Bancorp, Inc.
Form 10-K
March 16, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-K

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(Mark One)

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

For the fiscal year ended December 31, 2017

OR

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

For the transition period from to

Commission File Number 51018

The Bancorp, Inc.

(Exact name of registrant as specified in its charter)

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

409 Silverside Road, Wilmington, DE 19809
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (302) 385-5000

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $1.00 per share	NASDAQ Global Select

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

Title of class
None

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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.

Large accelerated filer [ ] Accelerated filer [X] Non-accelerated filer [ ]
Smaller reporting company [ ] Emerging growth company [ ]
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the common shares of the registrant held by non-affiliates of the registrant, based upon the closing price of such shares on June 30, 2017 of $7.58, was approximately $376.5 million.

As of February 21, 2018, 56,149,494 shares of common stock, par value $1.00 per share, of the registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for registrant’s 2018 Annual Meeting of Shareholders are incorporated by reference in Part III of this Form 10-K.

THE BANCORP, INC.
INDEX TO ANNUAL REPORT
ON FORM 10-K

		Page
PART I		
	Forward-looking statements	1
Item 1:	Business	3
Item 1A:	Risk Factors	22
Item 1B:	Unresolved Staff Comments	36
Item 2:	Properties	36
Item 3:	Legal Proceedings	36
Item 4:	Mine Safety Disclosures	37
PART II		
Item 5:	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	38
Item 6:	Selected Financial Data	42
Item 7:	Management's Discussion and Analysis of Financial Condition and Results of Operations	44
Item 7A:	Quantitative and Qualitative Disclosures About Market Risk	76
Item 8:	Financial Statements and Supplementary Data	77
Item 9:	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	135
Item 9A:	Controls and Procedures	135
Item 9B:	Other Information	139
PART III		
Item 10:	Directors, Executive Officers and Corporate Governance	139
Item 11:	Executive Compensation	139
Item 12:	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	139
Item 13:	Certain Relationships and Related Transactions, and Director Independence	139

Item 14:	Principal Accountant Fees and Services	139
PART IV		
Item 15:	Exhibits and Financial Statement Schedules	140
SIGNATURES		143

FORWARD-LOOKING STATEMENTS

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

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

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

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

- the risk factors discussed and identified in Item 1A of this report and in other of our public filings with the SEC;
- an inconsistent recovery from an extended period of weak economic and slow growth conditions in the U.S. economy have had, and may in the future have, significant adverse effects on our assets and operating results, including increases in payment defaults and other credit risks, decreases in the fair value of some assets and increases in our provision for loan losses;
- weak economic and credit market conditions may result in a reduction in our capital base, reducing our ability to maintain deposits at current levels;
- operating costs may increase;
- adverse governmental or regulatory policies may be promulgated;
- management and other key personnel may be lost;
- competition may increase;
- the costs of our interest bearing liabilities, principally deposits, may increase relative to the interest received on our interest bearing assets, principally loans, thereby decreasing our net interest income;
- loan and investment yields may decrease resulting in a lower net interest margin;
-

possible geographic concentration could result in our loan portfolio being adversely affected by economic factors unique to the geographic area and not reflected in other regions of the country;

- the market value of real estate that secures certain of our loans, principally loans we originate for sale into secondary markets, Small Business Administration loans under the 504 Fixed Asset Financing Program and our discontinued commercial loan portfolio, has been, and may continue to be, adversely affected by recent economic and market conditions, and may be affected by other conditions outside of our control such as lack of demand for real estate of the type securing our loans, natural disasters, changes in neighborhood values, competitive overbuilding, weather, casualty losses, occupancy rates and other similar factors;
- we must satisfy our regulators with respect to Bank Secrecy Act, Anti-Money Laundering and other regulatory mandates to prevent additional restrictions on adding customers and to remove current restrictions on adding certain customers;

- the loans from our discontinued operations are now held for sale and were marked to fair value based on various internal and external inputs; however, the actual sales price could differ from those third party fair values. The reinvestment rate for the proceeds of those sales in investment securities depends on future market interest rates; and
- we may not be able to sustain our historical growth rate in our loan, prepaid card and other lines of business.

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

PART I

Item 1. Business.

Overview

We are a Delaware financial holding company and our primary subsidiary is The Bancorp Bank, which we wholly own and which we refer to as the Bank. The vast majority of our revenue and income is currently generated through the Bank. In our continuing operations, we have four primary lines of specialty lending: securities backed lines of credit, or SBLOC, vehicle fleet and other equipment leasing, Small Business Administration lending, or SBA loans and commercial mortgage-backed loans, or CMBS, generated for sale into commercial mortgage backed securities markets primarily through securitizations. SBLOCs are loans which are generated through institutional banking affinity groups and are collateralized by marketable securities. SBLOCs are typically offered in conjunction with brokerage accounts and are offered nationally. Vehicle fleet and other equipment leases are generated in a number of Atlantic Coast and other states. SBA loans and commercial loans generated for sale are made nationally. At December 31, 2017, SBLOC, leasing, SBA and loans for sale in secondary markets totaled $730.5 million, $378.0 million, $401.9 million (including SBA loans held for sale) and $331.5 million (excluding SBA loans held for sale), respectively, and comprised approximately 39%, 20%, 21% and 17% of our loan portfolio and commercial loans held for sale. Our investment portfolio amounted to $1.38 billion at December 31, 2017, representing a slight increase from the prior year.

The majority of our deposits and non-interest income are generated in our payments business line which consists of issuing, acquiring and automated clearing house, or ACH, accounts. The issuing deposit accounts are comprised of debit and prepaid card accounts that are generated with the assistance of independent companies that market directly to end users for account acquisition. Our issuing deposit account types are diverse and include: consumer and business debit, general purpose reloadable prepaid, pre-tax medical spending benefit, payroll, gift, government, corporate incentive, reward, business payment accounts and others. Our ACH accounts facilitate payments such as payroll and bill payments and our acquiring accounts provide clearing and settlement services for payments made to merchants which must be settled through associations such as Visa or MasterCard. We also provide banking services to organizations with a pre-existing customer base tailored to support or complement the services provided by these organizations to their customers. These services include loan and deposit accounts for investment advisory companies through our institutional banking department. 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 banking. In April 2017, we sold our minimal European prepaid operations to reduce regulatory and compliance risk.

Our main office is located at 409 Silverside Road, Wilmington, Delaware 19809 and our telephone number is (302) 385-5000. Our web address is www.thebancorp.com. We make available free of charge on our website our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports and our proxy statements as soon as reasonably practicable after we file them with the SEC. Investors are encouraged to access these reports and other information about our business on our website, www.thebancorp.com. Information found on our website is not part of this Annual Report on Form 10-K. We also will provide copies of our Annual Report on Form 10-K, free of charge, upon written request to our Investor Relations Department at our address for our principal executive offices, 409 Silverside Road, Wilmington, Delaware 19809. Also posted on our website, and available in print upon request by any shareholder to our Investor Relations Department, are the charters of the standing committees of our Board of Directors and standards of conduct governing our directors, officers and employees.

Our Strategies

Our principal strategies are to:

Fund our Loan and Investment Portfolio Growth through Low-cost Deposits and Generate Non-interest Income from Prepaid Card Accounts and Other Areas. Our principal focus is to grow our specialty lending operations and investment portfolio, and fund these loans and investments through a variety of sources that provide low cost and stable deposits. Funding sources include prepaid cards, institutional banking money market accounts and card payment processing. We derive the largest component of our deposits and non-interest income from our prepaid card operations.

Develop Relationships with Affinity Groups to Gain Sponsored Access to their Membership, Client or Customer Bases to Market our Services. We seek to develop relationships with organizations with established membership, client or customer bases. Through these affinity group relationships, we gain access to an organization's members, clients and customers under the

organization's sponsorship. We believe that by marketing targeted products and services to these constituencies through their pre-existing relationships with the organizations, we will continue to generate lower cost deposits, generate fee income and, with respect to private label banking, lower our customer acquisition costs and build close customer relationships.

Use Our Existing Infrastructure as a Platform for Growth. We have made significant investments in our banking infrastructure to support our growth. We believe that this infrastructure can accommodate significant additional growth without proportionate increases in expense. We believe that this infrastructure enables us to maximize efficiencies through economies of scale as we grow without adversely affecting our relationships with our customers.

Deposit Products and Services.

We offer a range of products and services to our affinity groups and their client bases, including:

- checking accounts;
- savings accounts;
- money market accounts;
- commercial accounts; and
- various types of prepaid and debit cards.

