related occupancy cost | 2,592 | 2,167 | 1,303 |
| Data processing expense | 6,756 | 4,157 | 2,914 |
| Advertising | 870 | 776 | 653 |
| Audit expense | 1,697 | 1,653 | 1,422 |
| Legal expense | 1,975 | 1,007 | 640 |
| Amortization of intangible assets | 1,001 | 1,001 | - |
| Losses on sale of other real estate owned | 1,700 | - | - |
| FDIC insurance | 3,112 | 795 | 444 |

| | | | |
|---|---|---|---|
| Impairment of goodwill | - | 51,888 | - |
| Other | 10,448 | 10,147 | 7,268 |
| Total non-interest expense | 56,178 | 97,388 | 31,205 |
| Net income before income taxes | 6,350 | (63,272) | 23,678 |
| Income tax provision (benefit) | 2,248 | (20,892) | 9,338 |
| Net income (loss) | 4,102 | (42,380) | 14,340 |
| Less preferred stock dividends and accretion | (3,760) | (243) | (68) |
| Income allocated to Series A preferred shareholders | - | - | (115) |
| Net income (loss) available to common shareholders | $342 | $(42,623) | $14,157 |
| Net income (loss) per share - basic | $0.02 | $(2.93) | $1.02 |
| Net income (loss) per share - diluted | $0.02 | $(2.93) | $0.98 |

(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.

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THE BANCORP INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended December 31, 2009, 2008 and 2007
(in thousands except share data)

| | Common Stock shares | Common Stock | Preferred Stock | Additional paid-in capital | Retained earnings (Accumulated deficit) | Accumulated other comprehensive loss | Comprehensive income (loss) | Total |
|---|---|---|---|---|---|---|---|---|
| Balance at December 31, 2006 | 13,724,023 | 13,724 | 1 | 125,572 | 10,834 | (1,270) | | 148,861 |
| Net Income | | | | | 14,340 | | 14,340 | 14,340 |
| Preferred Shares converted to Common Shares | 7,043 | 7 | | (7) | | | | - |
| Common Stock issued from stock-based compensation grants, net of excess tax benefits | 106,671 | 106 | | 1,523 | | | | 1,629 |
| Common Stock issued during the acquisition of Stored Value Solutions | 722,733 | 723 | | 11,389 | | | | 12,112 |
| Cash dividends on Series A preferred stock | | | | | (68) | | | (68) |
| Stock-based compensation | | | | 331 | | | | 331 |
| Other comprehensive loss, net of reclassification adjustments and tax | - | - | - | - | - | (946) | (946) | (946) |
| | | | | | | | $ 13,394 | |
| Balance at December 31, 2007 | 14,560,470 | $ 14,560 | $ 1 | $ 138,808 | $ 25,106 | $ (2,216) | | $ 176,259 |
| Net Income (loss) | | | | | (42,380) | | (42,380) | (42,380) |
| | 3,449 | 3 | | (3) | | | | - |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Preferred Shares converted to Common Shares Series B | | | | | | | | |
| Preferred stock issued to the U.S. Treasury | | | 38,969 | | | | | 38,969 |
| Common stock warrant | | | | 6,251 | | | | 6,251 |
| Cash dividends on preferred stock | | | | | (184) | | | (184) |
| Accretion of the discount on series B preferred shares | | | 59 | | (59) | | | - |
| Stock-based compensation | | | | 100 | | | | 100 |
| Other comprehensive income, net of reclassification adjustments and tax | - | - | - | - | - | 1,388 | 1,388 | 1,388 |
| | | | | | | | $ (40,992) | |
| Balance at December 31, 2008 | 14,563,919 | $ 14,563 | $ 39,029 | $ 145,156 | $ (17,517) | $ (828) | | $ 180,403 |
| Net Income | | | | | 4,102 | | 4,102 | 4,102 |
| Cash dividends on preferred shares | | | | | (2,293) | | | (2,293) |
| Common stock warrant | | | (1,084) | 1,084 | | | | - |
| Common stock offering, net of offering costs | 11,500,000 | 11,500 | | 50,599 | | | | 62,099 |
| Series A preferred shares converted to common shares | 117,372 | 118 | (1) | (117) | | | | - |
| Accretion of the discount on series B preferred shares | | | 1,467 | - | (1,467) | | | - |
| Stock-based compensation expense | | | | 153 | | | | 153 |
| Other comprehensive | | | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| income, net of reclassification adjustments and tax | - | - | - | - | - | 739 | 739 | 739 |
| | | | | | | | $ 4,841 | |
| Balance at December 31, 2009 | 26,181,291 | $ 26,181 | $ 39,411 | $ 196,875 | $ (17,175) | $ (89) | | $ 245,203 |

The accompanying notes are an integral part of these statements.

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THE BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
(in thousands)

| | Years ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Operating activities | | | |
| Net income (loss) | $4,102 | $(42,380) | $14,340 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities | | | |
| Depreciation and amortization | 3,881 | 3,476 | 1,644 |
| Provision for loan and lease losses | 13,000 | 12,500 | 5,400 |
| Net amortization of investment securities discounts/premiums | 70 | 165 | (514) |
| (Gain) Loss on sale of investment securities | (1,106) | - | 2 |
| Stock-based compensation expense | 153 | 100 | 331 |
| Mortgage loans originated for sale | (5,977) | (5,016) | (6,831) |
| Sale of mortgage loans originated for resale | 6,008 | 5,034 | 6,866 |
| Gain on sale of mortgage loans originated for resale | (31) | (18) | (35) |
| Impairment of goodwill | - | 51,888 | - |
| Deferred income tax expense (benefit) | 1,239 | (19,254) | 171 |
| Gain on sales of fixed assets | (39) | (10) | (2) |
| Net gain on sales of loans | - | - | (3) |
| Other than temporary impairment on securities available-for-sale | 2,225 | 19,886 | - |
| Loss on sale of other real estate owned | 1,700 | - | - |
| (Increase) decrease in accrued interest receivable | (189) | 1,612 | (1,149) |
| (Decrease) in interest payable | (2,113) | (2,390) | (1,611) |
| Decrease (increase) in other assets | (2,909) | (20,891) | 235 |
| Increase (decrease) in other liabilities | 27,157 | (2,126) | 1,568 |
| Net cash provided by operating activities | 47,171 | 2,576 | 20,412 |
| | | | |
| Investing activities | | | |
| Purchase of investment securities available-for-sale | (151,398) | (13,514) | (21,129) |
| Proceeds from redemptions and repayment on securities available-for-sale | 55,260 | 11,631 | 12,231 |
| Proceeds from sales of investment securities available-for-sale | 87,837 | - | 1,308 |
| Net cash paid due to acquisitions, net of cash acquired | | - | (50,423) |
| Proceeds from sale of other real estate owned | 2,900 | - | |
| Net increase in loans | (85,605) | (167,894) | (225,156) |
| Proceeds from sale of fixed assets | 162 | 164 | 135 |
| Purchases of premises and equipment | (2,496) | (4,268) | (1,989) |
| Net cash used in investing activities | (93,340) | (173,881) | (285,023) |
| | | | |
| Financing activities | | | |
| Net increase in deposits | 129,147 | 247,044 | 209,063 |
| Net increase (decrease) in securities sold under agreements to repurchase | (6,831) | 5,573 | (4,299) |
| (Repayment) proceeds from short term borrowings | 39,000 | (29,000) | (10,000) |
| Proceeds from issuance of common stock, net of cost | 62,099 | - | |
| Proceeds from issuance of subordinated debt | - | - | 13,401 |

| | | | |
|---|---|---|---|
| Proceeds from issuance of preferred stock | - | 45,220 | - |
| Net proceeds from the exercise of share based payments | - | - | 1,284 |
| Excess tax benefits from share based payment arrangements | - | - | 267 |
| Dividends paid on Series A and B preferred stock | (2,293) | (184) | (68) |
| Net cash provided by financing activities | 221,122 | 268,653 | 209,648 |
| Net (decrease) increase in cash and cash equivalents | 174,953 | 97,348 | (54,963) |
| Cash and cash equivalents, beginning of year | 179,506 | 82,158 | 137,121 |
| Cash and cash equivalents, end of year | $354,459 | $179,506 | $82,158 |
| Supplemental disclosure: | | | |
| Interest paid | $18,394 | $43,318 | $55,479 |
| Taxes paid | $1,401 | $5,291 | $7,903 |
| Transfer of assets from loans to other real estate owned | $459 | $4,600 | $1,566 |

The accompanying notes are an integral part of these statements.

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THE BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A—Formation and Structure of Company

The Bancorp, Inc. (the Company) is a Delaware corporation and a registered bank 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 related other banking services nationally, which include private label banking, health savings accounts and prepaid debit cards. The principal medium for the delivery of the Company's deposit services is the Internet.

Prior to September 30, 2009, the Company was registered as a financial holding company. Because the Company had not engaged in businesses which are specific to a financial holding company, it changed to a more simplified bank holding company structure.

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

Note B—Summary of Accounting Policies

1. Basis of Presentation

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

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

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

The Company periodically reviews its investment portfolio to determine whether unrealized losses on securities are temporary, based on evaluations of the creditworthiness of the issuers or guarantors, and underlying collateral, as applicable. In addition, it considers the continuing performance of the securities. Credit losses are recognized through the income statement. If management believes market value losses are temporary and it believes that it has the ability and intention to hold those securities to maturity, the reduction in value is recognized in other comprehensive income,

through equity.

