

Bancorp, Inc.  
Form 10-Q  
May 07, 2010

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: March 31, 2010

OR

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

For the transition period from: to

Commission file number: 51018

THE BANCORP, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

23-3016517  
(IRS Employer  
Identification No.)

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

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

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

Yes  No

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



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

(Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Yes  No

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

As of May 5, 2010 there were 26,181,291 outstanding shares of Common Stock, \$1.00 par value.

THE BANCORP, INC

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

THE BANCORP, INC. AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEET

|                                                                                          | March 31,<br>2010<br>(unaudited) | December<br>31,<br>2009 |
|------------------------------------------------------------------------------------------|----------------------------------|-------------------------|
| <b>ASSETS</b>                                                                            |                                  |                         |
| Cash and cash equivalents                                                                |                                  |                         |
| Cash and due from banks                                                                  | \$106,316                        | \$135,246               |
| Interest bearing deposits                                                                | 232,117                          | 219,213                 |
| Total cash and cash equivalents                                                          | 338,433                          | 354,459                 |
| Investment securities, available-for-sale, at fair value                                 | 156,191                          | 93,478                  |
| Investment securities, held-to-maturity (fair value \$15,437 and \$15,415, respectively) | 21,488                           | 21,468                  |
| Loans, net of deferred loan costs                                                        | 1,527,691                        | 1,523,722               |
| Allowance for loan and lease losses                                                      | (20,357 )                        | (19,123 )               |
| Loans, net                                                                               | 1,507,334                        | 1,504,599               |
| Premises and equipment, net                                                              | 8,140                            | 7,942                   |
| Accrued interest receivable                                                              | 7,589                            | 7,722                   |
| Intangible assets, net                                                                   | 9,755                            | 10,005                  |
| Other real estate owned                                                                  | 648                              | 459                     |
| Deferred tax asset, net                                                                  | 20,872                           | 20,875                  |
| Other assets                                                                             | 22,063                           | 22,527                  |
| Total assets                                                                             | \$2,092,513                      | \$2,043,534             |
| <b>LIABILITIES</b>                                                                       |                                  |                         |
| Deposits                                                                                 |                                  |                         |
| Demand (non-interest bearing)                                                            | \$973,116                        | \$506,641               |
| Savings, money market and interest checking                                              | 875,511                          | 1,005,048               |
| Time deposits                                                                            | 1,317                            | 125,255                 |
| Time deposits, \$100,000 and over                                                        | 12,339                           | 17,565                  |
| Total deposits                                                                           | 1,862,283                        | 1,654,509               |
| Securities sold under agreements to repurchase                                           | 8,245                            | 2,588                   |
| Short-term borrowings                                                                    | -                                | 100,000                 |
| Accrued interest payable                                                                 | 136                              | 362                     |
| Subordinated debenture                                                                   | 13,401                           | 13,401                  |
| Other liabilities                                                                        | 6,401                            | 27,471                  |
| Total liabilities                                                                        | 1,890,466                        | 1,798,331               |
| <b>SHAREHOLDERS' EQUITY</b>                                                              |                                  |                         |
| Preferred stock - Series B, \$1,000 liquidation value, 0 and 45,220 shares issued and    | -                                | 39,411                  |

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|                                                                                                                                                                  |             |             |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-------------|
| outstanding at March 31, 2010 and December 31, 2009, respectively                                                                                                |             |             |
| Common stock - authorized, 50,000,000 shares of \$1.00 par value; 26,181,291 shares issued and outstanding at March 31, 2010 and December 31, 2009, respectively | 26,181      | 26,181      |
| Additional paid-in capital                                                                                                                                       | 196,898     | 196,875     |
| Accumulated deficit                                                                                                                                              | (21,231 )   | (17,175 )   |
| Accumulated other comprehensive income (loss)                                                                                                                    | 199         | (89 )       |
| Total shareholders' equity                                                                                                                                       | 202,047     | 245,203     |
| <br>                                                                                                                                                             |             |             |
| Total liabilities and shareholders' equity                                                                                                                       | \$2,092,513 | \$2,043,534 |

The accompanying notes are an integral part of these statements.

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

|                                                               | For the three<br>months ended<br>March 31, |          |
|---------------------------------------------------------------|--------------------------------------------|----------|
|                                                               | 2010                                       | 2009     |
|                                                               | (in thousands, except per<br>share data)   |          |
| Interest income                                               |                                            |          |
| Loans, including fees                                         | \$17,972                                   | \$18,244 |
| Interest on investment securities:                            |                                            |          |
| Taxable interest                                              | 1,308                                      | 1,077    |
| Tax-exempt interest                                           | 390                                        | -        |
| Federal funds sold                                            | -                                          | 93       |
| Interest bearing deposits                                     | 351                                        | 3        |
|                                                               | 20,021                                     | 19,417   |
| Interest expense                                              |                                            |          |
| Deposits                                                      | 3,514                                      | 4,214    |
| Securities sold under agreements to repurchase                | 7                                          | 11       |
| Short-term borrowings                                         | 5                                          | 49       |
| Subordinated debt                                             | 215                                        | 227      |
|                                                               | 3,741                                      | 4,501    |
| Net interest income                                           | 16,280                                     | 14,916   |
| Provision for loan and lease losses                           | 4,148                                      | 3,000    |
| Net interest income after provision for loan and lease losses | 12,132                                     | 11,916   |
| Non-interest income                                           |                                            |          |
| Service fees on deposit accounts                              | 381                                        | 277      |
| Merchant credit card deposit fees                             | 486                                        | 358      |
| Stored value income                                           | 2,815                                      | 2,359    |
| Gain on sales of investment securities                        | 750                                        | -        |
| Leasing income                                                | 664                                        | 61       |
| Debit card income                                             | 170                                        | 118      |
| Other                                                         | 228                                        | 83       |
| Total non-interest income                                     | 5,494                                      | 3,256    |
| Non-interest expense                                          |                                            |          |
| Salaries and employee benefits                                | 6,372                                      | 6,194    |
| Depreciation and amortization                                 | 647                                        | 694      |
| Rent and related occupancy cost                               | 623                                        | 653      |
| Data processing expense                                       | 1,613                                      | 1,577    |
| Printing and supplies                                         | 414                                        | 289      |
| Audit expense                                                 | 291                                        | 300      |
| Legal expense                                                 | 354                                        | 233      |
| Amortization of intangible assets                             | 250                                        | 250      |

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|                                                    |            |         |
|----------------------------------------------------|------------|---------|
| FDIC Insurance                                     | 756        | 294     |
| Software, maintenance and equipment                | 333        | 187     |
| Other                                              | 2,554      | 2,510   |
| Total non-interest expense                         | 14,207     | 13,181  |
| Net income before income tax                       | 3,419      | 1,991   |
| Income tax provision                               | 1,233      | 781     |
| Net income                                         | 2,186      | 1,210   |
| Less preferred stock dividends and accretion       | (6,242 )   | (847 )  |
| Net income (loss) available to common shareholders | \$(4,056 ) | \$363 ) |
| Net income (loss) per share - basic                | \$(0.15 )  | \$0.03  |
| Net income (loss) per share - diluted              | \$(0.15 )  | \$0.03  |

The accompanying notes are an integral part of these statements.