Lending Activities

In the third quarter of 2014, we discontinued our Philadelphia-based commercial lending operations following our determination that those operations were inconsistent with our strategic focus on generating low cost deposits and deploying that funding into lower risk, more granular and national lines of business. We currently focus our lending activities upon four specialty lending segments: SBLOC loans, vehicle fleet and other equipment leasing, SBA loans and loans originated for sale into CMBS securitization capital markets.

SBLOC. We make loans to individuals, trusts and entities which are secured by a pledge of marketable securities maintained in one or more accounts with respect to which we obtain a securities account control agreement. The securities pledged may be either debt or equity securities or a combination thereof, but all such securities must be listed for trading on a national securities exchange or automated inter-dealer quotation system. SBLOCs are typically payable on demand. Most of our SBLOCs are drawn to meet a specific need of the borrower (such as for bridge financing of real estate) and are typically drawn for 12 to 18 months at a time. Maximum SBLOC line amounts are calculated by applying a standard 'advance rate' calculation against the eligible security type depending on asset class: typically up to 50% for equity securities and mutual fund securities and 80% for investment grade (Standard & Poor's rating of BBB- or higher, or Moody's rating of Baa3 or higher) municipal or corporate debt securities. Borrowers generally must have a credit score of 660 or higher, although we may allow exceptions based upon a review of the

borrower's income, assets and other credit information. Substantially all SBLOCs have full recourse to the borrower. The underlying securities that act as collateral for our SBLOC commitments are monitored on a daily basis to confirm the composition of the client portfolio and its daily market value. Although these accounts are closely monitored, severely falling markets or sudden drops in price with respect to individual pledged securities could result in the loan being under-collateralized and consequently in default and, upon sale of the collateral, could result in losses to the Bank.

Leases. We provide lease financing for commercial and government vehicle fleets and, to a lesser extent, provide lease financing for other equipment. Our leases are either open-end or closed-end. An open-end lease is one in which, at the end of the lease term, the lessee must pay us the difference between the amount at which we sell the leased asset and the stated "residual value." "Residual value" is a contractual value agreed to by the parties at the inception of a lease as to the value of the leased asset at the end of the lease term. A closed-end lease is one in which no such payment is due on lease termination. In a closed-end lease, the risk that the amount received on a sale of the leased asset will be less than the residual value is assumed by us, as lessor. While we do not have specific underwriting criteria for our lease financing, we analyze information we obtain about the lessee, including financial statements and credit reports, to determine the lessee's ability to perform its obligations.

SBA Loans. We participate in two loan programs established by the SBA: the 7(a) Loan Guarantee Program and the 504 Fixed Asset Financing Program. The 7(a) Loan Guarantee Program is designed to help small business borrowers start or expand their businesses by providing partial guarantees of loans made by banks and non-bank lending institutions for specific business purposes,

including long or short term working capital; funds for the purchase of equipment, machinery, supplies and materials; funds for the purchase, construction or renovation of real estate; and funds to acquire, operate or expand an existing business or refinance existing debt, all under conditions established by the SBA. The terms of the loans must come within parameters set by the SBA, including borrower eligibility, loan maturity, and maximum loan amount. 7(a) loans must be secured by all available business assets and personal real estate until the recovery value equals the loan amount or until all personal real estate of the borrower have been pledged. Personal guarantees are required from all owners of 20% or more of the equity of the business, although lenders may also require personal guarantees of owners of less than 20%. Loan guarantees can range to 85% of loan principal for loans of up to $150,000 and 75% for loans in excess of that amount.

The SBA loan guaranty is typically paid to the lender after the liquidation of all collateral but may be paid prior to liquidation of certain assets, mitigating the losses due to collateral deficiencies up to the percentage of the guarantee. To maintain the guarantee, we must comply with applicable SBA regulations, and we risk loss of the guarantee should we fail to comply. 7(a) loan amounts are not limited to a percentage of estimated collateral value and are instead based on the business's ability to repay the loan from its cash flow. If the business generates inadequate cash flow to repay principal and interest and borrowers are otherwise unable to repay the loan, losses may result if related collateral is sold for less than the unguaranteed balance of the loan. Because these loans are generally at variable rates, higher rate environments will increase required payments from borrowers, with increased payment default risk. As a result of a wide variety of collateral with very specific uses, markets for resale of the collateral may be limited, which could adversely affect amounts realized upon sale. The 7(a) program is funded through annual appropriations approved by Congress matching funding requirements for loans approved within the budget year. Should those appropriations be reduced or cease, our ability to make 7(a) loans will be curtailed or terminated.

The 504 Fixed Asset Financing Program is designed to provide small businesses with financing for the purchase of fixed assets, including real estate and buildings; the purchase of improvements to real estate; the construction of new facilities or modernizing, renovating or converting existing facilities; the purchase of long-term machinery and equipment; and debt refinancing. A 504 loan may not be used for working capital, trading asset purchases or investment in rental real estate. In a 504 financing, the borrower must supply 10% of the financing amount, we provide 50% of the financing amount and a Certified Development Company, or CDC, provides 40% of the financing amount. If the borrower has less than two years of operating history or if the assets being financed are considered "special purpose," the funding percentages are 15%, 50% and 35%, respectively. If both conditions are met, the funding percentages are 20%, 50% and 30%, respectively. We receive a first lien on the assets being financed and the CDC receives a second lien. Personal guarantees of the principal owners of the business are required. The funds for the CDC loans are raised through a monthly auction of bonds that are guaranteed by the U.S. government and, accordingly, if the government guarantees are curtailed or terminated, our ability to make 504 loans would be curtailed or terminated. Certain basic loan terms, as with the 7(a) program, are established by the SBA, including borrower eligibility, maximum loan amount, maximum maturity date, interest rates and loan fees. While real estate is appraised and values are established for other collateral, and the loan amount is limited to a percentage of cost of the assets being acquired by the borrower, such amounts may not be realized upon resale if the borrower defaults and the Bank forecloses on the collateral.

SBA 7(a) and 504 loans may include construction advances which are subject to risk inherent to construction projects, including environmental risks, engineering defects, contractor risk, and risk of project completion. Delays in construction may also compromise the owner's business plan and result in additional stresses on cash flow required to service the loan. Higher than expected construction costs may also result, impacting repayment capability and

collateral values.

Additionally, the Bank makes SBA loans to franchisees of various business concepts, including loans to multiple franchisees with the same concept. In making loans to franchisees, we consider franchisee failure rates for the specific franchise concept. However, factors adversely affecting a specific type of franchisor or franchise concept, including in particular risks that a franchise concept loses popularity with consumers or encounters negative publicity about its products or services, could harm the value not only of a particular franchisee's business but also of multiple loans to other franchisees with the same concept.

CMBS. We originate loans for sale into secondary markets, generally through securitizations. These loans are collateralized by various types of commercial real estate, including but not limited to, retail, office, apartments and hotels, and are not recourse to the borrower (except for carve-outs such as fraud) and, accordingly, depend on cash reserves and cash generated by the underlying properties for repayment. The majority of these loans are variable rate and, as a result, higher market rates will result in higher payments and greater cash flow requirements, although rates are capped to mitigate that risk. Inadequate sales at retail properties and inadequate occupancy rates for office space, apartments and hotels may negatively impact loan repayment. Should cash flow and available cash reserves prove inadequate to cover debt service on these loans, repayment will depend upon the sales price of the property. Because these loans are being originated for sale, the underwriting and other criteria used are those which buyers in the

capital markets indicate are most crucial when determining whether to buy the loans, including loan to value ratio and maturity date. However, in the period during which we hold a loan prior to sale, property values may fall below appraised values and below the outstanding balance of the loan, which would reduce the price at which we could sell the loan. While we historically have been able to sell loans into these markets, adverse market conditions may delay, or possibly preclude, expected sales into the secondary market or cause losses upon any resale. To mitigate these risks, we establish guidelines for the maximum amounts of such loans we will hold on our balance sheet.