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

2. Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand and amounts due from banks with an original maturity of three months or less and federal funds sold.

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3. Investment Securities

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

In April 2009, the Financial Accounting Standards Board (FASB) updated the guidance related to the recognition and presentation of other-than-temporary impairments which modifies the recognition of other-than-temporary impairment (“impairment”) for debt securities. This new guidance is also applied to certain equity securities with debt-like characteristics (collectively “debt securities”). Under this new guidance, an impairment on a debt security is deemed to be other-than-temporarily impaired if it meets the following conditions: 1) the Company intends to sell or it is more likely than not the Company will be required to sell the security before a recovery in value, or 2) the Company does not expect to recover the entire amortized cost basis of the security. If the Company intends to sell or it is more likely than not the Company will be required to sell the security before a recovery in value, a charge is recorded in earnings 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 the Company does 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 earnings, and the remaining impairment, which is recorded in other comprehensive income (“OCI”). Generally, the Company determines a security’s credit impairment as the difference between its amortized cost basis and its best estimate of 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. The Company accretes the new cost basis to the estimated future cash flows over the expected remaining life of the security by prospectively adjusting the security’s yield, if necessary.

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 used to determine the credit loss amount is a quantitative and qualitative process that incorporates information received from third-party sources along with certain internal assumptions and judgments regarding the future performance of the security. The Company’s best estimate of future cash flows involves assumptions including, but not limited to, various performance indicators, such as historical and projected default and recovery rates, credit ratings, current delinquency rates, loan-to-value ratios and the possibility of obligor refinancing. These assumptions require the use of significant management judgment and include the probability of issuer default and estimates regarding timing and amount of expected recoveries which may include estimating the underlying collateral value. In addition, projections of expected future debt security cash flows may change based upon new information regarding the performance of the issuer and/or underlying collateral such as changes in the projections of the underlying property value estimates. The Company recognized an other-than-temporary impairment charge of $2.2 million representing the amortized cost of a single trust preferred security in its held-to-maturity portfolio. The amount of this

credit impairment was calculated by estimating the discounted cash flows for that security. The Company reevaluated the other-than-temporary impairment charge in 2008, based on the clarifying guidance issued in 2009, and determined the other-than-temporary impairment charge in 2008 was related to credit loss.

FASB ASC 815, Derivatives and Hedging, requires that entities recognize all derivatives as either assets or liabilities in the statement of financial condition and measure those instruments at fair value. Depending upon the effectiveness of the hedge and/or the transaction being hedged, any changes in the fair value of the derivative instrument is either recognized in earnings in the current year, deferred to future periods, or recognized in other comprehensive income. Changes in the fair value of all derivative instruments not recognized as hedge accounting are recognized in current year earnings. The Company did not engage in hedging as of December 31, 2009 and 2008.

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4. Loans and Allowance for Loan and Lease Losses

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

Interest income is accrued as earned on a simple interest basis. Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts that the borrower's financial condition is such that collection of interest is doubtful. When a loan is placed on non-accrual status, all accumulated accrued interest receivable applicable to periods prior to the current year is charged off to the allowance for loan and lease losses. Interest that had accrued in the current year is reversed out of current period income. Loans 90 days or more past due and still accruing interest must have both principal and accruing interest adequately secured and must be in the process of collection.

The Company accounts for impaired loans in accordance with FASB ASC topic 310, Receivables. This standard requires that a creditor measure impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, a creditor may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is collateral-dependent. Regardless of the measurement method, a creditor must measure impairment based on the fair value of the collateral when the creditor determines that foreclosure is probable.

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Servicing is not retained on residential mortgage sales. At December 31, 2009 and 2008, the Company had no loans available-for-sale.

FASB ASC 460, Guarantees, requires a guarantor entity, at the inception of a guarantee covered by the measurement provisions of the interpretation, to record a liability for the fair value of the obligation undertaken in issuing the guarantee. The Company previously did not record an initial liability when guaranteeing obligations, except for fees received at issuance, unless it became probable that the Company would have to perform under the guarantee.

5. Premises and Equipment

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

6. Internal Use Software

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

The carrying value of the Company's software is periodically reviewed and a loss is recognized if the value of the estimated undiscounted cash flow benefit related to the asset falls below the unamortized cost. Amortization is provided using the straight-line method over the estimated useful life of the related software, which is generally three to seven years. As of December 31, 2009 and 2008, the Company had capitalized total software costs of approximately $591,000 and $265,000, respectively. The Company recorded amortization expense of approximately $172,000, $18,000 and $133,000 for the years ended December 31, 2009, 2008, and 2007, respectively.

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7. Income Taxes

The Company accounts for income taxes under the liability method whereby deferred tax assets and liabilities are determined based on the difference between their carrying values on the financial statements and their tax basis as measured by the enacted tax rates which will be in effect when these differences reverse. Deferred tax expense (benefit) is the result of changes in deferred tax assets and liabilities.

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

8. Share-Based Compensation

The Company recognizes compensation expense for stock options in accordance with FASB ASC topic 718, Compensation—Stock 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.

9. Other Real Estate Owned

Other real estate owned is recorded at the lower of cost or estimated fair market value less cost of disposal. When property is acquired, the excess, if any, of the loan balance over fair market value is charged to the allowance for loan and lease losses. Periodically thereafter, the asset is reviewed for subsequent declines in the estimated fair market value. Subsequent declines, if any, and holding costs, as well as gains and losses on subsequent sale, are included in the consolidated statements of operations. We recorded $459,000 and $4.6 million in other real estate owned at December 31, 2009 and 2008, respectively.

10. Advertising Costs

The Company expenses advertising costs as incurred.

11. Earnings (loss) per Share

The Company calculates earnings per share under the FASB ASC 260, Earnings Per Share. Basic earnings (loss) per share exclude dilution and are computed by dividing income (loss) available to common shareholders by the weighted average common shares outstanding during the period. Diluted earnings (loss) per share take into account the potential

dilution that could occur if securities or other contracts to issue common stock were exercised and converted into common stock.

| | Year ended December 31, 2009 | | |
|---|---|---|---|
| | Income (numerator) | Shares (denominator) | Per share amount |
| | (dollars in thousands except for per share amount) | | |
| Basic earnings per share | | | |
| Net income available to common shareholders | $342 | 18,794,590 | $0.02 |
| Effect of dilutive securities | | | |
| Share based compensation awards | | | |
| Common stock warrants | - | 529,745 | - |
| Diluted earnings per share | | | |
| Net income available to common stockholders plus assumed conversions | $342 | 19,324,335 | $0.02 |

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Stock options for 1,322,864 shares of common stock at exercise prices of $10.00 to $25.43 per share were outstanding at December 31, 2009 but were not included in the dilutive shares because the exercise price was greater than the average market price.

For the year ended December 31, 2008, the Company had a loss of $2.93 per share with weighted average shares of 14,563,182. Convertible Series A preferred stock of 108,136 shares and stock options for 1,503,737 of common stock at exercise prices of $10.00 to $25.43 per share were outstanding but were not included in the computation of diluted loss per share because we had a net loss for the period.

| | Year ended December 31, 2007 | | |
|---|---|---|---|
| | Income (numerator) | Shares (denominator) | Per share amount |
| | (dollars in thousands except for per share amount) | | |
| Basic earnings per share | | | |
| Net income available to common shareholders | $14,157 | 13,859,066 | $1.02 |
| Effect of dilutive securities | | | |
| Options | - | 537,003 | (0.04) |
| Diluted earnings per share | | | |
| Net income available to common stockholders plus assumed conversions | $14,157 | 14,396,069 | $0.98 |

At December 31, 2007, 111,585 shares of convertible Series A Preferred Stock were outstanding but were not included in the computation of diluted earnings per share because, upon their assumed conversion to common stock, they were anti-dilutive to diluted earnings per share. Stock options for 12,000 shares of common stock at exercise prices of $24.18 to $25.43 per share were outstanding at December 31, 2007 but were not included in the weighted average shares because the exercise price was greater than the average market price.

12. Variable Interest Entities

As of December 31, 2009, the Company had two statutory business trusts, The Bancorp Capital Trust II and The Bancorp Capital Trust III (the Trusts) which qualify as variable interest entities under the ASC section 810, Consolidation. Accordingly, the Company is not considered the primary beneficiary and therefore the trusts are not consolidated in the Company’s financial statements. The trusts are accounted for under the equity method of accounting.

13. Other Comprehensive Income

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

The income tax effects allocated to comprehensive income (loss) are as follows (in thousands):

| | December 31, 2009 | | |
|---|---|---|---|
| | Before tax amount | Tax benefit (expense) | Net of tax amount |
| Unrealized losses on investment securities | | | |
| Unrealized gain arising during period | $ 2,024 | $ 688 | $ 1,336 |

| | | | |
|---|---|---|---|
| Less: Reclassification adjustments for gains realized in net income | 1,106 | 384 | 722 |
| Reclassification adjustments for OTTI on HTM (1) realized in net loss | (140) | (49) | (91) |
| Amortization of unrealized losses on HTM (1) securities previously held as AFS | 53 | 19 | 34 |
| Other comprehensive income, net | $ 1,111 | $ 372 | $ 739 |

(1) Reclassifications from other comprehensive income (loss) into net income (loss) are recorded over the life of the security or upon the determination of other-than-temporary impairment (OTTI).