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THE BANCORP INC. AND SUBSIDIARY  
 UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
 For the three months ended March 31, 2010  
 (in thousands except share data)

|                                                                                        | Common<br>stock<br>shares | Common<br>stock | Preferred<br>stock | Additional<br>paid-in<br>capital | Accumulated<br>deficit | Accumulated<br>other<br>comprehensive<br>gain/(loss) | Comprehensive<br>income | Total     |
|----------------------------------------------------------------------------------------|---------------------------|-----------------|--------------------|----------------------------------|------------------------|------------------------------------------------------|-------------------------|-----------|
| Balance at<br>December 31,<br>2009                                                     | 26,181,291                | \$26,181        | \$39,411           | \$ 196,875                       | \$ (17,175 )           | \$ (89 )                                             | -                       | \$245,203 |
| Net income                                                                             |                           |                 |                    |                                  | 2,186                  |                                                      | \$ 2,186                | 2,186     |
| Series B Preferred<br>stock repayment to<br>US Treasury                                |                           |                 | (45,220)           |                                  |                        |                                                      |                         | (45,220 ) |
| Cash dividends<br>on preferred stock                                                   |                           |                 |                    |                                  | (433 )                 |                                                      |                         | (433 )    |
| Accretion of series<br>B preferred shares                                              |                           |                 | 5,809              |                                  | (5,809 )               |                                                      |                         | -         |
| Stock-based<br>compensation                                                            |                           |                 |                    | 23                               |                        |                                                      |                         | 23        |
| Other<br>comprehensive<br>income, net of<br>reclassification<br>adjustments and<br>tax | -                         | -               | -                  | -                                | -                      | 288                                                  | 288                     | 288       |
|                                                                                        |                           |                 |                    |                                  |                        |                                                      | \$ 2,474                |           |
| Balance at March<br>31, 2010                                                           | 26,181,291                | \$26,181        | \$-                | \$ 196,898                       | \$ (21,231 )           | \$ 199                                               |                         | \$202,047 |

The accompanying notes are an integral part of these statements.

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

|                                                                                     | For the three months<br>ended<br>March 31, |           |
|-------------------------------------------------------------------------------------|--------------------------------------------|-----------|
|                                                                                     | 2010                                       | 2009      |
| Operating activities                                                                |                                            |           |
| Net income                                                                          | \$2,186                                    | \$1,210   |
| Adjustments to reconcile net income to net cash<br>provided by operating activities |                                            |           |
| Depreciation and amortization                                                       | 972                                        | 966       |
| Provision for loan and lease losses                                                 | 4,148                                      | 3,000     |
| Net amortization of investment securities discounts/premiums                        | 12                                         | 4         |
| Stock-based compensation expense                                                    | 23                                         | 27        |
| Mortgage loans originated for sale                                                  | -                                          | (1,787 )  |
| Sale of mortgage loans originated for resale                                        | -                                          | 1,381     |
| Gain on sale of mortgage loans originated for resale                                | -                                          | (5 )      |
| Deferred income tax expense (benefit)                                               | (3 )                                       | (53 )     |
| (Gain) loss on sales of fixed assets                                                | 16                                         | -         |
| Decrease in accrued interest receivable                                             | 133                                        | 661       |
| Decrease in interest payable                                                        | (226 )                                     | (2,061 )  |
| Decrease in other assets                                                            | 57                                         | 6,406     |
| Increase (decrease) in other liabilities                                            | (21,070 )                                  | 270       |
| Net cash (used in) provided by operating activities                                 | (13,752 )                                  | 10,019    |
| Investing activities                                                                |                                            |           |
| Purchase of investment securities available-for-sale                                | (99,493 )                                  | (43,926 ) |
| Proceeds from redemptions and repayment on securities available-for-sale            | 26,747                                     | 41,223    |
| Proceeds from sales of investment securities available-for-sale                     | 10,438                                     | -         |
| Net increase in loans                                                               | (6,883 )                                   | (23,176 ) |
| Purchases of premises and equipment                                                 | (861 )                                     | (911 )    |
| Net cash used in investing activities                                               | (70,052 )                                  | (26,790 ) |
| Financing activities                                                                |                                            |           |
| Net increase (decrease) in deposits                                                 | 207,774                                    | (43,439 ) |
| Net increase (decrease) in securities sold under agreements to repurchase           | 5,657                                      | (6,055 )  |
| (Repayment) proceeds from short-term borrowings                                     | (100,000 )                                 | 25,000    |
| Repayment of preferred stock                                                        | (45,220 )                                  | -         |
| Dividends paid on Series A and B preferred stock                                    | (433 )                                     | (412 )    |
| Net cash provided by financing activities                                           | 67,778                                     | (24,906 ) |
| Net decrease in cash and cash equivalents                                           | (16,026 )                                  | (41,677 ) |
| Cash and cash equivalents, beginning of year                                        | 354,459                                    | 179,506   |
| Cash and cash equivalents, end of year                                              | \$338,433                                  | \$137,829 |

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Supplemental disclosure:

|                                               |         |         |
|-----------------------------------------------|---------|---------|
| Interest paid                                 | \$3,967 | \$6,562 |
| Taxes paid                                    | \$26    | \$29    |
| Transfers of loans to other real estate owned | \$189   | \$-     |

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

Note 1. Formation and Structure of Company

The Bancorp, Inc. (the Company) is a Delaware corporation and is 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 includes private label banking, health savings accounts and prepaid debit cards. The principal medium for the delivery of the Company's banking services is the Internet.

Note 2. Significant Accounting Policies

Basis of Presentation

The financial statements of the Company, as of March 31, 2010 and for the three month periods ended March 31, 2010 and 2009 are unaudited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted in this Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission. However, in the opinion of management, these interim financial statements include all necessary adjustments to fairly present the results of the interim periods presented. The unaudited interim consolidated financial statements should be read in conjunction with the audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009. The results of operations for the three month period ended March 31, 2010 may not necessarily be indicative of the results of operations for the full year ending December 31, 2010.

Note 3. Share-based Compensation

The Company accounts for its share-based compensation according to the FASB Accounting Standards Codification (ASC) topic 718, Compensation—Stock Compensation, that addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. Under ASC topic 718, all forms of share-based payments to employees, including employee stock options and phantom stock units, are treated the same as other forms of compensation by recognizing the related cost in income. The expense of the award generally is measured at fair value at the grant date. The impact of the ASC topic 718 is reflected in net earnings and related per share amounts for the quarters ended March 31, 2010 and 2009. At March 31, 2010, the Company had two stock-based compensation plans, which are more fully described in its Form 10-K report.

The fair value of each grant of stock option and stock appreciation right is estimated on the date of the grant using the Black-Scholes option pricing model. The significant assumptions utilized in applying the Black-Scholes options-pricing model are the risk-free interest rate, expected term, dividend yield, and expected volatility. The risk-free interest rate is the implied yield currently available on U.S. Treasury zero-coupon issues with a remaining term equal to the expected term used in the assumption for the model. The expected term of an option or stock appreciation right is based on historical experience of similar awards. The dividend yield is determined by dividing per share and stock appreciation rights unit dividends by the grant date stock price. The expected volatility is based on

the volatility of the Company's stock price over a historical period as comparable, as possible to the expected term. The Company did not grant any share-based compensation in first quarter 2010 or 2009.

As of March 31, 2010, there was \$141,657 of total unrecognized compensation cost related to unvested share-based compensation arrangements granted under the plans; that cost is expected to be recognized over a period of 2 years. There were no stock options exercised for the three month periods ending March 31, 2010 and 2009. Related compensation expense for the three months ended March 31, 2010 and 2009 was \$23,030 and \$27,043 respectively. The following tables are a summary of activity in the plans as of March 31, 2010 and changes during the period then ended:

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For the three months ended March 31, 2010

## Stock options:

|                                | Shares    | Weighted<br>average<br>exercise<br>price<br>(dollars in thousands except per share data) | Weighted-<br>average<br>remaining<br>contractual<br>term<br>(Years) | Aggregate<br>intrinsic<br>value |
|--------------------------------|-----------|------------------------------------------------------------------------------------------|---------------------------------------------------------------------|---------------------------------|
| Outstanding at January 1, 2010 | 1,322,864 | \$12.34                                                                                  |                                                                     |                                 |
| Granted                        | -         | -                                                                                        | -                                                                   | -                               |
| Exercised                      | -         | -                                                                                        | -                                                                   | -                               |
| Cancelled/forfeited            | -         | -                                                                                        | -                                                                   | -                               |
| Outstanding at March 31, 2010  | 1,322,864 | 12.34                                                                                    | 3.73                                                                | \$-                             |
| Exercisable at March 31, 2010  | 1,322,864 |                                                                                          | 3.73                                                                | \$-                             |