Affinity Banking

Issuing Services. Our issuing deposit account types are diverse and include: consumer and business debit, general purpose reloadable prepaid, pre-tax medical spending benefit, payroll, gift, government, corporate incentive, reward, business payment accounts and others. Our cards are offered to end users through our relationships with benefits administrators, third-party administrators, insurers, corporate incentive companies, rebate fulfillment organizations, payroll administrators, large retail chains, consumer service organizations and fintech disruptors. Our cards are network-branded through our agreements with Visa, MasterCard, and Discover. The majority of fees we earn result from contractual fees paid by third party sponsors, computed on a per transaction basis, and monthly service fees. Additionally, we earn interchange fees paid through settlement associations such as Visa, which are also determined on a per transaction basis. These accounts have demonstrated a history of stability and low cost. Our accounts are offered throughout the United States. For information relating to current constraints on our prepaid card programs resulting from consent orders we have entered into with federal banking authorities, see “Risk Factors-Risks Relating to Our Business-The entry into the Consent Orders and the supervisory letter from the Federal Reserve, have imposed certain restrictions and requirements on us and the Bank.”

Card Payment and ACH Processing. We act as the depository institution for the processing of credit and debit card payments made to various businesses. We also act as the bank sponsor and depository institution for independent service organizations that process such payments and for other companies, such as payroll companies for which we process their ACH payments. We have designed products that enable those organizations to more easily process electronic payments and to better manage their risk of loss. These accounts are a source of demand deposits and fee income.

Institutional Banking. We have developed strategic relationships with limited-purpose trust companies, registered investment advisers, broker-dealers and other firms offering institutional banking services. We provide customized, private label demand, money market and securities backed loan products to the client base of these groups.

Retirement Accounts. We acquire individual retirement accounts which originate from third party administrators who provided record keeping and account maintenance for what were previously 401K plan participants. These accounts, most of which have small balances, originate from employees who have changed employers but have not transferred their 401K accounts. Plan sponsors often prefer to exit these accounts to reduce their administrative costs. These accounts are converted into money market accounts and also contribute fee income.

Private Label Banking. Our private label banking services are offered to members of affinity groups, which allows these groups to provide their members the banking services they desire. Related websites indicate that we are the provider of these banking services. We and the affinity group also may create products and services, or modify products and services already on our menu, that specifically relate to the needs and interests of the affinity group’s members or customers.

We pay fees to certain affinity groups based upon deposits and loans they generate. These fees vary, and certain fees increase as market interest rates increase, while other fee rates may be fixed. We classify these fees which comprise substantially all of the interest expense on deposits in our consolidated statement of operations. The reduction in deposit interest expense in 2016 compared to 2015 reflected the sale of the majority of health savings accounts in the latter part of 2015.

Other Operations

Account Services. Depending upon the type of account, account holders may access our products through the website of their affinity group, or through our website. This access allows account holders to apply for loans, review account activity, enter transactions into an online account register, pay bills electronically, receive statements electronically and print statements.

Call Centers. We have call center operations that serve as inbound customer support. The call center provides account holders or potential account holders with assistance accessing the Bank's products and services, and in resolving any problems that may arise in the servicing of accounts or other banking products. A third-party servicer provides virtually all customer support, including institutional banking, for after hours and overflow support. Located in Manila, Philippines, TELUS International currently operates 24 hours a day, seven days a week.

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

- data processing services, check imaging, loan processing, electronic bill payment and statement rendering;
- servicing of prepaid card accounts;
- call center customer support, including institutional banking for overflow and after-hours support;
- access to automated teller machine networks;
- bank accounting and general ledger system;
- data warehousing services; and
- certain software development.

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

European Prepaid Operations. We sold all of our European prepaid operations in April 2017 to reduce regulatory and compliance risk.

Sales and Marketing

Affinity Group Banking. Because of the national scope of our affinity group banking operation, we use a personal sales/targeted media advertising approach to market to existing and potential commercial affinity group organizations. The affinity group organizations with which we have relationships perform marketing functions to the ultimate individual customers. Our marketing program to affinity group organizations consists of:

- print advertising;
- attending and making presentations at trade shows and other events for targeted affinity organizations;
- direct mail; and
- direct contact with potential affinity organizations by our marketing staff, with relationship managers focusing on particular regional markets.

Loan Administration Offices. We maintain offices to market and administer our leasing programs in Crofton, Maryland, Kent, Washington, Charlotte, North Carolina, Raritan, New Jersey and Orlando, Florida. We maintain SBA loan offices in Chicago, Illinois and Raleigh, North Carolina. We maintain an office in New York, New York for CMBS.

Technology

Primary System Architecture. We provide financial products and services through a secure three-tiered architecture using commercially available software. We maintain a platform of several web technologies, databases, firewalls, and licensed and proprietary financial services software to support our unique client base. User activity is distributed using load-balancing technologies and our proprietary design, with internally developed software and third-party equipment. We also use third party data processors. The goal of our systems designs is to service our client requirements efficiently, which has been accomplished using data and service replication between multiple data

centers. The system's flexible architecture is designed to meet current capacity needs

and allow expansion for future demands. In addition to built-in redundancies, we operate automated internal tools and use independent third parties to continuously monitor our systems.

Security. The Bancorp has an established Cyber Security Program that is mapped to the NIST Cyber Security Framework. The program is also fully compliant with the FFIEC Cyber Security framework and relevant ISO standards. The Bancorp obtains annual PCI certification. Highlights of the program include:

- A security testing schedule which includes internal/external penetration testing;
- Regular vulnerability assessments;
- Detailed vulnerability management;
- Monitoring and reporting of systems and critical applications;
- Data loss prevention controls;
- File access and integrity monitoring and reporting;
- Threat intelligence; and
- Third party vendor management.

Intellectual Property and Other Proprietary Rights

A significant portion of the core and Internet banking systems and operations we use comes from third-party providers. Our proprietary intellectual property includes the software for creating affinity group bank websites. We rely principally upon trade secret and trademark law to protect our intellectual property. We do not typically enter into intellectual property-related confidentiality agreements with our affinity group customers because we maintain control over the software used to create the sites and their banking functions rather than licensing them for customers to use. Moreover, we believe that factors such as the relationships we develop with our affinity group and banking customers, the quality of our banking products, the level and reliability of the service we provide, and the customization of our products and services to meet the needs of our affinity groups are substantially more significant to our ability to succeed.

Competition

We compete with numerous banks and other financial institutions such as finance companies, leasing companies, credit unions, insurance companies, money market funds, investment firms and private lenders, as well as online lenders and other non-traditional competitors. Our primary competitors in each of our business lines differ significantly from those in our other business lines principally because few financial institutions compete against us in all business segments in which we operate. A number of banks and other financial institutions compete with us in the prepaid card market; however, we do not believe that any single bank or group of banks is a predominant provider. We believe that our ability to compete successfully depends on a number of factors, including:

- our ability to expand our affinity group banking program;
- competitors' interest rates and service fees;
- the scope of our products and services;
- the relevance of our products and services to customer needs and the rate at which we and our competitors introduce them;
- satisfaction of our customers with our customer service;
- our perceived safety as a depository institution, including our size, credit rating, capital strength, earnings strength and regulatory posture;
- ease of use of our banking websites and other customer interfaces; and
- the capacity, reliability and security of our network infrastructure.

8

If we experience difficulty in any of these areas, our competitive position could be materially adversely affected, which would affect our growth, our profitability and, possibly, our ability to continue operations. With respect to our affinity group operations, we believe we can compete effectively as a result of our ability to customize our product offerings to the affinity group's needs. We believe that the costs of entry, especially compliance costs, to offering prepaid card accounts are relatively high and somewhat prohibitive to new competitors. We have competed successfully with institutions much larger than ourselves; however, many of our competitors have larger customer bases, greater name recognition, greater financial and other resources and longer operating histories which may impact our ability to compete. Our future success will depend on our ability to compete effectively in a highly competitive market.

Regulation Under Banking Law

Overview

We are regulated extensively under both federal and state banking law and related regulations. We are a Delaware corporation and a financial holding company registered with the Board of Governors of the Federal Reserve System, or the Federal Reserve. We are subject to supervision and regulation by the Federal Reserve and the Delaware Office of the State Bank Commissioner, or the Commissioner. The Bank, as a state-chartered, nonmember depository institution, is supervised by the Commissioner, as well as the Federal Deposit Insurance Corporation, or FDIC.

The Bank is subject to requirements and restrictions under federal and state law, including requirements to maintain reserves against deposits, restrictions on the types and amount of loans that may be made and the interest that may be charged, and limitations on the types of investments that may be made and the types of services that may be offered. Various consumer laws and regulations also affect the Bank's operations. Any change in the regulatory requirements and policies by the Federal Reserve, the FDIC, the Commissioner, the United States Congress, or the states in which our customers reside could have a material adverse impact on us, the Bank and our operations. We have entered into consent orders with the FDIC and have received a supervisory letter from the Federal Reserve which have imposed certain restrictions upon us and the Bank. See "Risk Factors-Risks Relating to Our Business-The entry into the Consent Orders, as amended, and a supervisory letter from the Federal Reserve have imposed certain restrictions and requirements on us and the Bank."