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| | December 31, 2008 | | |
|---|---|---|---|
| | Before tax amount | Tax benefit (expense) | Net of tax amount |
| Unrealized losses on investment securities | | | |
| Unrealized losses arising during period | $ (8,635) | $ 3,022 | $ (5,613) |
| Less: Reclassification adjustments for OTTI on AFS realized in net loss | (8,000) | 2,800 | (5,200) |
| Reclassification adjustments for OTTI on HTM (1) realized in net loss | (2,869) | 1,004 | (1,865) |
| Amortization of unrealized losses on HTM (1) securities previously held as AFS | 98 | (34) | 64 |
| Other comprehensive income, net | $ 2,136 | $ (748) | $ 1,388 |

(1) Unrealized losses on investment securities transferred from available-for-sale (AFS) to held-to-maturity (HTM) on July 1, 2008 are included in other comprehensive income. Reclassifications from other comprehensive income (loss) into net income (loss) are recorded over the life of the security or upon the determination of other-than-temporary impairment (OTTI).

| | December 31, 2007 | | |
|---|---|---|---|
| | Before tax amount | Tax benefit (expense) | Net of tax amount |
| Unrealized losses on investment securities | | | |
| Unrealized losses arising during period | $(1,484) | $538 | $(946) |
| Less reclassification adjustment for gains realized in net losses | - | - | - |
| Other comprehensive loss, net | $(1,484) | $538 | $(946) |

14. Restrictions on Cash and Due from Banks

The Bank is required to maintain reserves against customer demand deposits by keeping cash on hand or balances with the Federal Reserve Bank. The amount of those reserves and cash balances at December 31, 2009 and 2008 were approximately $91.4 million and $24.0 million, respectively.

15. Other Identifiable Intangible Assets

The Company accounts for its customer list in accordance with FASB 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.

The gross carrying value and accumulated amortization related to the customer list intangible at December 31, 2009 and 2008 are presented below.

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| | December 31, | | | |
|---|---|---|---|---|
| | 2009 | | 2008 | |
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| | (in thousands) | | | |
| Customer list intangible | $ 12,006 | $ 2,001 | $ 12,006 | $ 1,001 |

16. Business Segments

FASB ASC 280, Segment Reporting, establishes standards for the way business enterprises report information about operating segments in annual financial statements. The Company had one reportable segment in 2009, 2008 and 2007 which consisted of Community Banking.

17. Reclassifications

Certain reclassifications have been made to the 2008 and 2007 financial statements to conform to the 2009 presentation.

18. Recent Accounting Pronouncements

Financial Accounting Standards Board (“FASB”) Accounting Standards Codification In July 2009, the FASB implemented the FASB Accounting Standards Codification (the “Codification”) as the single source of authoritative U.S. generally accepted accounting principles. The Codification simplifies the classification of accounting standards into one online database under a common referencing system, organized into eight different areas, ranging from industry-specific to general financial statement matters. Use of the Codification is effective for interim and annual periods ending after September 15, 2009. The Company began to use the Codification on the effective date and it had no impact on our financial statements. However, throughout these consolidated financial statements, all references to prior FASB, AICPA and EITF accounting pronouncements have been removed and all non-SEC accounting guidance is referred to in terms of the applicable subject matter.

Transfers of financial assets In February 2008, the FASB issued guidance on the accounting for transfers of financial assets and repurchase financing transactions. Under this guidance, the initial transfer of a financial asset and a repurchase financing involving the same asset that is entered into contemporaneously with, or in contemplation of, the initial transfer, is presumptively linked and are considered part of the same arrangement. This guidance was effective for new transactions entered into in fiscal years beginning after November 15, 2008. The adoption did not have a material impact on our financial position or results of operations.

Employers’ disclosures about postretirement benefit plan assets In December 2008, the FASB issued guidance which requires more detailed disclosures about employers’ plan assets, including investment strategies, major categories of plan assets, concentrations of risk within plan assets, and valuation techniques used to measure the fair value of plan assets. These new disclosures are applicable for the first fiscal year ending after December 15, 2009. The adoption did not have a material impact on our financial position or results of operations.

Interim disclosures about fair value of financial instruments In April 2009, the FASB issued guidance that fair value disclosures required for financial instruments on an annual basis be presented for all interim reporting periods beginning with the first interim period ending after June 15, 2009 with earlier application permitted. The Company adopted the disclosure requirements effective January 1, 2009. See Note Q, “Fair Value of Financial Instruments,” in these consolidated financial statements for the expanded disclosure.

The recognition and presentation of other-than-temporary impairment In April 2009, the FASB issued guidance which amends the recognition and presentation of other-than-temporary impairment of debt securities. Under this guidance, if the Company does not have the intention to sell and it is more-likely-than-not it will not be required to sell the debt security, the Company is required to segregate the difference between fair value and amortized cost into credit loss and market value changes with only the credit loss recognized in earnings and market value changes recorded to other comprehensive income. Where the Company’s intent is to sell the debt security or where it is more-likely-than-not that the Company will be required to sell the debt security, the entire difference between the fair value and the amortized cost basis is recognized in earnings. The guidance also requires additional disclosures regarding the calculation of credit losses and the factors considered in reaching a conclusion that the investment is not other-than-temporarily impaired and is effective for all reporting periods ending after June 15, 2009, with earlier adoption permitted.

The Company recorded a $2.2 million impairment charge related with a held-to-maturity security. The amount of impairment related to credit was calculated by estimating the cash flows for each security, the performance of the security and the class of share owned by the company.  Based on that information, the other-than-temporary impairment charge in 2008 was determined to be related to credit loss.

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Subsequent events In May 2009, the FASB issued guidance which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. This guidance was effective for interim or annual financial periods ending after June 15, 2009, and shall be applied prospectively. The Company has evaluated subsequent events and provided the appropriate disclosures on the subsequent events identified.

Transfers of Financial Assets In June 2009, which is codified in ASC 860, Transfers and Servicing, which requires more information about transfers of financial assets, including securitization transactions and a company's continuing exposure to the risks related to the transfer of financial assets. It eliminates the concept of a "qualifying special-purpose entity" and changes the requirements for derecognizing financial assets. This pronouncement is effective for first annual reporting period beginning after November 15, 2009. The adoption of this pronouncement is not anticipated to have a material impact on the Company's consolidated financial statements.

Amendments to FASB Interpretation No. 46(R) In June 2009, which is codified in ASC 810, Consolidation, which improves financial reporting by enterprises involved with variable interest entities and changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. This pronouncement is effective for the first annual reporting period beginning after November 15, 2009. The adoption of this pronouncement is not anticipated to have a material impact on the Company's consolidated financial statements.

Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements, In January 2010, the FASB issued the Accounting Standards Updates No. 2010-06 amended ASC subtopic 820-10 and requires new disclosures about the transfer in and out of the levels 1 and 2 as well as a reconciliation about the activity in level 3 fair value to present separately information about purchases, sales, insurance, and settlements. In addition, it also amended the subtopic 820-10 to disclose the fair value for each class of assets and liabilities as well as disclosing about inputs and valuation techniques. This update is effective for interim and annual reporting periods beginning after December 15, 2009 except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in level 3 fair value measurements, which is effective for years beginning after December 15, 2010. The Company has included the appropriate disclosures in "Note Q-Fair Value Measurements."

19. Stored Value Processing Fees

The Company recognizes stored value processing fees in the periods in which they are earned by performance of the related services. These fees are transactional-based and include interchange fees and usage fees on the cards. The Company records this revenue, net of costs such as association fees and interchange costs.

Note C—Subsequent events

The Company evaluated its financial statements for subsequent events through the date of financial statement issuance. The Company is not aware of any subsequent events which would require recognition or disclosure in the financial statements except as follows:

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Acquisitions

On April 1, 2009, the Company entered into a Stock Purchase Agreement with American Home Mortgage Holdings, Inc. and its wholly-owned subsidiary, American Home Bank, a federal savings association ("AHB") to acquire all of the outstanding shares of capital stock of AHB. Due to continuing delays in attempting to consummate this transaction, the stock purchase agreement has been terminated. The Company is currently pursuing the establishment of a de novo Federal Savings Bank to be located in southern New Jersey, contiguous with our Philadelphia/ Wilmington area market. The pursuit of establishing that institution replaces the pursuit of the AHB acquisition. The application for the Federal Savings Bank will entail all of the allowable activities of such institutions, which includes generating mortgage loans, various deposit accounts and other banking services.

Repurchase and retirement of preferred stock

On March 10, 2010, we repurchased 100% of the preferred stock issued under the United States Treasury Capital Purchase Program as further described in Note J, totaling $45.2 million. The Company will record a non-cash charge of $5.6 million for the unaccreted discount related to these preferred shares. In 2009, $3.7 million of annualized accretion and dividends related to this preferred stock were recognized.