## Stock appreciation rights:

|                                      | Shares | Weighted-<br>average<br>price | Average<br>remaining<br>contractual<br>term<br>(Years) |
|--------------------------------------|--------|-------------------------------|--------------------------------------------------------|
| Outstanding at beginning of the year | 60,000 | \$ 11.41                      |                                                        |
| Granted                              | -      | -                             | -                                                      |
| Exercised                            | -      | -                             | -                                                      |
| Forfeited                            | -      | -                             | -                                                      |
| Outstanding at end of period         | 60,000 | \$ 11.41                      | 2.0                                                    |

## Note 4. Earnings Per Share

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

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

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

|                                             | For the three months ended<br>March 31, 2010                             |                         |                     |
|---------------------------------------------|--------------------------------------------------------------------------|-------------------------|---------------------|
|                                             | Income<br>(numerator)<br>(dollars in thousands except per share<br>data) | Shares<br>(denominator) | Per share<br>amount |
| Basic loss per share                        |                                                                          |                         |                     |
| Net income available to common shareholders | \$(4,056 )                                                               | 26,181,291              | \$(0.15 )           |
| Effect of dilutive securities               |                                                                          |                         |                     |
| Stock options                               | -                                                                        | -                       | -                   |
| Diluted loss per share                      |                                                                          |                         |                     |
| Net loss available to common shareholders   | \$(4,056 )                                                               | 26,181,291              | \$(0.15 )           |

Stock options for 1,322,864 shares and stock appreciation rights for 60,000 shares, exercisable at prices between \$3.46 and \$25.43 per share, were outstanding at March 31, 2010 but were not included in the diluted loss per share computation because the Company had a net loss available to common shareholders for the period.

|                                             | For the three months ended<br>March 31, 2009                             |                         |                     |
|---------------------------------------------|--------------------------------------------------------------------------|-------------------------|---------------------|
|                                             | Income<br>(numerator)<br>(dollars in thousands except per share<br>data) | Shares<br>(denominator) | Per share<br>amount |
| Basic earnings per share                    |                                                                          |                         |                     |
| Net income available to common shareholders | \$363                                                                    | 14,563,919              | \$0.03              |
| Effect of dilutive securities               |                                                                          |                         |                     |
| Stock options                               | -                                                                        | -                       | -                   |
| Diluted earnings per share                  |                                                                          |                         |                     |
| Net income available to common shareholders | \$363                                                                    | 14,563,919              | \$0.03              |

Stock options for 3,464,142 shares and stock appreciation rights for 60,000 shares, exercisable at prices between \$3.46 and \$25.43 per share, were outstanding at March 31, 2009 but were not included in the diluted earnings per share computation because the exercise share price was greater than the average market price.

#### Note 5. Investment Securities

The amortized cost, gross unrealized gains and losses, and fair values of the Company's investment securities at March 31, 2010 and December 31, 2009 are summarized as follows (in thousands):

| Available-for-sale                                          | Amortized<br>cost | March 31, 2010               |                               |               |
|-------------------------------------------------------------|-------------------|------------------------------|-------------------------------|---------------|
|                                                             |                   | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses | Fair<br>value |
| U.S. Government agency securities                           | \$78,618          | \$351                        | \$(101 )                      | \$78,868      |
| Tax-exempt obligations of states and political subdivisions | 26,147            | 1,083                        | (31 )                         | 27,199        |
| Taxable obligations of states and political subdivisions    | 1,925             | 1                            | (5 )                          | 1,921         |

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|                                                              |           |         |        |   |           |
|--------------------------------------------------------------|-----------|---------|--------|---|-----------|
| Mortgage-backed securities                                   | 14,904    | 167     | (43    | ) | 15,028    |
| Other debt securities                                        | 25,987    | 968     | (345   | ) | 26,610    |
| Federal Home Loan and Atlantic Central<br>Bankers Bank stock | 6,565     | -       | -      |   | 6,565     |
|                                                              | \$154,146 | \$2,570 | \$(525 | ) | \$156,191 |



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| Held-to-maturity      | March 31, 2010    |                              |                               |               |
|-----------------------|-------------------|------------------------------|-------------------------------|---------------|
|                       | Amortized<br>cost | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses | Fair<br>value |
| Other debt securities | \$21,488          | \$-                          | \$(6,051)                     | ) \$15,437    |
|                       | \$21,488          | \$-                          | \$(6,051)                     | ) \$15,437    |

| Available-for-sale                                           | December 31, 2009 |                              |                               |               |
|--------------------------------------------------------------|-------------------|------------------------------|-------------------------------|---------------|
|                                                              | Amortized<br>cost | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses | Fair<br>value |
| U.S. Government agency securities                            | \$27,000          | \$-                          | \$(241)                       | ) \$26,759    |
| Tax-exempt 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<br>Bankers Bank stock | 6,565             | -                            | -                             | 6,565         |
|                                                              | \$91,843          | \$2,254                      | \$(619)                       | ) \$93,478    |

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

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 other debt securities included in the held-to-maturity classification on our balance sheet at March 31, 2010 consisted of five single issuer trust preferred securities issued by either banks or insurance companies and two pooled issuer trust preferred securities, whose collateral is made up of trust preferred securities issued by banks. 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.

The Company periodically reviews its investment portfolio for other-than-temporary impairment. An investment is impaired if the fair value of the investment is less than its amortized cost basis. An impairment in a debt security is considered to be other-than-temporary (a) if a credit loss exists, which occurs when the present value of the cash flows expected to be collected is less than the amortized cost basis for the security or (b) if either of the following conditions is met: an entity that holds a security has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The Company believes that the decrease in values of the held-to-maturity securities is driven by interest rate and current economic conditions; however, the Company believes that the declines are temporary. The Company has the ability to continue to hold the securities to their maturity.



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The amortized cost and fair value of the Company's investment securities at March 31, 2010, by contractual maturity, are shown below (in thousands). Expected maturities may differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

|                                                           | Available-for-sale |            | Held-to-maturity |            |
|-----------------------------------------------------------|--------------------|------------|------------------|------------|
|                                                           | Amortized cost     | Fair value | Amortized cost   | Fair value |
| Due after one year through five years                     | \$22,987           | \$23,434   | \$-              | \$-        |
| Due after five years through ten years                    | 50,127             | 50,250     | 3,322            | 2,822      |
| Due after ten years                                       | 74,467             | 75,942     | 18,166           | 12,615     |
| Federal Home Loan and Atlantic Central Bankers Bank stock | 6,565              | 6,565      | -                | -          |
|                                                           | \$154,146          | \$156,191  | \$21,488         | \$15,437   |

At March 31, 2010 and December 31, 2009, investment securities with a book value of approximately \$10.3 million and \$6.7 million, respectively, were pledged as sold under repurchase agreements and Federal Home Loan Bank advances as required or permitted by law. Gross gains on sales of securities in the first three months of 2010 amounted to \$750,000. There were no gains or losses on securities in the first three months of 2009.

The table below indicates the length of time individual securities had been in a continuous unrealized loss position at March 31, 2010 (dollars in thousands):

| March 31, 2010                                              |                      | Less than 12 months |                   | 12 months or longer |                   | Total      |                   |
|-------------------------------------------------------------|----------------------|---------------------|-------------------|---------------------|-------------------|------------|-------------------|
| Available-for-sale                                          | Number of securities | Fair Value          | Unrealized losses | Fair Value          | Unrealized losses | Fair Value | Unrealized losses |
| Description of Securities                                   |                      |                     |                   |                     |                   |            |                   |
| U.S. Government agency securities                           | 1                    | \$11,899            | \$(101)           | \$-                 | \$-               | \$11,899   | \$(101)           |
| Tax-exempt obligations of states and political subdivisions | 3                    | \$4,207             | \$(31)            | \$-                 | \$-               | \$4,207    | \$(31)            |
| Taxable obligations of states and political subdivisions    | 1                    | \$1,420             | \$(5)             | \$-                 | \$-               | \$1,420    | \$(5)             |
| Mortgage-backed securities                                  | 3                    | \$7,385             | \$(43)            |                     |                   | \$7,385    | \$(43)            |
| Other securities                                            | 1                    | \$-                 | \$-               | \$648               | \$(345)           | \$648      | \$(345)           |
| Total temporarily impaired investment securities            | 9                    | \$24,911            | \$(180)           | \$648               | \$(345)           | \$25,559   | \$(525)           |