Certain regulatory requirements applicable to us and the Bank are referred to below or elsewhere herein. The description of statutes and regulations is not intended to be a complete explanation of such statutes and regulations or their effects on the Bank or us and is qualified in its entirety by reference to the actual statutes and regulations.

Federal Regulation

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

Permitted Activities. The BHCA generally limits the activities of a financial holding company and its subsidiaries to that of banking, managing or controlling banks, or any other activity that is determined to be so closely related to banking or to managing or controlling banks that an exception is allowed for those activities. These activities include,

among other things, and subject to limitations, operating a mortgage company, finance company, credit card company or factoring company; performing data processing operations; the issuance and sale of consumer-type payment instruments; provide investment and financial advice; acting as an insurance agent for particular types of credit related insurance and providing specified securities brokerage services for customers.

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

- the financial holding company has a class of securities registered under Section 12 of the Securities Exchange Act of 1934; or
- no other person will own or control a greater percentage of that class of voting securities immediately after the transaction.

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

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

Regulatory Restrictions on Dividends. It is the policy of the Federal Reserve that financial holding companies should pay cash dividends on common stock only out of income available over the past year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. The policy provides that financial holding companies should not maintain a level of cash dividends that undermines the financial holding company's ability to serve as a source of strength to its banking subsidiaries. See "Holding Company Liability," below. Federal Reserve policies also affect the ability of a financial holding company to pay in-kind dividends.

Various federal and state statutory provisions limit the amount of dividends that subsidiary banks can pay to their holding companies without regulatory approval. The Bank is also subject to limitations under state law regarding the payment of dividends, including the requirement that dividends may be paid only out of net profits. See "Delaware Regulation" below. In addition to these explicit limitations, federal and state regulatory agencies are authorized to prohibit a banking subsidiary or financial holding company from engaging in unsafe or unsound banking practices. Depending upon the circumstances, the agencies could take the position that paying a dividend would constitute an unsafe or unsound banking practice. In August 2015, we consented to the issuance of a consent order amendment pursuant to which the payment of dividends by the Bank to us would require prior FDIC approval, and received a Federal Reserve supervisory letter pursuant to which any payment of dividends by us would require prior approval from the Federal Reserve. See "Risk Factors-Risks Relating to Our Business-The entry into the Consent Orders and a supervisory letter from the Federal Reserve have imposed certain restrictions and requirements on us and the Bank."

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

Holding Company Liability. Under Federal Reserve policy, a financial holding company is expected to act as a source of financial strength to each of its banking subsidiaries and commit resources to their support. The Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, codified this policy as a statutory requirement. Under this requirement, we are expected to commit resources to support the Bank, including at times when we may not be in a financial position to provide such resources. As discussed below under "Prompt Corrective Action," a financial holding company in certain circumstances could be required to guarantee the capital plan of an undercapitalized banking subsidiary.

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

Capital Adequacy. The Federal Reserve and the FDIC have issued standards for measuring capital adequacy for financial holding companies and banks. These standards are designed to provide risk-based capital guidelines and to incorporate a consistent framework. The risk-based guidelines are used by the agencies in their examination and supervisory process, as well as in the analysis

of any applications. As discussed below under "Prompt Corrective Action," a failure to meet minimum capital requirements could subject us or the Bank to a variety of enforcement remedies available to federal regulatory authorities, including, in the most severe cases, termination of deposit insurance by the FDIC and placing the Bank into conservatorship or receivership.

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

As a result of the Dodd-Frank Act, our financial holding company status depends upon our maintaining our status as "well capitalized" and "well managed" under applicable Federal Reserve regulations. If a financial holding company ceases to meet these requirements, the Federal Reserve may impose corrective capital and/or managerial requirements on the financial holding company and place limitations on its ability to conduct the broader financial activities permissible for financial holding companies. In addition, the Federal Reserve may require divestiture of the holding company's depository institution if the deficiencies persist.

The standards classify total capital for this risk-based measure into two tiers, referred to as Tier 1 and Tier 2. Tier 1 capital consists of common shareholders' equity, certain non-cumulative perpetual preferred stock, and minority interests in equity accounts of consolidated subsidiaries, less certain adjustments. Tier 2 capital consists of the allowance for loan and lease losses (within certain limits), perpetual preferred stock not included in Tier 1, hybrid capital instruments, term subordinate debt, and intermediate-term preferred stock, less certain adjustments. Together, these two categories of capital comprise a bank's or financial holding company's "qualifying total capital." However, capital that qualifies as Tier 2 capital is limited in amount to 100% of Tier 1 capital in testing compliance with the total risk-based capital minimum standards. Banks and financial holding companies must have a minimum ratio of 8% of qualifying total capital to total risk-weighted assets, and a minimum ratio of 4% of qualifying Tier 1 capital to total risk-weighted assets. At December 31, 2017, we and the Bank had total capital to risk-adjusted assets ratios of 17.09% and 16.59%, respectively, and Tier 1 capital to risk-adjusted assets ratios of 16.73% and 16.23%, respectively.

In addition, the Federal Reserve and the FDIC have established minimum leverage ratio guidelines. The principal objective of these guidelines is to constrain the maximum degree to which a financial institution can leverage its equity capital base. It is intended to be used as a supplement to the risk-based capital guidelines. These guidelines provide for a minimum ratio of Tier 1 capital to adjusted average total assets of 3% for financial holding companies that meet certain specified criteria, including those having the highest regulatory rating. Other financial institutions generally must maintain a leverage ratio of at least 3% plus 100 to 200 basis points. The guidelines also provide that financial institutions experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above minimum supervisory levels, without significant reliance on intangible assets. Furthermore, the banking agencies have indicated that they may consider other indicia of capital strength in evaluating proposals for expansion or new activities. At December 31, 2017, we and the Bank had leverage ratios of 7.90% and 7.61%, respectively.

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

The Dodd-Frank Act includes certain related provisions which are often referred to as the "Collins Amendment." These provisions are intended to subject bank holding companies to the same capital requirements as their bank subsidiaries and to eliminate or significantly reduce the use of hybrid capital instruments, especially trust preferred securities, as

regulatory capital. Under the Collins Amendment, trust preferred securities issued by a company, such as our company, with total consolidated assets of less than $15 billion before May 19, 2010 and treated as regulatory capital are grandfathered, but any such securities issued later are not eligible as regulatory capital. The federal banking regulators issued final rules setting minimum risk-based and leverage capital requirements for holding companies and banks on a consolidated basis that are no less stringent than the generally applicable requirements in effect for depository institutions under the prompt corrective action regulations discussed below and other components of the Collins Amendment.

Basel III Capital Rules. In July 2013, our primary federal regulator, the Federal Reserve, and the Bank's primary federal regulator, the FDIC, approved final rules, which we refer to as the New Capital Rules, establishing a new comprehensive capital framework for U.S. banking organizations. The New Capital Rules generally implement the Basel Committee on Banking Supervision's December 2010 final capital framework referred to as "Basel III" for strengthening international capital standards. The New Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and their depository institution subsidiaries, including us and the Bank, as compared to the current U.S. general risk-based capital rules. The New Capital Rules revise the definitions and the components of regulatory capital, as well as address other issues affecting the numerator in banking institutions' regulatory capital ratios. The New Capital Rules also address asset risk-weights and other matters affecting the denominator in banking institutions' regulatory capital ratios and replace the existing general risk-weighting approach, which was derived from the Basel Committee's 1988 "Basel I" capital accords, with a more risk-sensitive approach based, in part, on the "standardized approach" in the Basel Committee's 2004 "Basel II" capital accords. In addition, the New Capital Rules implement certain provisions of the Dodd-Frank Act, including the requirements of Section 939A to remove references to credit ratings from the federal agencies' rules. The New Capital Rules became effective for us and the Bank on January 1, 2015, subject to phase-in periods for certain of their components and other provisions.

Among other matters, the New Capital Rules: (i) introduce a new capital measure called "Common Equity Tier 1," or CET1 and related regulatory capital ratio of CET1 to risk-weighted assets; (ii) specify that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting certain revised requirements; (iii) mandate that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expand the scope of the deductions from and adjustments to capital as compared to existing regulations. Under the New Capital Rules, for most banking organizations, the most common form of Additional Tier 1 capital is non-cumulative perpetual preferred stock and the most common form of Tier 2 capital is subordinated notes and a portion of the allocation for loan and lease losses, in each case, subject to the New Capital Rules' specific requirements.