Note D—Investment Securities

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

| Available-for-sale | December 31, 2009 | | | |
|---|---|---|---|---|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
| U.S. Government agency securities | $27,000 | $- | $(241) | $26,759 |
| Obligations of states and political subdivisions | 29,344 | 1,809 | - | 31,153 |
| Mortgage-backed securities | 7,929 | 119 | - | 8,048 |
| Other debt securities | 21,005 | 326 | (378) | 20,953 |
| Federal Home Loan and Atlantic Central Bankers Bank stock | 6,565 | - | - | 6,565 |
| | $91,843 | $2,254 | $(619) | $93,478 |

| Held-to-maturity | December 31, 2009 | | | |
|---|---|---|---|---|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
| Other debt securities | $21,468 | $- | $(6,053) | $15,415 |
| | $21,468 | $- | $(6,053) | $15,415 |

| Available-for-sale | December 31, 2008 | | | |
|---|---|---|---|---|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |

| | | | | |
|---|---|---|---|---|
| U.S. Government agency securities | $59,982 | $894 | $- | $60,876 |
| Mortgage-backed securities | 15,102 | 380 | (461) | 15,021 |
| Other debt securities | 807 | - | (96) | 711 |
| Federal Home Loan and Atlantic Central Bankers Bank stock | 6,321 | - | - | 6,321 |
| | $82,212 | $1,274 | $(557) | $82,929 |

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| Held-to-maturity | December 31, 2008 | | | |
|---|---|---|---|---|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
| Other debt securities | $23,529 | $- | $(5,121) | $18,408 |
| | $23,529 | $- | $(5,121) | $18,408 |

The amortized cost and fair value of the Company's investment securities at December 31, 2009, by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | Available-for-sale | | Held-to-maturity | |
|---|---|---|---|---|
| | Amortized cost | Fair value | Amortized cost | Fair value |
| Due before one year | $- | $- | $- | $- |
| Due after one year through five years | 17,005 | 16,962 | - | - |
| Due after five years through ten years | 4,000 | 3,991 | 3,332 | 2,820 |
| Due after ten years | 64,273 | 65,960 | 18,136 | 12,595 |
| Federal Home Loan and Atlantic Central Bankers Bank stock | 6,565 | 6,565 | - | - |
| | $91,843 | $93,478 | $21,468 | $15,415 |

At December 31, 2009 and 2008, investment securities with a book value of approximately $6.7 million and $30.9 million, respectively, were pledged to secure securities sold under repurchase agreements and Federal Home Loan Bank advances as required or permitted by law.

The fair value of the Company's investment portfolio is based on the market value provided by an independent market data provider and from the calculation of the present value of cash flows from securities. Available-for-sale securities fair values are based on the fair market value supplied by the 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 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 FASB issued further clarifying guidance in 2009 related to the recognition of other–than-temporary impairment charges on debt securities. The Company recognized an other-than-temporary impairment charge of $2.2 million representing the amortized cost of a single trust preferred security in its held-to-maturity portfolio. The amount of this credit impairment, was calculated by estimating the discounted cash flows for that security. The Company reevaluated the other-than-temporary impairment charge in 2008, based on the clarifying guidance issued in 2009, and determined the other-than-temporary impairment charge in 2008 was related to credit loss.

The table below indicates the length of time individual securities had been in a continuous unrealized loss position at December 31, 2009 (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 | Unrealized losses |

| Description of Securities | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| U.S. Government agency securities | 1 | $26,759 | $(241) | $- | $- | | $26,759 | $(241) | |
| Other debt securities | 3 | 9,970 | (29) | 658 | (349) | | 10,628 | (378) | |
| Total temporarily impaired investment securities | 4 | $36,729 | $(270) | $658 | $(349) | | $37,387 | $(619) | |

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| 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 | Unrealized losses |
| Description of Securities | | | | | | | |
| Other debt securities | 7 | $- | $- | $15,415 | $(6,053) | $15,415 | $(6,053) |
| Total temporarily impaired investment securities | 7 | $- | $- | $15,415 | $(6,053) | $15,415 | $(6,053) |

The table below indicates the length of time individual securities had been in a continuous unrealized loss position at December 31, 2008 (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 | Unrealized losses |
| Description of Securities | | | | | | | |
| Mortgage-backed securities | 11 | $- | $- | $1,079 | $(461) | $1,079 | $(461) |
| Other debt securities | 1 | - | - | 711 | (96) | 711 | (96) |
| Total temporarily impaired investment securities | 12 | $- | $- | $1,790 | $(557) | $1,790 | $(557) |

| 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 | Unrealized losses |
| Description of Securities | | | | | | | |
| Other debt securities | 8 | $1,439 | $(430) | $16,969 | $(4,691) | $18,408 | $(5,121) |
| Total temporarily impaired investment securities | 8 | $1,439 | $(430) | $16,969 | $(4,691) | $18,408 | $(5,121) |

Management has evaluated the securities in the above tables and has concluded that none of these securities have impairment that is other-than-temporary. Management 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. Management'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 since 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 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, performed at the security level, shows that the credit quality of the individual bonds ranges from good to deteriorating. 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.

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Note E—Loans

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

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Commercial | $ 402,232 | $ 353,219 |
| Commercial mortgage | 569,434 | 488,986 |
| Construction | 207,184 | 305,889 |
| Total commercial loans | 1,178,850 | 1,148,094 |
| Direct financing leases, net | 78,802 | 85,092 |
| Residential mortgage | 85,759 | 57,636 |
| Consumer loans and others | 178,608 | 157,446 |
| | 1,522,019 | 1,448,268 |
| Deferred loan costs | 1,703 | 1,081 |
| Total loans, net of deferred loan costs | $ 1,523,722 | $ 1,449,349 |
| | | |
| Supplemental loan data: | | |
| Construction 1-4 family | $ 100,088 | $ 163,718 |
| Construction commercial, acquisition and development | 107,096 | 142,171 |
| | $ 207,184 | $ 305,889 |

The Company has identified twenty-six loans as impaired, where it is probable that interest and principal will not be collected according to the contractual terms of the loan agreement. The balance of these impaired loans was $18.7 million at December 31, 2009, of which $11.7 million had a specific valuation allowance of $3.2 million and $7.0 million of which did not have a valuation allowance. The average amount of impaired loans was $13.2 million for the year ended December 31, 2009. The Company recognizes income on impaired loans when they are placed into non-accrual status on a cash basis when the loans are both current and the collateral on the loan is sufficient to cover the outstanding obligation to the Company. If these factors do not exist, the Company will not recognize income on such loans. Interest income would have increased by $776,000 if interest on impaired loans had been accrued. The balance of the Company's impaired loans was $8.7 million, at December 31, 2008, with a specific valuation allowance of $3.1 million. The average amount of impaired loans was $7.6 million for the year ended December 31, 2008. Interest income would have increased by $109,000 in 2008 if interest on impaired loans had been accrued. The balance of the Company's impaired loans was $1.2 million at December 31, 2007, with a specific valuation allowance of $175,000. The average amount of impaired loans was $1.7 million in 2007. Interest income would have increased by $110,000 in 2007 if interest on impaired loans had been accrued. The Company did not have any impaired loans as of December 31, 2006. The Company recognized interest income of $465,000 on impaired loans in 2009 and did not recognize interest income on impaired loans in 2008 or 2007.

The following table summarizes the Company's non-accrual loans, loans past due 90 days and other real estate owned at December 31, 2009 and 2008, respectively:

| | December 31, | |
|---|---|---|
| | 2009 | 2008 |
| | (in thousands) | |
| Non-accrual loans | $ 12,270 | $ 8,729 |

| | | |
|---|---|---|
| Loans past due 90 days or more | $ 12,994 | $ 4,055 |

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Changes in the allowance for loan and lease losses are as follows (in thousands):

| | December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Balances at the beginning of the year | $ 17,361 | $ 10,233 | $ 8,400 |
| Charge-offs | (11,364) | (5,533) | (3,672) |
| Recoveries | 126 | 161 | 105 |
| Provision charged to operations | 13,000 | 12,500 | 5,400 |
| Balances at end of year | $ 19,123 | $ 17,361 | $ 10,233 |

Note F—Premises and Equipment

Premises and equipment are as follows (in thousands):

| | | December 31, | |
|---|---|---|---|
| | Estimated useful lives | 2009 | 2008 |
| Furniture, fixtures, and equipment | 3 to 12 years | $ 19,191 | $ 17,431 |
| Leasehold improvements | 6 to 10 years | 4,483 | 4,225 |
| | | 23,674 | 21,656 |
| Accumulated depreciation | | (15,732) | (13,377) |
| | | $ 7,942 | $ 8,279 |

Note G—Deposits

At December 31, 2009, the scheduled maturities of certificates of deposit are as follows (in thousands):

| | |
|---|---|
| 2010 | $137,185 |
| 2011 | 4,942 |
| 2016 | 693 |
| | $142,820 |