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| March 31, 2010                                   |                      | Less than 12 months |                   | 12 months or longer |                   | Total      |                   |
|--------------------------------------------------|----------------------|---------------------|-------------------|---------------------|-------------------|------------|-------------------|
| Held-to-maturity                                 |                      | Fair Value          | Unrealized losses | Fair Value          | Unrealized losses | Fair Value | Unrealized losses |
| Description of Securities                        | Number of securities |                     |                   |                     |                   |            |                   |
| Other securities                                 | 7                    | \$-                 | \$-               | \$15,437            | \$(6,051 )        | \$15,437   | \$(6,051 )        |
| Total temporarily impaired investment securities | 7                    | \$-                 | \$-               | \$15,437            | \$(6,051 )        | \$15,437   | \$(6,051 )        |

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| December 31,<br>2009                             |                      |                     |                   |                     |                   |            |                   |
|--------------------------------------------------|----------------------|---------------------|-------------------|---------------------|-------------------|------------|-------------------|
| Available-for-sale                               | Number of securities | Less than 12 months |                   | 12 months or longer |                   | Total      |                   |
|                                                  |                      | Fair Value          | Unrealized losses | Fair Value          | Unrealized losses | Fair Value | Unrealized losses |
| Description of Securities                        |                      |                     |                   |                     |                   |            |                   |
| U.S. Government agency securities                | 1                    | \$26,759            | \$(241 )          | \$-                 | \$-               | \$26,759   | \$(241 )          |
| Other securities                                 | 3                    | 9,970               | (29 )             | 658                 | (349 )            | 10,628     | (378 )            |
| Total temporarily impaired investment securities | 4                    | \$36,729            | \$(270 )          | \$658               | \$(349 )          | \$37,387   | \$(619 )          |

| December 31,<br>2009                             |                      |                     |                   |                     |                   |            |                   |
|--------------------------------------------------|----------------------|---------------------|-------------------|---------------------|-------------------|------------|-------------------|
| Held-to-maturity                                 | Number of securities | Less than 12 months |                   | 12 months or longer |                   | Total      |                   |
|                                                  |                      | Fair Value          | Unrealized losses | Fair Value          | Unrealized losses | Fair Value | Unrealized losses |
| Description of Securities                        |                      |                     |                   |                     |                   |            |                   |
| Other securities                                 | 7                    | \$-                 | \$-               | \$15,415            | \$(6,053 )        | \$15,415   | \$(6,053 )        |
| Total temporarily impaired investment securities | 7                    | \$-                 | \$-               | \$15,415            | \$(6,053 )        | \$15,415   | \$(6,053 )        |

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.

## Note 6. Loans

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

|                                                      | March 31,<br>2010 | December<br>31,<br>2009 |
|------------------------------------------------------|-------------------|-------------------------|
| Commercial                                           | \$413,361         | \$402,232               |
| Commercial mortgage *                                | 557,713           | 569,434                 |
| Construction                                         | 206,275           | 207,184                 |
| Total commercial loans                               | 1,177,349         | 1,178,850               |
| Direct financing leases, net                         | 81,904            | 78,802                  |
| Residential mortgage                                 | 89,005            | 85,759                  |
| Consumer loans and others                            | 177,456           | 178,608                 |
|                                                      | 1,525,714         | 1,522,019               |
| Deferred loan costs                                  | 1,977             | 1,703                   |
| Total loans, net of deferred loan costs              | \$1,527,691       | \$1,523,722             |
| Supplemental loan data :                             |                   |                         |
| Construction 1-4 family                              | \$98,151          | \$100,088               |
| Construction commercial, acquisition and development | 108,124           | 107,096                 |
|                                                      | \$206,275         | \$207,184               |

\*At March 31, 2010, our owner occupied loans amounted to \$105 million, or 18.9% of commercial mortgages.

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The Company identifies a loan 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 impaired loans was \$17.9 million at March 31, 2010, of which \$13.6 million had a specific valuation allowance of \$4.7 million, and \$4.3 million of which did not have a valuation allowance. The balance of 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 Company recognizes income on impaired loans after they are placed into non-accrual status on a cash basis only 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. The Company did not recognize income on impaired loans in first quarter 2010.

The following table summarizes the Company's non-accrual loans and loans 90 days past due still accruing (in thousands):

|                                               | March 31,<br>2010 | December<br>31,<br>2009 |
|-----------------------------------------------|-------------------|-------------------------|
| Non-accrual loans                             | \$17,863          | \$12,270                |
| Loans past due 90 days or more still accruing | 4,071             | 12,994                  |

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

|                                       | Three months ended |          | For the year<br>ended<br>December<br>31,<br>2009 |
|---------------------------------------|--------------------|----------|--------------------------------------------------|
|                                       | March 31,<br>2010  | 2009     |                                                  |
| Balances at the beginning of the year | \$19,123           | \$17,361 | \$17,361                                         |
| Charge-offs                           | (2,995 )           | (1,386 ) | (11,364 )                                        |
| Recoveries                            | 81                 | 2        | 126                                              |
| Provision charged to operations       | 4,148              | 3,000    | 13,000                                           |
| Balances at the end of the year       | \$20,357           | \$18,977 | \$19,123                                         |

#### Note 7. Transactions with Affiliates

The Company subleases office space in Philadelphia, Pennsylvania to RAIT Financial Trust (RAIT). The Chairman of RAIT is the Chairman and Chief Executive Officer of the Bank and the Chief Executive Officer of the Company. RAIT was charged rent and other expenses of \$72,000 and \$83,000 for the three-month periods ended March 31, 2010 and 2009, respectively.

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The Bank maintains deposits for various affiliated companies totaling approximately \$11.8 million and \$10.4 million as of March 31, 2010 and December 31, 2009, respectively. The majority of these deposits are short-term in nature and rates are consistent with market rates.

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 March 31, 2010, these loans were current as to principal and interest payments and did not involve more than normal risk of collectability. At March 31, 2010, loans to these related parties amounted to \$7.4 million. During the period ended March 31, 2010, the Bank made new loans to related parties of \$76,000 and received repayments of \$74,000.

The Bank participated in one loan at March 31, 2010 that was originated by RAIT. The outstanding principal balance of the loan was \$21.6 million at March 31, 2010. The Bank has a senior position on the loan.

The Company paid rent to the prior owner of Mears Motor Livery, currently a vice president of the Bank, for space in Florida of \$19,000 and \$21,000 for the three-month periods ended March 31, 2010 and 2009, respectively.

Note 8. Fair Value Measurements

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.

For cash and cash equivalents, including cash and due from banks, the Federal Reserve and federal funds sold, the recorded book values of \$338.4 million and \$354.4 million as of March 31, 2010 and December 31, 2009, 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 March 31, 2010 and December 31, 2009 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, savings, money market and interest checking deposits 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 discounted expected cash flows. Based upon time deposit maturities at March 31, 2010, the carrying values approximate their fair values. The carrying amount of accrued interest payable approximates its fair value.