Minimum capital ratios in effect at December 31, 2017 were as follows:

- 4.5% CET1 to risk-weighted assets;
- 6.0% Tier 1 capital (that is, CET1 plus Additional Tier 1 capital) to risk-weighted assets;
- 8.0% Total capital (that is, Tier 1 capital plus Tier 2 capital) to risk-weighted assets; and
- 4% Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the "leverage ratio").

The New Capital Rules also introduce a new "capital conservation buffer", composed entirely of CET1, on top of these minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. Thus, when fully phased-in on January 1, 2019, we and the Bank will be required to maintain such additional capital conservation buffer of 2.5% of CET1, effectively resulting in minimum ratios of (i) CET1 to risk-weighted assets of at least 7%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%, and (iii) Total capital to risk-weighted assets of at least 10.5%.

The New Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such items, in the aggregate, exceed 15% of CET1.

In addition, under the current general risk-based capital rules, the effects of accumulated other comprehensive income or loss, or AOCI, items included in shareholders' equity (for example, marks-to-market of securities held in the available for sale portfolio) under U.S. GAAP are reversed for the purposes of determining regulatory capital ratios. Pursuant to the New Capital Rules, the effects of certain AOCI items are not excluded; however, non-advanced approaches banking organizations, including us and the Bank, may make a one-time permanent election to continue to exclude these items. This election had to be made concurrently with the first filing of certain of our and the Bank's periodic regulatory reports in the beginning of 2015. We and the Bank made this election in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of our securities portfolio. The New Capital Rules also preclude certain hybrid securities, such as trust preferred securities, from

inclusion in bank holding companies' Tier 1 capital, subject to grandfathering in the case of bank holding companies, such as us, that had less than $15 billion in total consolidated assets as of December 31, 2009. Implementation of the deductions and other adjustments to CET1 began on January 1, 2015 and will be phased-in over a 4-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter). The implementation of the capital conservation buffer will begin on January 1, 2016 at the 0.625% level and increase by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019.

With respect to the Bank, the New Capital Rules revise the "prompt corrective action" or PCA, regulations adopted pursuant to Section 38 of the Federal Deposit Insurance Act, by: (i) introducing a CET1 ratio requirement at each PCA category (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum Tier 1 capital ratio for well-capitalized status being 8% (as compared to the current 6%); and (iii) eliminating the current provision that provides that a bank with a composite supervisory rating of 1 may have a 3% leverage ratio and still be adequately capitalized. The New Capital Rules do not change the total risk-based capital requirement for any PCA category.

The New Capital Rules prescribe a new standardized approach for risk weightings that expand the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50% and 100%) to a larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset classes.

We believe that we and the Bank will continue to be able to meet targeted capital ratios. Actual ratios are shown in the following paragraph.

Prompt Corrective Action. Federal banking agencies must take prompt supervisory and regulatory actions against undercapitalized depository institutions pursuant to the Prompt Corrective Action provisions of the Federal Deposit Insurance Act. Depository institutions are assigned one of five capital categories—"well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized"—and are subjected to differential regulation corresponding to the capital category within which the institution falls. Under certain circumstances, a well-capitalized, adequately capitalized or undercapitalized institution may be treated as if the institution were in the next lower capital category. As we describe in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources," an institution is deemed to be well capitalized if it has a total risk-based capital ratio of at least 10%, a Tier 1 risk-based capital ratio of at least 6.0% and a leverage ratio of at least 5%. An institution is adequately capitalized if it has a total risk-based capital ratio of at least 8%, a Tier 1 risk-based capital ratio of at least 4% and a leverage ratio of at least 4%. At December 31, 2017, our total risk-based capital ratio was 17.09%, our Tier 1 risk-based capital ratio was 16.73% and our leverage ratio was 7.90% while the Bank's ratios were 16.59%, 16.23% and 7.61%, respectively and, accordingly, both we and the Bank were "well capitalized" within the meaning of the regulations. A depository institution is generally prohibited from making capital distributions (including paying dividends) or paying management fees to a holding company if the institution would thereafter be undercapitalized. Adequately capitalized institutions cannot accept, renew or roll over brokered deposits except with a waiver from the FDIC, and are subject to restrictions on the interest rates that can be paid on such deposits. Undercapitalized institutions may not accept, renew, or roll over brokered deposits.

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

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

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

As noted above, the New Capital Rules became effective as of January 1, 2015, with the first measurement date as of March 31, 2015 subject to phased implementation in certain respects, and revised the PCA regulations. We are in compliance with these rules.

Insurance of Deposit Accounts. The Bank's deposits are insured to the maximum extent permitted by the Deposit Insurance Fund or DIF. Upon enactment of the Emergency Economic Stabilization Act of 2008 on October 3, 2008, federal deposit insurance coverage levels under the DIF temporarily increased from $100,000 to $250,000 per deposit category, per depositor, per institution, through December 31, 2009. On May 20, 2009, the Helping Families Save Their Homes Act extended the temporary increase through December 31, 2012. The Dodd-Frank Act permanently increases the maximum amount of deposit insurance to $250,000 per deposit category, per depositor, per institution retroactive to January 1, 2008. The Dodd-Frank Act provided unlimited deposit insurance coverage on non-interest bearing transaction accounts through December 31, 2012. Due to the expiration of this unlimited deposit insurance on December 31, 2012 beginning January 1, 2013 deposits held in non-interest bearing transaction accounts are aggregated with any interest bearing deposits the owner my hold in the same ownership category, and the combined total is insured up to at least $250,000.

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

The FDIC has implemented a risk-based assessment system under which FDIC-insured depository institutions pay annual premiums at rates based on their risk classification. A bank's risk classification is based on its capital levels and the level of supervisory concern the bank poses to the regulators. Institutions assigned to higher risk classifications (that is, institutions that pose a greater risk of loss to the DIF) pay assessments at higher rates than institutions that pose a lower risk. A decrease in the Bank's capital ratios or the occurrence of events that have an adverse effect on a bank's asset quality, management, earnings, liquidity or sensitivity to market risk could result in a substantial increase in deposit insurance premiums paid by the Bank, which would adversely affect earnings. In addition, the FDIC can impose special assessments in certain instances. The range of assessments in the risk-based system is a function of the reserve ratio in the DIF. Each insured institution is assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other factors. An institution's assessment rate depends upon the category to which it is assigned. Unlike the other categories, Risk Category I contains further risk differentiation based on the FDIC's analysis of financial ratios, examination component ratings and other information. Assessment rates are determined by the FDIC and, including potential adjustments to reflect an institution's risk profile, currently range from five to nine basis points for the healthiest institutions (Risk Category I) to 35 basis points of assessable liabilities for the riskiest (Risk Category IV). Rates may be increased an additional ten basis points depending on the amount of brokered deposits utilized. The above rates apply to institutions with assets under $10 billion. Other rates apply for larger or "highly complex" institutions. The FDIC may adjust rates uniformly from one quarter to the next, except that no single adjustment can exceed three basis points. At December 31, 2017, the Bank's DIF assessment rate was 26 basis points. A reduction in the assessment rate will depend on future FDIC evaluations of the Bank.

Pursuant to the Dodd-Frank Act, the FDIC has established 2.0% as the designated reserve ratio (DRR), that is, the ratio of the DIF to insured deposits of the total industry. The FDIC has adopted a plan under which it will meet the statutory minimum DRR of 1.35% by September 30, 2020, the deadline imposed by the Dodd-Frank Act. The

Dodd-Frank Act requires the FDIC to offset the effect on institutions with assets of less than $10 billion of the increase in the statutory minimum DRR to 1.35% from the former statutory minimum of 1.15%. The FDIC proposed rules in October 2015 regarding the offset. Under the proposal, banks with less than $10 billion in assets would receive an assessment credit for the portion of their assessments that contribute to the increase from 1.15% to 1.35%. These rules have not yet been finalized.

Loans-to-One Borrower. Generally, a bank may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of its unimpaired capital and surplus. An additional amount may be lent, equal to 10% of unimpaired capital and surplus, if such loan is secured by specified collateral, generally readily marketable collateral (which is defined to include certain financial instruments and bullion) and real estate. At December 31, 2017, the Bank's limit on loans-to-one borrower was $48.1 million ($80.2 million for secured loans).