Note H—Debt

1. Short-term borrowings

The Bank maintains $73.0 million in unsecured lines of credit that bear interest at variable rates and are renewed annually. At December 31, 2009, the Company did not borrow any funds under these lines of credit. There was $1.0 million outstanding under a line of the credit at December 31, 2008. The Company had approved overnight borrowing capacity with the Federal Home Loan Bank of Pittsburgh of up to $529.4 million at December 31, 2009. Borrowings under this arrangement have a variable interest rate. As of December 31, 2009, there was $100.0 million of outstanding borrowings from the Federal Home Loan Bank at a rate of 0.65%. The details of these categories are presented below:

| | As of or for the year ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| | (dollars in thousands) | | |
| Short-term borrowings and federal funds purchased | | | |
| Balance at year-end | $ 100,000 | $ 61,000 | $ 90,000 |
| Average during the year | 44,895 | 123,558 | 86,049 |
| Maximum month-end balance | 105,000 | 203,250 | 230,000 |
| Weighted average rate during the year | 0.73 % | 2.58 % | 5.14 % |
| Rate at December 31 | 0.65 % | 0.67 % | 3.84 % |

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2. Securities sold under agreements to repurchase

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

| | As of or for the year ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| | (dollars in thousands) | | |
| Balance at year-end | $ 2,588 | $ 9,419 | $ 3,846 |
| Average during the year | 2,175 | 2,568 | 3,006 |
| Maximum month-end balance | 3,847 | 9,419 | 6,798 |
| Weighted average rate during the year | 1.18 % | 1.99 % | 1.73 % |
| Rate at December 31 | 1.02 % | 1.57 % | 2.07 % |

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

As of December 31, 2009, the Company had established two statutory business trusts: The Bancorp Capital Trust II and The Bancorp Capital Trust III (Trusts). In each case, the Company owns all the common securities of the trust. These trusts issued preferred capital securities to investors and invested the proceeds in the Company through the purchase of junior subordinated debentures issued by the Company. These debentures are the sole assets of the trusts.

- The $10.3 million of debentures issued to The Bancorp Capital Trust II on November 28, 2007 mature on March 15, 2038, and bear interest at an annual fixed rate of 7.55% through March 15, 2013, and for each distribution date at an annual rate equal to 3-month LIBOR plus 3.25%.

- The $3.1 million of debentures issued to The Bancorp Capital Trust III on November 28, 2007 mature on March 15, 2038, and bear interest at a floating annual rate equal to 3-month LIBOR plus 3.25%, except for the first interest period thereafter ended on March 15, 2008, where interest was at an annual rate of 8.33%.

In March 2005, the Federal Reserve Board adopted a final rule that allows the continued limited inclusion of outstanding and prospective issuances of trust preferred securities in Tier 1 capital of bank holding companies. Under the final rule, trust preferred securities and other restricted core capital elements will be subject to stricter quantitative limits. The Board's final rule limits restricted core capital elements to 25% of all core capital elements, net of goodwill, less any associated deferred tax liability. Amounts of restricted core capital elements in excess of these limits generally may be included in Tier 2 capital. The final rule provides a five-year transition period ending March 31, 2009, for application of the quantitative limits. In addition, the requirement for trust preferred securities to include a call option has been eliminated, and standards for the junior subordinated debt underlying trust preferred securities eligible for Tier 1 capital treatment have been clarified. The Company has evaluated the effects of the rule and concluded that the rule did not have an impact on its capital ratios.

Note I—Shareholders' Equity

The Company completed a common stock offering in August 2009 and issued 11.5 million shares of its common stock at a price of $5.75 per share resulting in proceeds of approximately $62.1 million, net of $4.0 million in costs.

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Note J—Preferred Stock

The Company paid the 6% annual dividend on its Series A Preferred Stock for 2009, 2008 and 2007 in the form of quarterly cash dividends which amounted to $32,000, $65,000 and $68,000, respectively. Additionally, all 108,136 outstanding shares of Series A preferred stock, which had a liquidation value of $1.1 million, were converted into 117,372 shares of its common stock in the third quarter of 2009.

Under the Emergency Economic Stabilization Act of 2008, the United States Treasury Department implemented the Trouble Asset Relief Program (TARP) Capital Purchase Program (CPP), whereby the Treasury Department committed to purchase up to $250 billion of senior preferred shares from qualifying banks, savings associations, and bank holding companies engaged only in financial activities. On December 12, 2008, under the CPP, the Company issued 45,220 shares of Series B preferred stock to the Treasury Department for a purchase price of $45.2 million. The Series B stock has a 5% annual dividend rate for the first five years and a 9% annual dividend thereafter if the preferred shares are not redeemed by the Company. The Company may not redeem the Series B preferred stock until the three year anniversary, except with proceeds from the sale of qualifying equity securities of the Company. In conjunction with the purchase of our Series B preferred stock, the Treasury Department also received warrants to purchase common stock.

On December 12, 2008, the Company also issued a warrant to purchase 1,960,405 shares of the Company's common stock (par value $1.00 per share) to the Treasury Department. The warrant has a 10-year term and is immediately exercisable at an exercise price, subject to antidilution adjustments, of $3.46 per share. Pursuant to standard terms of the Securities Purchase Agreement with the Treasury Department for the CPP, as a result of raising "qualifying capital" of at least $45.2 million prior to December 31, 2009, the number of shares issuable under the warrant delivered to the Treasury Department as part of the CPP were reduced by 50%. As a result, the number of shares exercisable under the warrant was reduced from 1,960,405 shares to 980,203 shares.

The proceeds from the Treasury Department are allocated to the Series B Preferred Stock and the warrant based on their relative fair value. The fair value of the Series B Preferred Stock was determined through a discounted future cash flow model. A Black-Scholes pricing model was used to calculate the fair value of the warrant. The Black-Scholes model includes assumptions regarding the Company's dividend yield, stock price volatility, and the risk-free interest rate. The table below outlines the assumptions used to calculate our discount:

| | |
|---|---|
| Risk-free interest rate | 2.60% |
| Expected dividend yield | 0.00% |
| Expected volatility | 66.82% |
| Expected life | 10.00 years |

The Company finalized the valuation during the six months ended June 30, 2009 and calculated a discount on the preferred stock in the amount of approximately $7.3 million which is being amortized over a 5 year period. The effective yield on the amortization of the Series B Preferred Stock is approximately 8.24%. The final valuation of the warrant resulted in an additional $1.1 million being allocated to additional paid-in capital from preferred stock.

In determining net income (loss) available to common shareholders, the periodic amortization and the cash dividend on the preferred stock are subtracted from net income (loss). In 2009, the Company paid $2.3 million in dividends on its Series B preferred stock and also recognized accretion of $1.5 million on the Series B preferred stock.

Note K—Benefit Plans

401 (k) Plan

The Company maintains a 401(k) savings plan covering substantially all employees of the Company. Under the plan, the Company matches 50% of the employee contributions for all participants, not to exceed 6% of their salary. Contributions made by the Company were approximately $493,000, $489,000 and $274,000 for the years ended December 31, 2009, 2008 and 2007, respectively.

Supplemental Executive Retirement Plan

In 2005, the Company began contributing to a supplemental executive retirement plan for its Chief Executive Officer that provides annual retirement benefits when the chief executive officer reaches age 70, based on the average salary of the Chief Executive Officer's three highest compensated years during the preceding 10 year period. The Company expensed $503,000, $453,000 and $407,000 for this plan for the years ended December 31, 2009, 2008, and 2007 respectively.

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Note L—Income Taxes

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

| | For the years ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| | (in thousands) | | |
| Current tax provision (benefit) | | | |
| Federal | $ 552 | $ (1,323) | $ 7,786 |
| State | 457 | (45) | 1,381 |
| | 1,009 | (1,368) | 9,167 |
| Deferred tax provision (benefit) | 1,239 | (19,524) | 171 |
| | $ 2,248 | $ (20,892) | $ 9,338 |

The differences between applicable income tax expense and the amounts computed by applying the statutory federal income tax rate of 34%, 34% and 35% for 2009, 2008 and 2007, respectively, are as follows:

| | For the years ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| | (in thousands) | | |
| Computed tax expense at statutory rate | $ 2,159 | $ (21,512) | $ 8,284 |
| State taxes | 354 | (548) | 878 |
| Tax exempt interest income | (458) | - | - |
| Impairment of non-taxable goodwill | - | 1,343 | - |
| Other | 193 | (175) | 176 |
| | $ 2,248 | $ (20,892) | $ 9,338 |

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

| | For the years ended December 31, | |
|---|---|---|
| | 2009 | 2008 |
| | (in thousands) | |
| Deferred tax assets: | | |
| Allowance for loan and lease losses | $ 5,804 | $ 5,205 |
| Deferred compensation | 698 | 527 |
| State taxes | 791 | 868 |
| Fair value of loans and leases from acquisition | - | 2 |
| Nonqualified stock options | 2 | 2 |
| Stock appreciation rights | 46 | 21 |

| | | |
|---|---|---|
| Net operating loss carry forwards | 127 | 244 |
| Depreciation | - | 340 |
| Tax deductible goodwill | 14,174 | 15,193 |
| Unrealized losses on investment securities available-for-sale | - | 445 |
| Total deferred tax assets | $ 21,642 | $ 22,847 |
| Deferred tax liabilities: | | |
| Unrealized gains on investment securities available-for-sale | 73 | - |
| Depreciation | 491 | - |
| Other | 203 | - |
| Total deferred tax liabilities | 767 | - |
| Net deferred tax asset included in other assets | $ 20,875 | $ 22,847 |

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As a result of the Company adoption of the accounting for uncertain tax provisions in 2007, income taxes payable increased by approximately $47,000 which included penalties and interest of approximately $2,000. The Company recognized this as an adjustment to retained earnings in the first quarter of 2007. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

| | For the years ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | ,2007 |
| | (in thousands) | | |
| Beginning balance, January 1, | $ 47 | $ 47 | $ 47 |
| Increases in tax provisions for prior years | - | - | - |
| Decreases in tax provisions for prior years | - | - | - |
| Gross unrecognized tax benefits at December 31, | $ 47 | $ 47 | $ 47 |

The Company files federal and state returns in jurisdictions with varying statutes of limitations. The 2006 through 2009 tax years generally remain subject to examination by federal and most state tax authorities.