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|                                                | March 31, 2010  |                      | December 31, 2009 |                      |
|------------------------------------------------|-----------------|----------------------|-------------------|----------------------|
|                                                | Carrying amount | Estimated fair value | Carrying amount   | Estimated fair value |
|                                                | (in thousands)  |                      |                   |                      |
| Cash and cash equivalents                      | \$338,433       | \$338,433            | \$354,459         | \$354,459            |
| Investment securities available-for-sale       | 156,191         | 156,191              | 93,478            | 93,478               |
| Investment securities held-to-maturity         | 21,488          | 15,437               | 21,468            | 15,415               |
| Loans receivable, net                          | 1,527,691       | 1,501,371            | 1,523,722         | 1,499,199            |
| Demand deposits (non-interest bearing)         | 973,116         | 973,116              | 506,641           | 506,641              |
| Savings, money market and interest checking    | 875,511         | 875,511              | 1,005,048         | 1,005,048            |
| Certificates of deposit                        | 13,656          | 13,939               | 142,820           | 142,818              |
| Subordinated debentures and notes              | 13,401          | 9,150                | 13,401            | 9,152                |
| Securities sold under agreements to repurchase | 8,245           | 8,245                | 2,588             | 2,588                |
| Short-term borrowings                          | -               | -                    | 100,000           | 100,000              |

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 level, are summarized below (in thousands):

| Description | Balance<br>March 31,<br>2010 | Fair Value Measurements at Reporting<br>Date Using                               |                                                           |                                                    |
|-------------|------------------------------|----------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
|             |                              | Quoted<br>Prices in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|             |                              |                                                                                  |                                                           |                                                    |

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|                                                              |           |     |           |          |
|--------------------------------------------------------------|-----------|-----|-----------|----------|
| Investment                                                   |           |     |           |          |
| U.S. Government agency securities                            | \$78,868  | \$- | \$78,868  | \$ -     |
| Obligations of states and political subdivisions             | 29,120    | -   | 29,120    | -        |
| Mortgage-backed securities                                   | 15,028    | -   | 15,028    | -        |
| Other debt securities                                        | 26,610    | -   | 25,962    | 648      |
| Federal Home Loan and Atlantic Central<br>Bankers Bank stock | 6,565     | -   | -         | 6,565    |
|                                                              | \$156,191 | \$- | \$148,978 | \$ 7,213 |

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

|                                        | Fair Value Measurements Using<br>Significant Unobservable Inputs<br>(Level 3) | Available-for-sale<br>securities |
|----------------------------------------|-------------------------------------------------------------------------------|----------------------------------|
| Beginning Balance                      |                                                                               | \$ 7,222                         |
| Included in other comprehensive income |                                                                               | 4                                |
| Purchases, issuances, and settlements  |                                                                               | (13 )                            |
| Transfers in                           |                                                                               | -                                |
| Ending Balance                         |                                                                               | \$ 7,213                         |

The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at the reporting date.

\$ -

Assets measured at fair value on a nonrecurring basis, segregated by fair value hierarchy, during the period ended March 31, 2010 are summarized below (in thousands):

| Description             | March 31,<br>2010 | Fair Value Measurements at Reporting<br>Date Using                               |                                                           |                                                    |
|-------------------------|-------------------|----------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
|                         |                   | Quoted<br>Prices in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Impaired loans          | \$17,863          | \$-                                                                              | \$-                                                       | \$ 17,863                                          |
| Other real estate owned | 648               | -                                                                                | 648                                                       | -                                                  |
|                         | \$18,511          | \$-                                                                              | \$648                                                     | \$ 17,863                                          |

Impaired loans that are collateral dependent have been presented at their fair value, less costs to sell, of \$17.9 million through the establishment of specific reserves of \$4.7 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 9. Preferred Stock

On March 10, 2010, the Company repaid 100% of the Series B preferred stock issued under the U.S. Treasury Capital Purchase Program (CPP) totaling \$45.2 million. The Company recorded a non-cash charge of \$5.8 million for the unaccreted discount related to these preferred shares.

On December 12, 2008, the Company 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 was issued in connection with the Treasury's investment in the Company's preferred stock, which has been repaid. The warrants have a 10-year term and are 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 share issuable under the warrant delivered to the Treasury Department as part of 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.

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Note 10. Subsequent Events

The Company evaluated its March 31, 2010 financial statements for subsequent events through the date the financial statements were issued. The Company is not aware of any subsequent events which would require recognition or disclosure in the financial statements except as follows:

On April 7, 2010, the Bank, as lender, entered into a Loan and Security Agreement with Resource Capital Corp., as borrower, Resource TRS, Inc., a wholly-owned subsidiary of Resource Capital Corp., as guarantor, and LEAF Financial Corporation as collateral servicer. The loan, in the principal amount of \$6.5 million with a fixed rate of 6.0% and a loan fee of 1.0%, matures in 30 months, is secured by small business equipment leases, and was made in the ordinary course of the Company's business on the same terms as those prevailing for comparable transactions with other borrowers. The President of Resource Capital Corp. is the brother of the Chairman of the Board and son of the Chief Executive Officer of the Company. One director of Resource Capital Corp. is the father of the Chairman of the Board and the spouse of the Chief Executive Officer of the Company. One director of the Company also serves as a director of Resource Capital Corp., and an additional director of the Company serves as a director of the parent company of Resource Capital Corp., Resource America, Inc. LEAF Financial Corporation is a subsidiary of Resource America. All of the directors with related interests in the loan did not vote or participate in any way in the loan approval.

Note 11. Reclassification

Certain reclassifications have been made to the 2009 financial statements to confirm to the 2010 presentation.

Note 12. Recent Accounting Pronouncements

In June 2009, the FASB issued FASB ASC 810. FASB ASC 810 was issued to improve financial reporting by enterprises involved with variable interest entities, specifically to address: (1) the effects on certain provisions of FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities," as a result of the elimination of the qualifying special-purpose entity concept in FASB ASC 860 and (2) constituent concerns about the application of certain key provisions of FASB ASC 860, including those in which the accounting and disclosures under the Interpretation do not always provide timely and useful information about an enterprise's involvement in a variable interest entity. FASB ASC 810 must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter with early application prohibited. The adoption of this Statement did not have a material effect on the Company's financial statements at the date of adoption, January 1, 2010.

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

Forward-Looking Statements

When used in this Form 10-Q, the words "believes" "anticipates" "expects" and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties more particularly described in Item 1A, under the caption "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2009. These risks and uncertainties could cause actual results to differ materially. We caution readers not place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances after the date of this report except as required by applicable law.

In the following discussion we provide information about our results of operations, financial condition, liquidity and asset quality. We intend that this information facilitate your understanding and assessment of significant changes and trends related to our financial condition and results of operations. You should read this section in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operation" included in our Annual Report on Form 10-K for the year ended December 31, 2009.

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.





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### Critical Accounting Policies and Estimates

Our accounting and reporting policies conform with accounting principles generally accepted in the United States of America, or GAAP, and general practices within the financial services industry. The preparation of financial statements in conformity with GAAP 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 historical loss experience. We also evaluate economic conditions, uncertainties in estimating losses and inherent risks in the loan portfolio. All of these factors may be susceptible to significant change. To the extent actual outcomes differ from our estimate, we may need additional provisions for loan losses that would reduce our earnings.

We periodically review our investment portfolio to determine whether unrealized losses are temporary, based on an evaluation of the creditworthiness of the issuers/guarantors as well as the underlying collateral, if applicable, in addition to the continuing performance of the securities. Management also evaluates other facts and circumstances that may be indicative of an other-than-temporary impairment, or OTTI, condition.

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.

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 consider factors such as liquidity and concentration concerns. Other factors such as model assumptions, market dislocations and unexpected correlations can affect estimates of fair value. Imprecision in estimating these factors can impact the amount of revenue or loss recorded.

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.

### Results of Operations

First quarter 2010 to first quarter 2009

Net Income: Net income for the first quarter of 2010 was \$2.2 million, compared to net income of \$1.2 million for the first quarter of 2009. The increase reflected a \$1.5 million increase in non-interest income (excluding one time securities gains), and a \$1.4 million increase in net interest income which was partially offset by a \$1.0 million increase on non-interest expense. The increase in non-interest income resulted from higher volumes of prepaid, merchant acquiring, debit card and other transactions and related fees and higher leasing income. Net interest income increased due to a lower cost of funds and higher investment income. The loss available to common shareholders in 2010 resulted from a \$5.8 million charge for the unamortized accretion for the imputed dividend cost in connection with our issuance of the preferred shares that were repaid in full during the quarter. Diluted loss available to common shareholders per share was (\$0.15) in first quarter 2010 compared to diluted earnings per share of \$0.03 for first quarter 2009. Return on average assets was 0.37% and return on average equity was 4.07% for the first quarter of 2010, as compared to 0.27% and 2.68%, respectively, for the first quarter of 2009.