Transactions with Affiliates and other Related Parties. There are various legal restrictions on the extent to which a financial holding company and its non-bank subsidiaries can borrow or otherwise obtain credit from banking subsidiaries or engage in other transactions with or involving those banking subsidiaries. The Bank's authority to engage in transactions with related parties or "affiliates" (that is, any entity that controls, controlled by or is under common control with an institution, including us and our non-bank subsidiaries) is limited by Sections 23A and 23B of the Federal Reserve Act and Regulation W promulgated thereunder. Section 23A restricts the aggregate amount of covered transactions with any individual affiliate to 10% of the Bank's capital and surplus. At December 31, 2017, we were not indebted to the Bank. The aggregate amount of covered transactions with all affiliates is limited to 20% of the Bank's capital and surplus. Certain transactions with affiliates are required to be secured by collateral in an amount and of a type described in Section 23A and the purchase of low quality assets from affiliates is generally prohibited. Section 23B generally provides that certain transactions with affiliates, including loans and asset purchases, must be on terms and under circumstances, including credit standards, that are substantially the same or at least as favorable to the institution as those prevailing at the time for comparable transactions with non-affiliated companies.

The Dodd-Frank Act generally enhances the restrictions on transactions with affiliates under Section 23A and 23B of the Federal Reserve Act, including an expansion of the definition of "covered transactions" and an increase in the amount of time for which collateral requirements regarding covered credit transactions must be satisfied. Insider transaction limitations are expanded through the strengthening of loan restrictions to insiders and the expansion of the types of transactions subject to the various limits, including derivatives transactions, repurchase agreements, reverse repurchase agreements and securities lending or borrowing transactions. Restrictions are also placed on certain assets sales to and from an insider to an institution including requirements that such sales be on market terms and, in certain circumstances, approved by the institution's board of directors.

The Bank's authority to extend credit to its directors, executive officers and 10% shareholders, as well as to entities controlled by such persons, is governed by the requirements of Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O of the Federal Reserve. Among other things, these provisions require that extensions of credit to insiders (i) be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features; and (ii) not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the Bank's capital. In addition, extensions of credit in excess of certain limits must be approved by the Bank's board of directors. At December 31, 2017 and 2016, loans to these related parties included in assets held for sale amounted to $1.7 million and $649,000.

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

Privacy. Financial institutions are required to disclose their policies for collecting and protecting confidential information. Customers generally may prevent financial institutions from sharing nonpublic personal financial information with nonaffiliated third parties except under narrow circumstances, such as the processing of transactions

requested by the consumer or when the financial institution is jointly sponsoring a product or service with a nonaffiliated third party. Additionally, financial institutions generally may not disclose consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing to consumers. The Bank has adopted privacy standards that we believe will satisfy regulatory scrutiny, and communicates its privacy practices to its customers through privacy disclosures designed in a manner consistent with recommended model forms.

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

the information has a pre-existing business relationship with the consumer. This notice may be combined with other required disclosures, including notices required under other applicable privacy provisions.

Section 315 of the FACT Act requires each financial institution or creditor to develop and implement a written Identity Theft Prevention Program to detect, prevent and mitigate identity theft in connection with the opening of certain accounts or certain existing accounts. In accordance with this rule, the Bank was required to adopt "reasonable policies and procedures" to:

- identify relevant red flags for covered accounts and incorporate those red flags into the program;
- detect red flags that have been incorporated into the program;
- respond appropriately to any red flags that are detected to prevent and mitigate identity theft; and
- ensure the program is updated periodically, to reflect changes in risks to customers or to the safety and soundness of the financial institution or creditor from identity theft.

Bank Secrecy Act: Anti-Money Laundering and Related Regulations. The Bank Secrecy Act, which we refer to as BSA, requires the Bank to implement a risk-based compliance program in order to protect the Bank from being used as a conduit for financial or other illicit crimes including but not limited to money laundering and terrorist financing. These rules are administered by the Financial Crimes Enforcement Network, a bureau of the U.S. Treasury Department, which we refer to as FinCEN. Under the law, the Bank must have a board-approved written BSA-Anti-Money Laundering, which we refer to as AML, program which must contain the following key requirements: (1) appointing responsible persons to manage the program, including a BSA Officer; (2) ongoing training of all appropriate Bank staff and management on BSA-AML compliance; (3) developing a system of internal controls (including appropriate policies, procedures and processes); and (4) requiring independent testing to ensure effective implementation of the program and appropriate compliance. Under BSA regulations, the Bank is subject to various reporting requirements such as currency transaction reporting (CTR) for all cash transactions initiated by or on behalf of a customer which, when aggregated, exceed $10,000 per day. The Bank is also required to monitor customer activity and transactions and file a suspicious activity report, or SAR, when suspicious activity is observed and the applicable dollar threshold for the observed suspicious activity is met. The BSA also contains numerous recordkeeping requirements. For a description of a consent order with the FDIC under the BSA that imposes certain requirements on the Bank, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations-Recent Developments" and "Risk Factors-Risks Relating to Our Business-The entry into the Consent Orders and a supervisory letter from the Federal Reserve have imposed certain restrictions and requirements on us and the Bank."

On June 21, 2010, FinCEN proposed new rules as directed by the Credit Card Accountability Responsibility and Disclosure Act of 2009 to expand the reach of BSA-AML related compliance responsibilities to certain defined "prepaid access providers and sellers, a class of money services businesses formerly either outside or lightly regulated under the BSA." On July 26, 2011, FinCEN issued its final rule imposing these affirmative BSA-AML compliance obligations. The Bank has evaluated the impact of these rules on its operations and its third-party relationships, and has established internal processes accordingly.

On May 11, 2016, FinCEN issued a final rule related to Customer Due Diligence (CDD) under the Bank Secrecy Act (BSA) for banks and other covered financial institutions, which we refer to as the "CDD Rule". The CDD Rule became effective on July 11, 2016, and imposes a new requirement that the Bank identify and verify the identity of the natural persons who are beneficial owners of legal entity customers. Financial institutions must be in full compliance by May 11, 2018. As a covered institution, the Bank will be required to maintain written compliance procedures that are "reasonably designed to identify and verify the beneficial owners of legal entity customers," except for those specifically excluded from the definition of "legal entity customer." The new procedures must outline how the Bank will identify

and verify each beneficial owner at the time a new account is opened. The Bank has begun to prepare for compliance with this new requirement.

USA PATRIOT Act. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, which we refer to as the USA PATRIOT Act, amended, in part, the BSA, by, in pertinent part, criminalizing the financing of terrorism and augmenting the existing BSA framework by strengthening customer identification procedures, requiring financial institutions to have due diligence procedures, including enhanced due diligence procedures and, most significantly, improving information sharing between financial institutions and the U.S. government.

Under the USA PATRIOT Act, FinCEN can send bank regulatory agencies lists of the names of persons suspected of involvement in terrorist activities or money laundering. The Bank must search its records for any relationships or transactions with

persons on those lists. If the Bank finds any relationships or transactions, it must report specific information to FinCEN and implement other internal compliance procedures in accordance with the Bank's BSA-AML compliance procedures.

Office of Foreign Assets Control Regulations for the Financial Community. The Office of Foreign Assets Control, which we refer to as OFAC, is a division of the U.S. Treasury Department, and administers and enforces economic and trade sanctions based on U.S. foreign policy and national security goals against targeted foreign countries, terrorists, international narcotics traffickers, and those engaged in activities related to the proliferation of weapons of mass destruction. OFAC functions under the President's wartime and national emergency powers, as well as under authority granted by specific legislation, to impose controls on transactions and freeze assets under U.S. jurisdiction. In addition, many of the sanctions are based on United Nations and other international mandates, and typically involve close cooperation with allied governments. OFAC maintains lists of names of persons and organizations suspected of aiding, harboring or engaging in terrorist acts, as well as sanctions programs for certain countries. If the Bank finds a name on any transaction, account or wire transfer that is on an OFAC list, the Bank must freeze or block such account, and perform additional procedures as required by OFAC regulations. The Bank filters its customer base and transactional activity against OFAC-issued lists. The Bank performs these checks utilizing purpose directed software, which is updated each time a modification is made to the lists provided by OFAC and other agencies.

Unfair or Deceptive or Abusive Acts or Practices. Section 5 of the Federal Trade Commission Act prohibits all persons, including financial institutions, from engaging in any unfair or deceptive acts or practices in or affecting commerce. The Dodd-Frank Act codifies this prohibition, and expands it even further by prohibiting "abusive" practices as well. These prohibitions, which we refer to as UDAAP, apply in all areas of the Bank, including marketing and advertising practices, product features, terms and conditions, operational practices, and the conduct of third parties with whom the Bank may partner or on whom the Bank may rely in bringing Bank products and services to consumers.