Note M—Stock-Based Compensation

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

In December 2003, the Bank adopted a stock option plan (the 2003 plan). Employees and directors of the Company and the Bank were eligible to participate in the 2003 plan. An aggregate of 760,000 shares of common stock for the Bank had been reserved. Options expire on the tenth anniversary of their grant. Under the 2003 plan, 501,000 options were granted. As a result of the reorganization of the Company and the Bank, the Bank’s plan terminated and the options theretofore granted under the Bank’s plan were converted into options to purchase 576,101 shares of the Company’s common stock.

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

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A summary of the status of the Company's stock option 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, 2009 | 1,503,737 | $ 12.12 | | |
| Granted | - | - | | |
| Exercised | - | - | | |
| Cancelled/forfeited | 29,373 | 13.13 | | |
| Expired | 151,500 | 10.00 | | |
| Outstanding at December 31, 2009 | 1,322,864 | $ 12.34 | 3.98 | $ - |
| Exercisable at December 31, 2009 | 1,312,864 | | 3.95 | $ - |

A summary of the Company's stock appreciation rights is presented below:

| | Shares | Weighted-Average Price | Average Remaining Contractual Term |
|---|---|---|---|
| Outstanding at beginning of the year | 60,000 | $ 11.41 | |
| Granted | - | - | - |
| Exercised | - | - | - |
| Forfeited | - | - | - |
| Outstanding at end of period | 60,000 | $ 11.41 | 2.25 |

A summary of the status of the Company's non-vested shares under the plans as of December 31, 2009, and changes during the year then ended, is presented below:

| | Shares | Weighted-Average Grant-Date Fair Value |
|---|---|---|
| Non-Vested Options | | |
| Non-vested at January 1, 2009 | 12,000 | $ 8.93 |
| Granted | - | - |
| Vested | 2,000 | 9.36 |
| Forfeited | - | |
| Non-vested at December 31, 2009 | 10,000 | $ 8.85 |

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The Company did not grant any stock options in 2009 and 2008. The Company issued 96,671 common shares in connection with stock options exercised for the year ended December 31, 2007. For the year ended December 31, 2008, the Company granted 60,000 stock appreciation rights that have vesting periods of four years.

The weighted-average grant-date fair value of options granted during the year ended December 31, 2007 was $6.05. The fair value of the stock appreciation rights per share was $4.90 for the year ended December 31, 2008. There were no options exercised in 2009 and 2008. The total intrinsic value of options exercised during 2007 was $986,000. Intrinsic value is measured using the fair market value price of the Company's common stock on the date of exercise less the applicable exercise price.

As of December 31, 2009, there was a total of $164,500 of unrecognized compensation cost related to non-vested awards under share-based plans. This cost is expected to be recognized over a weighted average period of 1.25 years.

For the years ended December 31, 2009, 2008 and 2007, the Company estimated the fair value of each grant on the date of grant using the Black-Scholes options-pricing model with the following weighted average assumptions:

| | December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Risk-free interest rate | - | 2.65% | 4.56% |
| Expected dividend yield | - | - | - |
| Expected volatility | - | 42.79% | 29.46% |
| Expected lives (years) | - | 5.5 | 5.4 |

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, Compensation—Stock Compensation, stock based compensation expense for the year ended December 31, 2009 is based on awards that are ultimately expected to vest and has been reduced for estimated forfeitures. The Company estimates forfeitures using historical data based upon the groups identified by management.

Note N—Transactions with Affiliates

The Company entered into a sublease for office space in Philadelphia, Pennsylvania and a technical support agreement with RAIT Financial Trust (RAIT) commencing in October 2000. The agreement was amended in June 2008. The Chairman of RAIT is the Chairman and Chief Executive Officer of the Bank and the Chief Executive Officer of the Company. The former Chief Executive Officer of RAIT, who is also a RAIT trustee, is the Chairman of the Company and a director and Chairman of the Executive Committee of the Bank. Under the technical support agreement, RAIT paid the Company $45,000 for the year ended December 31, 2008 and $78,000 for the year ended December 31, 2007. In 2008, the technical support agreement terminated. RAIT paid the Company approximately $306,700, $412,000 and $454,000 for rent for the years ended December 31, 2009, 2008 and 2007, respectively.

The Company subleased office space to Cohen & Company, Inc. and provided technical support and telephone service to Cohen & Company commencing in July 2002. While the agreements were terminated in June 2006, the agreement continued on a month to month basis through June 2007. Cohen & Company paid the Company approximately

$37,000 in rent for 2007. Cohen & Company paid $27,000 for the year ended December 31, 2007 for technical support and telephone system support services. The Chairman of the Company, who is also a director and Chairman of the Executive Committee of the Bank, is Chairman, Chief Executive Officer and Chief Investment Officer of Cohen & Company.

The Bank maintains deposits for various affiliated companies totaling approximately $10.4 million and $24.9 million as of December 31, 2009 and 2008, respectively. The majority of these deposits are short-term in nature and rates are consistent with market rates.

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The Bank has entered into lending transactions in the ordinary course of business with directors, executive officers, principal stockholders and affiliates of such persons on the same terms as those prevailing for comparable transactions with other borrowers. At December 31, 2009, these loans were current as to principal and interest payments, and did not involve more than normal risk of collectability. At December 31, 2009, loans to these related parties amounted to $7.4 million. During the year ended December 31, 2009, the Bank made new loans to related parties of $117,000 and received repayments of $1.5 million.

The Bank participated in two loans in 2008 that were originated by RAIT, one of which was paid off in 2008. The outstanding participation was $21.6 million at December 31, 2009. The Bank has a senior position on the loan.

The Company paid rent and property tax to the prior owner of Mears Motor Livery, currently a vice president of the Bank, for space in Florida of $83,000, $95,000 and $79,000 for the years ended December 31, 2009, 2008 and 2007, respectively.

Note O—Commitments and Contingencies

1. Operating Leases

The Company leased its operations facility for a term expiring on August 31, 2018, and has leased its executive offices for a term expiring in 2014. The Company also has leases for other offices in Pennsylvania, Maryland and Florida that expire through 2012. The Company also leases space in South Dakota for its Payment Solutions division (formerly Stored Value Solutions). The lease on this space expires on November 30, 2014. These leases require the Company to pay the real estate taxes and insurance on the leased properties. The approximate future minimum annual rental payments required by these leases are as follows (in thousands):

| Year ending December 31, | |
|---|---|
| 2010 | $ 2,047 |
| 2011 | 2,051 |
| 2012 | 2,074 |
| 2013 | 1,965 |
| 2014 | 1,286 |
| Thereafter | 3,041 |
| | $ 12,464 |

The Company has provided a letter of credit as security for its payment of rent and other fees under one of the leases that totaled $65,106 at December 31, 2009. This letter of credit reduces annually based upon rental payments made.

Rent expense for the years ended December 31, 2009, 2008 and 2007 was approximately $2,211,500, $1,659,000 and $970,000, net of rental charged to RAIT and Cohen & Company of approximately $324,5000, $412,000 and $491,000, respectively.

2. Legal Proceedings

Various actions and proceedings are currently pending to which The Bancorp, Inc. or one or more of its subsidiary is a party. These actions and proceedings arise out of routine operations and, in management's opinion, are not expected to have material impact on the Company's financial position or results of operations.

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

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

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

The approximate contract amounts and maturity term for 2009 of the Company's credit commitments are as follows:

| | December 31, | |
|---|---|---|
| | 2009 | 2008 |
| | (in thousands) | |
| Financial instruments whose contract amounts represent credit risk | | |
| Commitments to extend credit | $ 301,840 | $ 299,389 |
| Standby letters of credit | 14,369 | 17,672 |
| | $ 316,209 | $ 317,061 |

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

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds residential or commercial real estate, accounts receivable, inventory and equipment as collateral supporting those commitments for which collateral is deemed necessary. Based upon periodic analysis of the Company's standby letters of credit, management has determined that a reserve is not necessary at December 31, 2009. The Company reduces any potential liability on its standby letters of credit based upon its estimate of the proceeds obtainable upon the liquidation of the collateral held. Fair values of unrecognized financial instruments, including commitments to extend credit and the fair value of letters of credit, are considered immaterial. The standby letters of credit expire as follows: $10.2 million in 2010, $1.9 million in 2011 and the remaining $2.3 million in 2012.

Note Q—Fair Value of Financial Instruments

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

Estimated fair values have been determined by the Company using the best available data and an estimation methodology 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.