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Net Interest Income: Our net interest income for first quarter 2010 increased to \$16.3 million from \$14.9 million in first quarter 2009. While our average loans increased to \$1.52 billion for first quarter 2010 from \$1.46 billion for first quarter 2009, interest rates were lower. Accordingly, the increase in our net interest income reflected higher investment income as a result of purchases of investment securities and an increase in our interest bearing deposit income, partially offset by the lower loan interest rates. The increase in net interest income also reflected a lower cost of funds.

Our net interest margin for first quarter 2010 decreased to 3.06% from 3.58% in first quarter of 2009, a decrease of 52 basis points (.52%). The decrease in the net interest margin resulted from higher seasonal deposit balances deposited at the Federal Reserve Bank, at a 25 basis point (.25%) rate (See Average Daily Balances below).

For first quarter 2010, the average yield on interest-earning assets decreased to 3.76% compared to 4.66% for the first quarter of 2009, a decrease of 90 basis points (.90%). While there was an increase in interest income, interest rates remained at historically low levels for the first quarter of 2010. The cost of interest-bearing deposits decreased to 1.19% for first quarter 2010 from 1.56% for first quarter 2009, a decrease of 37 basis points (.37%). Average interest-bearing deposits increased to \$1.13 billion from \$1.05 billion, an increase of \$82.2 million or 7.8%. Average non-interest bearing demand deposits increased \$413.8 million for the first quarter of 2010 from the first quarter of 2009. The increases resulted from increases in all transaction deposit categories and significant seasonal increases (See Average Daily Balances below).

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

|                                              | Three months ended March 31, |                                       |                 |   |                    |                                       |                 |   |
|----------------------------------------------|------------------------------|---------------------------------------|-----------------|---|--------------------|---------------------------------------|-----------------|---|
|                                              | 2010                         |                                       | 2009            |   |                    |                                       |                 |   |
|                                              | Average<br>Balance           | Interest<br>(dollars in<br>thousands) | Average<br>Rate |   | Average<br>Balance | Interest<br>(dollars in<br>thousands) | Average<br>Rate |   |
| <b>Assets:</b>                               |                              |                                       |                 |   |                    |                                       |                 |   |
| <b>Interest-earning assets:</b>              |                              |                                       |                 |   |                    |                                       |                 |   |
| Loans net of unearned discount               | \$1,518,631                  | \$17,972                              | 4.73            | % | \$1,457,084        | \$18,244                              | 5.01            | % |
| Investment securities-taxable                | 130,432                      | 1,308                                 | 4.01            | % | 109,761            | 1,077                                 | 3.93            | % |
| <b>Investment securities-nontaxable*</b>     |                              |                                       |                 |   |                    |                                       |                 |   |
| Interest bearing deposits                    | 472,388                      | 351                                   | 0.30            | % | 2,033              | 3                                     | 0.58            | % |
| Federal funds sold                           | -                            | -                                     | -               |   | 98,215             | 93                                    | 0.38            | % |
| Net interest-earning assets                  | 2,152,306                    | 20,218                                | 3.76            | % | 1,667,093          | 19,417                                | 4.66            | % |
| <b>Allowance for loan and lease losses</b>   |                              |                                       |                 |   |                    |                                       |                 |   |
|                                              | (19,821                      | )                                     |                 |   | (17,878            | )                                     |                 |   |
| <b>Other assets</b>                          |                              |                                       |                 |   |                    |                                       |                 |   |
|                                              | 201,340                      |                                       |                 |   | 167,783            |                                       |                 |   |
|                                              | \$2,333,825                  |                                       |                 |   | \$1,816,998        |                                       |                 |   |
| <b>Liabilities and shareholders' equity:</b> |                              |                                       |                 |   |                    |                                       |                 |   |
| <b>Deposits:</b>                             |                              |                                       |                 |   |                    |                                       |                 |   |
|                                              | \$950,319                    | \$138                                 | 0.06            | % | \$536,532          | \$111                                 | 0.08            | % |

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Demand (non-interest bearing)

\*\*

Interest bearing deposits

|                                 |           |       |      |   |           |       |      |   |
|---------------------------------|-----------|-------|------|---|-----------|-------|------|---|
| Interest checking               | 539,757   | 1,744 | 1.29 | % | 315,525   | 1,159 | 1.47 | % |
| Savings and money market        | 544,758   | 1,499 | 1.10 | % | 520,538   | 1,419 | 1.09 | % |
| Time                            | 50,270    | 133   | 1.05 | % | 216,494   | 1,525 | 2.82 | % |
| Total interest bearing deposits | 1,134,785 | 3,376 | 1.19 | % | 1,052,557 | 4,103 | 1.56 | % |
| Total deposits                  | 2,085,104 | 3,514 | 0.67 | % | 1,589,089 | 4,214 | 1.06 | % |

|                                  |           |       |      |   |           |       |      |   |
|----------------------------------|-----------|-------|------|---|-----------|-------|------|---|
| Short term borrowings            | 3,183     | 5     | 0.68 | % | 24,400    | 49    | 0.80 | % |
| Repurchase agreements            | 4,774     | 7     | 0.59 | % | 2,319     | 11    | 1.97 | % |
| Subordinated debt                | 13,401    | 215   | 6.42 | % | 13,401    | 227   | 6.78 | % |
| Net interest bearing liabilities | 1,156,143 | 3,741 | 1.29 | % | 1,092,677 | 4,501 | 1.65 | % |

|                   |           |  |  |  |           |  |  |  |
|-------------------|-----------|--|--|--|-----------|--|--|--|
| Other liabilities | 12,658    |  |  |  | 7,202     |  |  |  |
| Total Liabilities | 2,119,120 |  |  |  | 1,636,411 |  |  |  |

|                      |             |  |  |  |             |  |  |  |
|----------------------|-------------|--|--|--|-------------|--|--|--|
| Shareholders' equity | 214,705     |  |  |  | 180,587     |  |  |  |
|                      | \$2,333,825 |  |  |  | \$1,816,998 |  |  |  |

Net interest income on tax equivalent basis \* \$16,477 \$14,916

Tax equivalent adjustment 197 -

Net interest income \$16,280 \$14,916

Net interest margin \* 3.06 % 3.58 %

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

\*\* Non-interest bearing demand accounts are not paid interest. The amount shown as interest reflects the fees the Bank paid to affinity groups, which are based upon a rate index, and therefore classified as interest expense.

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For first quarter 2010, average interest-earning assets increased to \$2.15 billion, an increase of \$485.2 million, or 29.1%, from first quarter of 2009. Particularly high seasonal activity in demand (non-interest bearing) accounts acquired through one affinity group, the largest in the Bank, and growth in various other affinity relationships resulted in the majority of the increase in average demand deposits. Within the past four quarters, related demand deposits for that affinity group averaged approximately \$245 million in the two lowest quarters. Although average deposits in the first quarter of 2010 were more than twice that amount, we considered average seasonal deposits exceeding \$245 million to be “excess” and thus deposited them at the Federal Reserve Bank. As a result of this seasonal increase, average interest-earning assets also increased during the quarter, with a corresponding decrease in the net interest margin. While similar dynamics were present in first quarter 2009, lesser seasonality resulted in markedly less margin compression than in first quarter 2010. Higher seasonal deposits have previously occurred in the third and first quarters. Accordingly, it is anticipated that average demand deposits in the second quarter 2010 will decrease as a result of such seasonality. The Bank has significant sources of liquidity in excess of these amounts and we monitor liquidity daily.

**Provision for Loan and Lease Losses.** Our provision for loan and lease losses was \$4.1 million for the first quarter of 2010 compared to \$3.0 million for the first quarter of 2009. For more information about our provision and allowance for loan and lease losses and our loss experience see “Financial Condition – Allowance for Loan and Lease Losses”, “ – Net Charge-offs”, and “ – Non-performing Loans” below.

**Non-Interest Income.** Non-interest income was \$5.5 million in first quarter 2010 compared to \$3.3 million in first quarter 2009, an increase of \$2.2 million. That increase resulted from increases in transaction volume in stored value (prepaid cards), merchant acquiring (credit card deposits), debit cards and other categories, amounting to approximately \$740,000. Leasing income increased \$603,000 reflecting improved resale market conditions for vehicles. The increase also reflected a \$750,000 gain on sales of investment securities.