Other Consumer Protection-Related Laws and Regulations. The Bank is subject to a wide range of consumer protection laws and regulations which may have an enterprise-wide impact or may principally govern its lending or deposit operations. To the extent the Bank engages third party service providers in any aspect of its products and services, these third parties may also be subject to compliance with applicable law, and must therefore be subject to Bank oversight.

The Bank's loan operations are also subject to federal consumer protection laws applicable to credit transactions, including:

- the federal "Truth-In-Lending Act," governing disclosures of credit terms to consumer borrowers;
- the "Home Mortgage Disclosure Act of 1975," requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- the "Equal Credit Opportunity Act," prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- the "Fair Credit Reporting Act of 1978," as amended by the "Fair and Accurate Credit Transactions Act," governing the use and provision of information to credit reporting agencies, certain identity theft protections and certain credit and other disclosures;
- the "Fair Debt Collection Practices Act," governing the manner in which consumer debts may be collected by collection agencies;
- the "Home Ownership and Equity Protection Act" prohibiting unfair, abusive or deceptive home mortgage lending practices, restricting mortgage lending activities and providing advertising and mortgage disclosure standards;
- the "Service Members Civil Relief Act;" postponing or suspending some civil obligations of service members during periods of transition, deployment and other times; and

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

In addition, interest and other charges collected or contracted for by the Bank will be subject to state usury laws and federal laws concerning interest rates.

The deposit operations of the Bank are subject to various consumer protection laws including but not limited to:

- the "Truth in Savings Act," which imposes disclosure obligations to enable consumers to make informed decisions about accounts at depository institutions;
- the "Right to Financial Privacy Act," which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- the "Expedited Funds Availability Act" which establishes standards related to when financial institutions must make various deposit items available for withdrawal, and requires depository institutions to disclose their availability policies to their depositors;
- the "Electronic Fund Transfer Act" and which governs electronic fund transfers to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services; and
- the rules and regulations of various federal agencies charged with the responsibility of implementing these federal laws.

Final Prepaid Account Rule Amending Regulation E and Regulation Z. The original effective date of the Final Prepaid Rule was October 1, 2017, but applicability of certain requirements of the Final Prepaid Rule were delayed until October 1, 2018. On April 20, 2017, the CFPB released a final rule delaying the general effective date of the Final Prepaid Rule until April 1, 2018. However, on January 25, 2018 the CFPB issued additional technical amendments and extended the effective date of the Final Prepaid Rule to April 1, 2019. The Bank is preparing itself for compliance with its requirements.

The Final Prepaid Rule includes a significant number of changes to the regulatory framework for prepaid products, some of which include: (a) establishing a definition of "prepaid account" within Regulation E that includes reloadable and non-reloadable physical cards, as well as codes or other devices, and focuses on how the product is issued and used; (b) modifying Regulation E to require that short form and long form disclosures be provided to a consumer prior to a consumer agreeing to acquire a prepaid account with certain exceptions and with specified forms that, if used, would provide a safe harbor for financial institutions; (c) extending to prepaid accounts the periodic transaction history and statement requirements of Regulation E currently applicable to payroll and Federal government benefit accounts; (d) extending the error resolution and limited liability provisions of Regulation E currently applicable to payroll cards to registered network branded prepaid cards; (e) requiring financial institutions to post prepaid account agreements to the issuers' websites and to submit them to the CFPB; (f) extending Regulation Z's credit card rules and disclosure requirements to prepaid accounts that provide overdraft protection and other credit features; (g) requiring an issuer to obtain a prepaid account holder's consent prior to adding overdraft services or other credit features and prohibiting the issuer from adding overdraft services or other credit features for at least 30 calendar days after a consumer registers the prepaid account; (h) prohibiting the application of different terms and conditions, such as charging different fees, to a prepaid account depending on whether the consumer elects to link the prepaid account to overdraft services or other credit features.

Community Reinvestment Act. Under the Community Reinvestment Act of 1977, which we refer to as the CRA, a federally-insured institution has a continuing and affirmative obligation to help meet the credit needs of its community, including low-and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. The Bank shall delineate one or more assessment areas within which the FDIC evaluates the bank's record of helping to meet the credit needs of its community. The CRA further requires that a record be kept of whether a

financial institution meets its community's credit needs, which record will be taken into account when evaluating applications for, among other things, domestic branches and mergers and acquisitions. The regulations promulgated pursuant to the CRA contain three evaluation tests which are part of the traditional CRA evaluation:

- a lending test evaluates a bank's record of helping to meet the credit needs of its assessment area(s) through its lending activities by considering a bank's home mortgage, small business, small farm, and community development lending.;
- a service test, evaluates a bank's record of helping to meet the credit needs of its assessment area(s) by analyzing both the availability and effectiveness of a bank's systems for delivering retail banking services and the extent and innovativeness of its community development services; and
- an investment test evaluates a bank's record of helping to meet the credit needs of its assessment area(s) through qualified investments that benefit its assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s).

In the alternative to the traditional evaluation tests summarized above, the CRA permits a financial institution to develop its own strategic plan setting forth specific goals for CRA compliance and related performance ratings. If approved by its regulator, a financial institution may operate under its strategic plan and CRA ratings will be applied based on an institution's performance under its approved strategic plan.

On July 1, 2016, the Bank began operating under an FDIC-approved CRA Strategic Plan. On September 11, 2017, the Bank underwent a "hybrid" CRA examination. This included an evaluation of the Bank under traditional CRA evaluation standards for the period from June 2, 2015 to June 30, 2016 and an evaluation of the Bank under its CRA Strategic Plan for the period from July 1, 2016 to September 11, 2017. On January 18, 2018, the Bank received its 2017 CRA Performance Evaluation that accorded the institution a "Satisfactory" rating which was an upgrade from the "Needs to Improve" rating it had been assigned since June of 2015. Subsequent to the upgraded rating, the Bank filed its Community Support Statement with the Federal Housing Finance Agency who determined the Bank was in compliance with 12 CFR part 1290 effective as of February 5, 2018. Certain restrictions imposed on the Company by the Federal Reserve have also been lifted as a result of the "Satisfactory" rating. The Bank continues to closely monitor its performance in alignment with its CRA Strategic Plan to meet the specified lending, service and investment requirements contained therein.

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

Federal Reserve System. Federal Reserve regulations require banks to maintain non-interest bearing reserves against their transaction accounts (primarily negotiated order of withdrawal, or NOW, and regular checking accounts). For 2016, Federal Reserve regulations generally required that reserves be maintained against aggregate transaction accounts as follows: for accounts aggregating $95.0 million or less (subject to adjustment by the Federal Reserve), the reserve requirement is 3%; and, for accounts aggregating greater than $95.0 million, the reserve requirement is 10% (subject to adjustment by the Federal Reserve to between 8% and 14%). The first $15.2 million of otherwise reservable balances (subject to adjustments by the Federal Reserve) are exempt from the reserve requirements. At December 31, 2017, the Bank met these requirements by maintaining $264.7 million in cash and balances at the Federal Reserve.

The Dodd-Frank Act. On July 21, 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank Act (as amended) implements far-reaching changes across the financial regulatory landscape, including provisions that, among other things, will (or have already):

· Centralize responsibility for consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau, or the CFPB, with broad rulemaking, supervision and enforcement authority for a wide range of

consumer protection laws that would apply to all banks and certain others, including the examination and enforcement powers with respect to any bank with more than $10 billion in assets. The CFPB has been officially established and has begun issuing rules, taking consumer complaints and performing its other core functions.

- Restrict the preemption of state consumer financial protection law by federal law and disallow subsidiaries and affiliates of national banks, from availing themselves of such preemption.
- Require new capital rules and apply the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies.
- Require publicly-traded bank holding companies with assets of $10 billion or more to establish a risk committee responsible for enterprise-wide risk management practices.
- Change the assessment base for federal deposit insurance from the amount of insured deposits to consolidated average assets less tangible capital.
- Increase the minimum ratio of net worth to insured deposits of the DIF from 1.15% to 1.35% and require the FDIC, in setting assessments, to offset the effect of the increase on institutions with assets of less than $10 billion.