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For cash and cash equivalents, including cash and due from banks, the Federal Reserve and federal funds sold, the recorded book values of $354.4 million and $179.5 million as of December 31, 2009 and 2008, respectively, approximate fair values. The estimated fair values of investment securities are based on quoted market prices, if available, or by an estimated methodology based on management's inputs. The fair value of the Company's investment securities held-to-maturity are based on using "unobservable inputs" that are the best information available in the circumstances.

The net loan portfolio at December 31, 2009 and 2008 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. The carrying value of accrued interest approximates fair value.

The estimated fair values of demand deposits (i.e. interest-and noninterest-bearing checking accounts, savings, and certain types of money market accounts) are equal to the amount payable on demand at the reporting date (i.e. 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.

The fair values of certificates of deposit and subordinated debentures are estimated using a discounted cash flow calculation that applies current interest rates to discount expected cash flows. Based upon time deposit maturities at December 31, 2009, the carrying values approximate their fair values. The carrying amount of accrued interest payable approximates its fair value.

| | December 31, 2009 | | December 31, 2008 | |
|---|---|---|---|---|
| | Carrying amount | Estimated fair value | Carrying amount | Estimated fair value |
| | (in thousands) | | | |
| Cash and cash equivalents | $ 354,459 | $ 354,459 | $ 179,506 | $ 179,506 |
| Investment securities available-for-sale | 93,478 | 93,478 | 82,929 | 82,929 |
| Investment securities held-to-maturity | 21,468 | 15,415 | 23,529 | 18,408 |
| Loans receivable, net | 1,523,722 | 1,499,199 | 1,449,349 | 1,441,195 |
| Certificates of deposit | 142,820 | 142,818 | 380,847 | 381,395 |
| Subordinated debentures | 13,401 | 9,152 | 13,401 | 9,364 |
| Securities sold under agreements to repurchase | 2,588 | 2,588 | 9,419 | 9,419 |
| Short term borrowings | 100,000 | 100,000 | 61,000 | 61,000 |

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

In addition, FASB ASC 820, Fair Value Measurements and Disclosures, establishes a common definition for fair value to be applied to assets and liabilities. It clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also establishes a framework for measuring fair value and expands disclosures concerning

fair value measurements. ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Level 1 valuation is based on quoted market prices for identical assets or liabilities to which the company has access at the measurement date. Level 2 valuation is based on other observable inputs for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets in active or inactive markets, inputs other than quoted prices that are observable for the asset or liability such as yield curves, volatilities, prepayment speeds, credit risks, default rates, or inputs that are derived principally from, or corroborated through, observable market data by market-corroborated reports. Level 3 valuation is based on “unobservable inputs” that are the best information available in the circumstances. A financial instrument’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assets measured at fair value on a recurring basis, segregated by fair value hierarchy, are summarized below (in thousands):

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| Description Investment | December 31, 2009 | 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) |
|---|---|---|---|---|
| U.S. Government agency securities | $26,759 | - | $ 26,759 | - |
| Obligations of states and political subdivisions | 31,153 | - | 31,153 | - |
| Mortgage-backed securities | 8,048 | - | 8,048 | - |
| Other debt securities | 20,953 | - | 20,296 | 657 |
| Federal Home Loan and Atlantic Central Bankers Bank stock | 6,565 | - | - | 6,565 |
| | $93,478 | $- | $ 86,256 | $ 7,222 |

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

| | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) |
|---|---|
| | Available-for -sale securities |
| Beginning Balance | $ 7,032 |
| Included in other comprehensive income (loss) | (252) |
| Purchases, issuances, and settlements | 442 |
| Transfers in — | - |
| Ending Balance | $ 7,222 |
| The amount of total gains or losses for the period included in earnings (or change in net assets) attributable to the change in unrealized gains or losses relating to assets still held at the reporting date | $ - |

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Assets measured at fair value on a nonrecurring basis, segregated by fair value hierarchy, during the period ended December 31, 2009 are summarized below (in thousands):

| | | Fair Value Measurements at Reporting Date Using | | |
|---|---|---|---|---|
| Description | December 31, 2009 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Impaired loans | $15,483 | - | - | $ 15,483 |
| Other real estate owned | $459 | - | $459 | - |

Impaired loans that are collateral dependent have been presented at their fair value, less costs to sell, of $18.7 million through the establishment of specific reserves of $3.2 million or by recording charge-offs when the carrying value exceeds the fair value. Valuation techniques consistent with the market approach and/or cost approach were used to measure fair value and primarily included observable inputs for the individual impaired loans being evaluated such as recent sales of similar assets or observable market data for operational or carrying costs. In cases where such inputs were unobservable, the loan balance is reflected within the Level 3 hierarchy. The fair value of other real estate owned is based on an appraisal of the property using the market approach for valuation.

Note R—Regulatory Matters

It is the policy of the Federal Reserve that bank 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 bank holding companies should not maintain a level of cash dividends that undermines the bank 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 bank 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.

The Bank and Company 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.

Quantitative measures established by regulations to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets, and of Tier I capital to average assets.

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As of December 31, 2009, the Company and the Bank met all regulatory requirements for classification as well capitalized under the regulatory framework for prompt corrective action.

| | Actual | | For Capital adequacy purposes | | To be well capitalized under prompt corrective action provisions | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| | (in thousands) | | | | | |
| AS OF DECEMBER 31, 2009 | | | | | | |
| Total Capital (to risk-weighted assets) | | | | | | |
| Company | $259,658 | 17.06 % | $121,730 | >=8.00 | N/A | N/A |
| Bank | 185,629 | 12.22 % | 121,504 | 8.00 | 151,880 | >= 10.00% |
| Tier I capital (to risk-weighted assets) | | | | | | |
| Company | 240,636 | 15.81 % | 60,865 | >=4.00 | N/A | N/A |
| Bank | 166,642 | 10.97 % | 60,752 | 4.00 | 91,128 | >= 6.00% |
| Tier I capital (to average assets) | | | | | | |
| Company | 240,636 | 12.68 % | 75,903 | >=4.00 | N/A | N/A |
| Bank | 166,642 | 8.78 % | 75,903 | 4.00 | 94,878 | >= 5.00% |
| AS OF DECEMBER 31, 2008 | | | | | | |
| Total Capital (to risk-weighted assets) | | | | | | |
| Company | $194,066 | 12.87 % | $120,590 | >=8.00 | N/A | N/A |
| Bank | 179,169 | 11.91 % | 120,368 | 8.00 | 150,460 | >= 10.00% |
| Tier I capital (to risk-weighted assets) | | | | | | |
| Company | 176,705 | 11.72 % | 60,295 | >=4.00 | N/A | N/A |
| Bank | 161,808 | 10.75 % | 60,184 | 4.00 | 90,276 | >= 6.00% |
| Tier I capital (to average assets) | | | | | | |
| Company | 176,705 | 10.10 % | 69,961 | >=4.00 | N/A | N/A |
| Bank | 161,808 | 9.24 % | 70,059 | 4.00 | 87,574 | >= 5.00% |

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Note S—Quarterly Financial Data (Unaudited)

The following represents summarized quarterly financial data of the Company, which in the opinion of management reflects all adjustments (comprised of normal accruals) necessary for fair presentation.

| | Three months ended | | | |
|---|---|---|---|---|
| 2009 | March 31, | June 30, | September 30, | December 31, |
| | (in thousands, except per share data) | | | |
| Interest income | $19,417 | $20,068 | $20,024 | $20,480 |
| Net interest income | 14,916 | 15,969 | 15,975 | 16,849 |
| Provision for loan and lease losses | 3,000 | 2,500 | 3,500 | 4,000 |
| Non-interest income | 3,328 | 3,803 | 3,113 | 1,575 |
| Non-interest expense | 13,253 | 15,533 | 13,018 | 14,374 |
| Income tax expense | 781 | 632 | 818 | 17 |
| Net income | 1,210 | 1,107 | 1,752 | 33 |
| Net income (loss) available to common shareholders | 363 | 125 | 786 | (932) |
| Net income (loss) per share - basic | 0.03 | 0.01 | 0.04 | (0.04) |
| Net income (loss) per share - diluted | 0.03 | 0.01 | 0.04 | (0.04) |

| | Three months ended | | | |
|---|---|---|---|---|
| 2008 | March 31, | June 30, | September 30, | December 31, |
| | (in thousands, except per share data) | | | |
| Interest income | $25,243 | $23,508 | $23,895 | $22,416 |
| Net interest income | 12,896 | 12,921 | 13,497 | 14,905 |
| Provision for loan and lease losses | 1,350 | 3,350 | 4,100 | 3,700 |
| Non-interest income (loss) | 3,476 | (5,251) | 2,672 | (8,500) |
| Non-interest expense | 10,362 | 11,210 | 11,674 | 64,142 |
| Income tax expense (benefit) | 1,833 | (2,619) | 136 | (20,242) |
| Net income (loss) | 2,827 | (4,271) | 259 | (41,195) |
| Net income available to common shareholders | 2,789 | (4,256) | 241 | (41,397) |
| Net income (loss) per share - basic | 0.19 | (0.29) | 0.02 | (2.84) |
| Net income (loss) per share - diluted | 0.19 | (0.29) | 0.02 | (2.84) |

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Note T—Condensed Financial Information—Parent Only