**Non-Interest Expense.** Total non-interest expense was \$14.2 million for first quarter 2010, compared to \$13.2 million for first quarter 2009, an increase of \$1.0 million or 7.8%. Salaries and employee benefits increased \$178,000, or 2.9%, to \$6.4 million for first quarter 2010 compared to \$6.2 million for first quarter 2009. The increase in salaries and employee benefits reflected merit increases of 0 - 2%. Data processing expense increased \$36,000, or 2.3%, to \$1.6 million, primarily reflecting increases in volume. Printing and supplies increased \$125,000 to \$414,000, or 43.2%, from 2009, primarily reflecting increases in volume. Legal expense increased to \$354,000 from \$233,000, an increase of \$121,000, or 52.0%, over the same period in 2009, for various matters. Federal Deposit Insurance Corporation (FDIC), insurance expense increased \$462,000, or 157.1%, to \$756,000 for first quarter 2010 from \$294,000 in first quarter 2009 due to industry-wide premium increases and growth in deposits subject to assessment. Software, maintenance and equipment expense increased \$146,000, or 78.1%, from \$187,000 in first quarter 2009 to \$333,000 in first quarter 2010. This increase resulted from increased software & equipment maintenance costs related to various products.

**Income Taxes.** Income tax expense was \$1.2 million for first quarter 2010 compared to \$781,000 in first quarter 2009. The increase resulted primarily from an increase in taxable income. Our effective tax rate for first quarter 2010 was 36.1% as compared to 39.2% in first quarter 2009. The lower tax rate reflected the impact of purchases of tax exempt obligations of states and political subdivisions.

**Preferred Stock Dividend and Accretion.** Our cash dividends on preferred stock and accretion increased to \$6.2 million, of which the cash dividends were \$433,000 and accretion was \$5.8 million, in the first quarter of 2010, as a result of the Troubled Asset Relief Program (TARP) repayment, as compared to \$847,000 in the first quarter of 2009. The increase is a result of the dividend and the accelerated 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.



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## 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.

The primary source of funds for our financing activities has been cash inflows from net increases in deposits, which were \$207.8 million in the first three months of 2010. We have also used sources outside of our deposit products to fund our loan growth, including Federal Home Loan Bank (FHLB) advances and repurchase agreements. As of March 31, 2010, we had no FHLB advances outstanding and \$8.2 million in repurchase agreements.

Funding in first quarter 2010 reflected cash outflows for \$62.3 million for net investment securities purchases, and a net increase in loans of \$6.9 million. At March 31, 2010, we had outstanding commitments to fund loans, including unused lines of credit, of \$318.3 million.

We must comply with capital adequacy guidelines issued by the FDIC. A bank must, in general, have a Tier 1 leverage ratio of 5.0%, a ratio of Tier I 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 I leverage ratio is the ratio of Tier 1 capital to average assets for the period. "Tier I capital" includes common shareholders' equity, certain qualifying perpetual preferred stock and minority interests in equity accounts of consolidated subsidiaries, less goodwill. At March 31, 2010 the Bank was "well capitalized" under banking regulations.

The reduction in the capital ratios at March 31, 2010 when compared to December 31, 2009 reflects the repayment of the TARP of approximately \$45.2 million of capital and deposit seasonality (See Average Daily Balances above in Results of Operations). While the TARP repayment reduced our capital ratios, both the Company and the Bank remain well capitalized.

The following table sets forth our regulatory capital amounts and ratios for the periods indicated:

|                                                         | Tier 1<br>capital<br>to average<br>assets ratio |   | Tier 1 capital<br>to<br>risk-weighted<br>assets ratio |   | Total capital<br>to<br>risk-weighted<br>assets ratio |   |
|---------------------------------------------------------|-------------------------------------------------|---|-------------------------------------------------------|---|------------------------------------------------------|---|
| As of March 31, 2010                                    |                                                 |   |                                                       |   |                                                      |   |
| The Company                                             | 8.64                                            | % | 13.08                                                 | % | 14.33                                                | % |
| The Bancorp Bank                                        | 7.41                                            | % | 11.23                                                 | % | 12.48                                                | % |
| "Well capitalized" institution (under FDIC regulations) | 5.00                                            | % | 6.00                                                  | % | 10.00                                                | % |
| 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                                                | % |





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Asset and Liability Management

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

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

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

The following table sets forth the estimated maturity or repricing structure of our interest-earning assets and interest-bearing liabilities at March 31, 2010. 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 with the remainder shown in the "1 - 3 years" column with the balance 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<br>Days | 91-364<br>Days | 1-3<br>Years | 3-5<br>Years | Over 5<br>Years |
|------------------------------------------------|--------------|----------------|--------------|--------------|-----------------|
| (dollars in thousands)                         |              |                |              |              |                 |
| Interest earning assets:                       |              |                |              |              |                 |
| Loans net of deferred loan costs               | \$758,895    | \$268,370      | \$275,748    | \$92,600     | \$132,078       |
| Investments securities                         | -            | -              | 11,580       | 11,854       | 154,245         |
| Interest bearing deposits                      | 232,117      | -              | -            | -            | -               |
| Total interest earning assets                  | 991,012      | 268,370        | 287,328      | 104,454      | 286,323         |
| Interest bearing liabilities:                  |              |                |              |              |                 |
| Interest checking                              | 290,496      | 145,248        | 145,248      | -            | -               |
| Savings and money market                       | 73,630       | 147,260        | 73,630       | -            | -               |
| Time deposits                                  | 3,889        | 6,916          | 2,158        | -            | 693             |
| Securities sold under agreements to repurchase | 8,245        | -              | -            | -            | -               |
| Subordinated debt                              | 3,401        | -              | -            | 10,000       | -               |
| Total interest bearing liabilities             | 379,661      | 299,424        | 221,036      | 10,000       | 693             |
| Gap                                            | \$611,352    | \$(31,054)     | \$66,292     | \$94,454     | \$285,630       |
| Cumulative gap                                 | \$611,352    | \$580,298      | \$646,590    | \$741,044    | \$1,026,674     |
| Gap to assets ratio                            | 29           | % -1           | % 3          | % 5          | % 14            |
| Cumulative gap to assets ratio                 | 29           | % 28           | % 31         | % 35         | % 49            |

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.

## Financial Condition

General. Our total assets at March 31, 2010 were \$2.09 billion, of which our total loans were \$1.53 billion. At December 31, 2009 our total assets were \$2.04 billion, of which our total loans were \$1.52 billion.

Interest bearing deposits and federal funds sold. At March 31, 2010, a total of \$232.1 million of interest bearing deposits was comprised primarily of balances at the Federal Reserve Bank, which pays interest on such balances.

Investment securities. For detailed information on the composition and maturity distribution of our investment portfolio, see Note 5 to the Financial Statements. Total investment securities increased to \$177.7 million on March 31, 2010, an increase of \$62.7 million or 54.6% from year-end 2009. The increase in investment securities was primarily a result of increased purchases of government agency and state and political subdivision securities.

The other securities included in the held-to-maturity classification on our balance sheet at March 31, 2010 consist of five single issuer trust preferred securities issued by either banks or insurance companies and two pooled issuer trust preferred securities, whose collateral is made up of trust preferred securities issued by banks. 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.

Loans. Total loans increased to \$1.53 billion at March 31, 2010 from \$1.52 billion at December 31, 2009, an increase of \$4 million.