Condensed Balance Sheet

| | December 31, | |
|---|---|---|
| | 2009 | 2008 |
| | (in thousands) | |
| Assets | | |
| Cash and due from banks | $ 71,928 | $ 14,255 |
| Investment in bank subsidiaries | 184,209 | 178,506 |
| Other assets | 2,792 | 2,220 |
| Total assets | $ 258,929 | $ 194,981 |
| | | |
| Liabilities and stockholders' equity | | |
| Other liabilities | $ 325 | $ 177 |
| Trust preferred | 13,401 | 13,401 |
| Notes payable | - | 1,000 |
| Shareholders' equity | 245,203 | 180,403 |
| Total Liabilities and shareholders' equity | $ 258,929 | $ 194,981 |

Condensed Statement of Operations

| | December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| | (in thousands) | | |
| Income | | | |
| Other income | $ 266 | $ 159 | $ 144 |
| Total Income | 266 | 159 | 144 |
| | | | |
| Expense | | | |
| Interest on subordinated debentures | 883 | 954 | 84 |
| Interest on notes payable | 15 | 747 | - |
| Non-interest expense | 622 | 261 | 475 |
| Total Expense | 1,520 | 1,962 | 559 |
| Equity in undistributed income (loss) of subsidiary | 4,963 | (41,156) | 14,726 |
| Net income (loss) before tax benefit | 3,709 | (42,959) | 14,311 |
| Income tax (benefit) | (393) | (579) | (29) |
| Net Income (loss) | 4,102 | (42,380) | 14,340 |
| Less preferred dividends and accretion | (3,760) | (243) | (68) |
| Income allocated to Series A preferred shareholders | - | - | (115) |
| Net income (loss) available to common shareholders | $ 342 | $ (42,623) | $ 14,157 |

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Condensed Statements of Cash Flows

| | December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| | (in thousands) | | |
| Operating activities | | | |
| Net income (loss) | $ 4,102 | $ (42,380) | $ 14,340 |
| Increase in other assets | (572) | (799) | (1,060) |
| Increase in other liabilities | 300 | 277 | 389 |
| Equity in undistributed (income) loss of subsidiary | (4,963) | 41,156 | (14,726) |
| Net cash used in operating activities | (1,133) | (1,746) | (1,057) |
| | | | |
| Investing activities | | | |
| Contribution to subsidiary | - | (33,500) | (21,000) |
| Net cash used in investing activities | - | (33,500) | (21,000) |
| | | | |
| Financing activities | | | |
| Dividends on preferred stock | (2,293) | (184) | (68) |
| Proceeds from the issuance of trust preferred securities | - | - | 13,401 |
| Proceeds (repayment) from short term borrowings | (1,000) | 1,000 | - |
| Proceeds from the issuance of Series B preferred stock | - | 45,220 | - |
| Proceeds from the issuance of common stock, net of costs | 62,099 | - | - |
| Proceeds from the exercise of common stock options | - | - | 1,284 |
| Excess tax benefit from share based payment arrangements | - | - | 267 |
| Net cash provided by financing activities | 58,806 | 46,036 | 14,884 |
| Net (decrease) increase in cash and cash equivalents | 57,673 | 10,790 | (7,173) |
| Cash and cash equivalents, beginning of year | 14,255 | 3,465 | 10,638 |
| Cash and cash equivalents, end of year | $ 71,928 | $ 14,255 | $ 3,465 |

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

Disclosure 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. 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.

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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.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting that occurred during the quarter ended December 31, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Pursuant to the rules and regulations of the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Management has evaluated the effectiveness of its internal control over financial reporting as of December 31, 2009 based on the control criteria established in a report entitled Internal Control—Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, management has concluded that our internal control over financial reporting was effective as of December 31, 2009.

Our independent registered public accounting firm has issued a report on our internal control over financial reporting. This report appears in section iii, below.

(iii) Report of Independent Registered Public Accounting Firm

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

The Bancorp, Inc.

We have audited The Bancorp, Inc. (a Delaware corporation) and its subsidiary's internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Bancorp, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on The Bancorp, Inc. and its subsidiary's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, The Bancorp, Inc. and its subsidiary maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of The Bancorp, Inc. and its subsidiary as of December 31, 2009 and 2008, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2009 and our report dated March 16, 2010 expressed an unqualified opinion

/s/ Grant Thornton LLP

Philadelphia, Pennsylvania
March 16, 2010

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Item 9B. Other Information.

None

PART III

Item 10. Directors and Executive Officers of the Registrant

Information included in the 2010 Proxy Statement to be filed is incorporated herein by reference.

Item 11. Executive Compensation

Information included in the 2010 Proxy Statement to be filed is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information included in the 2010 Proxy Statement to be filed is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

Information included in the 2010Proxy Statement to be filed is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

Information included in the 2010 Proxy Statement to be filed is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement and Schedules

(a) The following documents are filed as part of this Annual Report on Form 10-K:

1. Financial Statements

Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheet at December 31, 2009
Consolidated Statement of Operations for the three years ended December 31, 2009
Consolidated Statement of Changes in Shareholders' Equity for the three years ended December 31, 2009
Consolidated Statement of Cash Flows for the three years ended December 31, 2009
Notes to Consolidated Financial Statements

2. Financial Statement Schedules

None

3. Exhibits

| Exhibit No. | Description |
|---|---|
| 3.1 | Certificate of Incorporation(1) |
| 3.2 | Bylaws(1) |
| 3.3 | Certificate of Designations for Fixed Rate Cumulative Perpetual Preferred Stock, Series B(2) |
| 4.1 | Specimen stock certificate(1) |
| 4.2 | Specimen Series B Preferred stock certificate(2) |
| 4.3 | Warrant for Purchase of Shares of Common Stock(2) |
| 4.4 | Letter Agreement, dated December 12, 2008, between the registrant and the United States Treasury Department, which includes the Securities Purchase Agreement attached thereto(2) |
| 10.1 | 1999 Stock Option Plan (the “1999 SOP”)(3) |

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|---|---|
| 10.2 | Form of Grant of Non-Qualified Stock Options under the 1999 SOP(3) |
| 10.3 | Form of Grant of Incentive Stock Options under the 1999 SOP(3) |
| 10.4 | The Bancorp, Inc. 2005 Omnibus Equity Compensation Plan (the "2005 Plan")(4) |
| 10.5 | Form of Grant of Non-qualified Stock Option under the 2005 Plan(5) |
| 10.6 | Form of Grant of Incentive Stock Option under the 2005 Plan(5) |
| 10.7 | Form of Stock Unit Award Agreement under the 2005 Plan(6) |
| 10.8 | Employee and Non-employee Director Non-cash Compensation Plan(1) |
| 10.9 | Sublease and Technical Support Agreement with RAIT Investment Trust(1) |
| 12.1 | Ratio of earnings to fixed charges |
| 21.1 | Subsidiaries of Registrant |
| 23.1 | Consent of Grant Thornton LLP |
| 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 |

(1) Filed previously as an exhibit to our Registration Statement on Form S-4, registration number 333-117385, and by this reference incorporated herein.

(2) Filed previously as an exhibit to our current report on Form 8-K filed December 16, 2008, and by this reference incorporated herein.

(3) Filed previously as an exhibit to our Registration Statement on Form S-8, registration number 333-124339, and by this reference incorporated herein.

(4) Filed previously as an appendix to the definitive proxy statement on Schedule 14A filed on May 2, 2005, and by this reference incorporated herein.

(5) Filed previously as an exhibit to our current report on Form 8-K filed December 30, 2005, and by this reference incorporated herein.

(6) Filed previously as an exhibit to our current report on Form 8-K filed January 20, 2006, and by this reference incorporated herein.

(7) Filed previously as an exhibit to our quarterly report on Form 10-Q for the quarter ended June 30, 2007.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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)

March 16, 2010

By: /s/ Betsy Z. Cohen
Betsy Z. Cohen
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| | | |
|---|---|---|
| /s/ Betsy Z. Cohen<br>BETSY Z. COHEN | Chief Executive Officer and Director<br>(Principal executive officer) | March 16, 2010 |
| /s/ Frank M. Mastrangelo<br>FRANK M. MASTRANGELO | President, Chief Operating Officer and Director | March 16, 2010 |
| /s/ Daniel G. Cohen<br>DANIEL G. COHEN | Director | March 16, 2010 |
| /s/ Walter T. Beach<br>WALTER T. BEACH | Director | March 16, 2010 |
| /s/ Michael J. Bradley<br>MICHAEL J. BRADLEY | Director | March 16, 2010 |
| /s/ Matthew Cohn<br>MATTHEW COHN | Director | March 16, 2010 |
| /s/ Leon A. Huff<br>LEON A. HUFF | Director | March 16, 2010 |
| /s/ William H. Lamb<br>WILLIAM H. LAMB | Director | March 16, 2010 |
| /s/ James J. McEntee III<br>JAMES J. MCENTEE III | Director | March 16, 2010 |
| /s/ Linda Schaeffer<br>LINDA SCHAEFFER | Director | March 16, 2010 |

| | | |
|---|---|---|
| /s/ Joan Specter<br>JOAN SPECTER | Director | March 16, 2010 |
| /s/ Paul Frenkiel<br>PAUL FRENKIEL | Executive Vice President of Strategy,<br>Chief Financial Officer and Secretary | March 16, 2010 |