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

|                                                      | March 31,<br>2010 | December<br>31,<br>2009 |
|------------------------------------------------------|-------------------|-------------------------|
| Commercial                                           | \$413,361         | \$402,232               |
| Commercial mortgage *                                | 557,713           | 569,434                 |
| Construction                                         | 206,275           | 207,184                 |
| Total commercial loans                               | 1,177,349         | 1,178,850               |
| Direct financing leases, net                         | 81,904            | 78,802                  |
| Residential mortgage                                 | 89,005            | 85,759                  |
| Consumer loans and others                            | 177,456           | 178,608                 |
|                                                      | 1,525,714         | 1,522,019               |
| Deferred loan costs                                  | 1,977             | 1,703                   |
| Total loans, net of deferred loan costs              | \$1,527,691       | \$1,523,722             |
| Supplemental loan data :                             |                   |                         |
| Construction 1-4 family                              | \$98,151          | \$100,088               |
| Construction commercial, acquisition and development | 108,124           | 107,096                 |
|                                                      | \$206,275         | \$207,184               |

\*At March 31, 2010, our owner occupied loans amounted to \$105 million, or 18.9% of commercial mortgages.

Allowance for loan and lease losses. We review the adequacy of our allowance for loan and lease losses on at least a quarterly basis to ensure that the provision for loan losses is in an amount necessary to maintain our allowance 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 this adequacy has two basic elements: first, the identification of problem loans or leases based on current financial information and the fair value of the underlying collateral; and second, a methodology for estimating general loss reserves. For loans or leases classified as "special mention," "substandard" or "doubtful," we reserve all 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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Summary of loan and lease loss experience. The following table summarizes our credit loss experience for each of the periods indicated:

|                                                                           | Three months ended     |           | For the    |
|---------------------------------------------------------------------------|------------------------|-----------|------------|
|                                                                           | March 31,              |           | year Ended |
|                                                                           | 2010                   | 2009      | December   |
|                                                                           | 31,                    |           |            |
|                                                                           | 2009                   |           |            |
|                                                                           | (dollars in thousands) |           |            |
| Balance in the allowance for loan and lease losses at beginning of period | \$ 19,123              | \$ 17,361 | \$ 17,361  |
| Loans charged-off:                                                        |                        |           |            |
| Commercial                                                                | 2,728                  | 1,290     | 6,314      |
| Construction                                                              | -                      | 26        | 4,546      |
| Lease financing                                                           | -                      | 49        | 49         |
| Residential mortgage                                                      | 223                    | -         | 328        |
| Consumer                                                                  | 44                     | 21        | 127        |
| Total                                                                     | 2,995                  | 1,386     | 11,364     |
| Recoveries:                                                               |                        |           |            |
| Commercial                                                                | 79                     | -         | 53         |
| Construction                                                              | 1                      | 1         | 32         |
| Lease financing                                                           | -                      | -         | 27         |
| Residential mortgage                                                      | -                      | -         | 12         |
| Consumer                                                                  | 1                      | 1         | 2          |
| Total                                                                     | 81                     | 2         | 126        |
| Net charge-offs                                                           | 2,914                  | 1,384     | 11,238     |
| Provision charged to operations                                           | 4,148                  | 3,000     | 13,000     |
| Balance in allowance for loan and lease losses at end of period           | \$ 20,357              | \$ 18,977 | \$ 19,123  |
| Net charge-offs/average loans                                             | 0.19                   | % 0.09    | % 0.76     |

Net charge-offs. Net charge-offs of \$2.9 million for first quarter 2010 increased \$1.5 million increase over net charge-offs for the same period of 2009. The increase was primarily the result of defaults of three commercial, four commercial real estate and two residential construction loans.

Non-performing loans and loans 90 days delinquent and still accruing. 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 positions 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. We had \$17.9 million of non-accrual loans at March 31, 2010 compared to \$12.3 million of non-accrual loans at December 31, 2009. The increase in non-accrual loans was primarily due to \$7.0 million of loans placed on non-accrual status which was partially offset by \$1.2 million of loan charge-offs. Loans past due 90 days or more still accruing interest amounted to \$4.1 million and \$13.0 million at March 31, 2010 and December 31, 2009, respectively. The \$8.9 million decrease reflected \$6.4 million of loans transferred to non-accrual status, \$3.2 million of loan payments, and a \$41,000 charge-off. These decreases were partially offset by \$744,000 of

additions to this category.

|                                               | March 31,<br>2010 | December<br>31,<br>2009 |
|-----------------------------------------------|-------------------|-------------------------|
|                                               | (in thousands)    |                         |
|                                               | Amount            | Amount                  |
| Non-accrual loans                             | \$17,863          | \$12,270                |
| Total non-performing loans                    | 17,863            | 12,270                  |
| Other real estate owned                       | 648               | 459                     |
| Total non-performing assets                   | \$18,511          | \$12,729                |
| Loans past due 90 days or more still accruing | \$4,071           | \$12,994                |



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Deposits. A primary source for funding is through deposit acquisition. We offer a variety of deposit accounts with a range of interest rates and terms, including health savings, checking and money market accounts. One strategic focus is growing these accounts through affinity groups. Additionally, to offset the effects of the seasonality of deposits, management periodically utilizes certificates of deposit including brokered certificates of deposit for funding. At March 31, 2010, we had total deposits of \$1.86 billion as compared to \$1.66 billion at December 31, 2009, an increase of \$207.8 million or 12.6%. The following table presents the average balance and rates paid on deposits for the periods indicated:

|                                 | For the three months<br>ended<br>March 31, 2010 |                 | For the year ended<br>December 31, 2009 |                 |   |
|---------------------------------|-------------------------------------------------|-----------------|-----------------------------------------|-----------------|---|
|                                 | Average<br>balance                              | Average<br>Rate | Average<br>balance                      | Average<br>Rate |   |
|                                 | (unaudited)                                     |                 |                                         |                 |   |
| Demand (non-interest bearing) * | \$950,319                                       | 0.06            | % \$529,477                             | 0.06            | % |
| Interest checking               | 539,757                                         | 1.29            | % 365,715                               | 1.46            | % |
| Savings and money market        | 544,758                                         | 1.10            | % 516,356                               | 1.33            | % |
| Time                            | 50,270                                          | 1.05            | % 151,791                               | 1.65            | % |
| Total deposits                  | \$2,085,104                                     | 0.67            | % \$1,563,339                           | 0.96            | % |

\* Non-interest bearing demand accounts are not paid interest. The amount shown as interest reflects the fees paid to affinity groups, which are based upon a rate index, and therefore classified as interest expense.

Borrowings. At March 31, 2010, we did not have any advances from the FHLB, a decrease of \$100 million from December 31, 2009. As a result of deposit growth, all advances were repaid. Additionally, we had \$8.2 million in securities sold under agreements to repurchase which mature on a daily basis. At March 31, 2010, we also had \$13.4 million of long-term subordinated debentures outstanding.

Other liabilities: Other liabilities decreased to \$6.4 million at March 31, 2010 from \$27.5 million at December 31, 2009 a decrease of \$21.1 million. The decrease resulted from the settlement of a \$20.0 million investment security purchase during first quarter.

## Shareholders' equity

At March 31, 2010, we had \$202.0 million in shareholders' equity. On March 10, 2010 the Company repaid all of the outstanding Fixed Rate Cumulative Perpetual Preferred Stock, Series B, issued to the Treasury Department under its Capital Purchase Program. As a result of the \$45.2 million repayment, \$3.7 million of annualized dividends and accretion which previously reduced earnings per share were eliminated on a going forward basis.

During the first three months of 2010, \$433,000 in dividends were paid on our Series B preferred stock. Accumulated other comprehensive income increased \$288,000 due to the increase in the fair values in our investment portfolio. We recognized accretion of \$5.8 million related to discount on the preferred shares during the first three months of 2010.



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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Except as discussed in Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” there has been no material change in our assessment of our sensitivity to market risk since our presentation in our Annual Report on Form 10-K for the year ended December 31, 2009.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended, or the Exchange Act, is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

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

There has been no change in our internal control over financial reporting that occurred during the quarter ended March 31, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II – OTHER INFORMATION

Item 6. Exhibits

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

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

Signatures

THE BANCORP INC.  
(Registrant)

May 7, 2010  
Date

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

May 7, 2010  
Date

/s/Paul Frenkiel  
Executive Vice President of Strategy,  
Chief Financial Officer and Secretary

Exhibit No. Description

3.1 Certificate of Incorporation (1)

3.2 Bylaws (1)

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, as amended, registration number 333-117385, and by this reference incorporated herein.