- Provide for new disclosure and other requirements relating to executive compensation and corporate governance, including guidelines or regulations on incentive-based compensation and a prohibition on compensation arrangements that encourage inappropriate risks or that could provide excessive compensation.
- Make permanent the $250,000 limit for federal deposit insurance and provide unlimited federal deposit insurance for non-interest bearing demand transaction accounts and IOLTA accounts at all insured depository institutions.
- Repeal the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts.
- Allow de novo interstate branching by banks.
- Give the Federal Reserve the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over $10 billion and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer. The Federal Reserve has issued final rules under this provision that limit the swipe fees that a debit card issuer can charge merchants to 21 cents per transaction plus 5 basis points of the transaction value, subject to an adjustment for fraud prevention costs.
- Increase the authority of the Federal Reserve to examine holding companies and their non-bank subsidiaries.
- Require all bank holding companies to serve as a source of financial strength to their depository institution subsidiaries in the event such subsidiaries suffer from financial distress.
- Restrict proprietary trading by banks, bank holding companies and others, and their acquisition and retention of ownership interests in and sponsorship of hedge funds and private equity funds. This restriction is commonly referred to as the “Volcker Rule.” There is an exception in the Volcker Rule to allow a bank to organize and offer hedge funds and private equity funds to customers if certain conditions are met. These conditions include, among others, requirements that the bank provides bona fide investment advisory services; the funds are organized only in connection with such services and to customers of such services; the bank does not have more than a de minimis interest in the funds, limited to a 3% ownership interest in any single fund and an aggregated investment in all funds of 3% of Tier 1 capital; the bank does not guarantee the obligations or performance of the funds; and no director or employee of the bank has an ownership interest in the fund unless he or she provides services directly to the funds.

Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years. Specific rulemaking intended to implement provisions of the Dodd-Frank Act is underway and is addressed elsewhere in this section as applicable. It is difficult to predict the extent to which the Dodd-Frank Act or the resulting regulations may impact us. However, compliance with these new laws and regulations may increase our costs, limit our ability to pursue attractive business opportunities, cause us to modify our strategies and business operations and increase our capital requirements and constraints, any of which may have a material adverse impact on our business, financial condition, liquidity or results of operations. We cannot predict whether, or in what form any proposed regulation or statute will be adopted or the extent to which our business may be affected by any new regulation or statute.

Volcker Rule Adoption. On December 10, 2013, five financial regulatory agencies, including our primary federal regulators the Federal Reserve and the FDIC, adopted final rules (the “Final Volcker Rules”) implementing the Volcker Rule embodied in Section 13 of the Bank Holding Company Act, which was added by Section 619 of the Dodd-Frank Act. The Final Volcker Rules prohibit banking entities from (1) engaging in short-term proprietary trading for their own accounts, and (2) having certain ownership interests in and relationships with hedge funds or private equity funds (“covered funds”). The Final Volcker Rules also require each regulated entity to establish an internal compliance program that is consistent with the extent to which it engages in activities covered by the Final Volcker Rules, which must include (for the largest entities) making regular reports about those activities to regulators. Smaller banks and community banks, including the Bank, are afforded some relief under the Final Volcker Rules. Smaller banks, including the Bank, that are engaged only in exempted proprietary trading, such as trading in U.S. government, agency, state and municipal obligations, are exempt from compliance program requirements. Moreover, even if a community or small bank engages in proprietary trading or covered fund activities under the Final Volcker Rules, they

need only incorporate references to the Volcker Rule into their existing policies and procedures. The Final Rules became effective April 1, 2014, but the conformance period was extended from its statutory end date of July 21, 2014 until July 21, 2017. We do not at this time expect the Final Volcker Rules to have a material impact on our operations.

Consumer Protections for Remittance Transfers. On February 7, 2012, the CFPB published a final rule to implement Section 1073 of the Dodd-Frank Act. The final rule creates a comprehensive set of consumer protections for remittance transfers sent by consumers in the United States to parties in foreign countries. The final rule, among other things, mandates certain disclosures and consumer cancellation rights for foreign remittances covered by the rule.

Federal Regulatory Guidance on Incentive Compensation. On June 21, 2010, federal banking regulators released final guidance on sound incentive compensation policies for banking organizations. This guidance, which covers all employees that have the ability to materially affect the risk profile of an organization either individually or as part of a group, is based upon key principles including: (1) incentive compensation arrangements at a banking organization should provide employees incentives that appropriately balance risk and financial results in a manner that does not encourage employees to expose their organizations to imprudent risk; (2) these arrangements should be compatible with effective controls and risk-management; and (3) these arrangements should be supported by strong corporate governance, including active and effective oversight by the organization's board of directors. The final guidance seeks to address the safety and soundness risks of incentive compensation practices to ultimately be sure that compensation practices are not structured in a manner to give employees incentives to take imprudent risks. Federal regulators intend to actively monitor the actions being taken by banking organizations with respect to incentive compensation arrangements and will review and update their guidance as appropriate to incorporate best practices that emerge.

The Federal Reserve will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations such as ours that are not considered "large, complex banking organizations." These reviews will be tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management controls or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

In February 2011, the Federal Reserve, the Office of Comptroller of the Currency and the FDIC approved a joint proposed rulemaking to implement Section 956 of the Dodd-Frank Act, which prohibits incentive-based compensation arrangements that encourage inappropriate risk taking by covered financial institutions and that are deemed to be excessive, or that may lead to material losses.

Effect of Governmental Monetary Policies. The commercial banking business is affected not only by general economic conditions but also by both U.S. fiscal policy and the monetary policies of the Federal Reserve. Some of the instruments of fiscal and monetary policy available to the Federal Reserve include changes in the discount rate on member bank borrowings, the fluctuating availability of borrowings at the "discount window," open market operations, the imposition of and changes in reserve requirements against member banks' deposits and assets of foreign branches, the imposition of and changes in reserve requirements against certain borrowings by banks and their affiliates, and the placing of limits on interest rates that member banks may pay on time and savings deposits. Such policies influence to a significant extent the overall growth of bank loans, investments, and deposits and the interest rates charged on loans or paid on time and savings deposits (see "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations"). We cannot predict the nature of future fiscal and monetary policies and the effect of such policies on the future business and our earnings.

Delaware Regulation

General. As a Delaware financial holding company, we are subject to the supervision of and periodic examination by the Delaware Office of the State Bank Commissioner and must comply with the reporting requirements of the Delaware Office of the State Bank Commissioner. The Bank, as a banking corporation chartered under Delaware law, is subject to comprehensive regulation by the Delaware Office of the State Bank Commissioner, including regulation of the conduct of its internal affairs, the extent and exercise of its banking powers, the issuance of capital notes or debentures, any mergers, consolidations or conversions, its lending and investment practices and its revolving and closed-end credit practices. The Bank also is subject to periodic examination by the Delaware Office of the State Bank Commissioner and must comply with the reporting requirements of the Delaware Office of the State Bank Commissioner. The Delaware Office of the State Bank Commissioner has the power to issue cease and desist orders prohibiting unsafe and unsound practices in the conduct of a banking business.

Limitation on Dividends. Under Delaware banking law, the Bank’s directors may declare dividends on common or preferred stock of so much of its net profits as they judge expedient; but the Bank must, before the declaration of a dividend on common stock from net profits, carry 50% of its net profits of the preceding period for which the dividend is paid to its surplus fund until its surplus fund amounts to 50% of its capital stock and thereafter must carry 25% of its net profits for the preceding period for which the dividend is paid to its surplus fund until its surplus fund amounts to 100% of its capital stock. The Bank’s payment of dividends is also governed by federal banking laws and regulations promulgated by the FDIC, and by an amendment to the 2014 Consent Order with the FDIC which provides that any payment of dividends by the Bank must receive prior approval from the FDIC.

Employees

As of December 31, 2017, we had 538 full-time employees and believe our relationships with our employees to be good. Our employees are not employed under a collective bargaining agreement.

Item 1A. Risk Factors

Risks Relating to Our Business

Our business may be affected materially by various risks and uncertainties. Any of the risks described below or elsewhere in this Annual Report on Form 10-K or our other SEC filings, as well as other risks we have not identified, may have a material negative impact on our financial condition and operating results.

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

Like all financial institutions, the Bank maintains an allowance for loan losses to provide for probable losses inherent in its loan portfolio. At December 31, 2017, the ratios of the allowance for loan losses to total loans and to non-performing loans were, respectively, 0.51% and 168.03%. The Bank's allowance for loan losses may not be adequate to cover actual loan losses and future provisions for loan losses could materially and adversely affect the Bank's operating results. The Bank's allowance for loan losses is determined by management after analyzing historical loan losses, current trends in delinquencies and charge-offs, plans for problem loan resolution, changes in the size and composition of the loan portfolio and industry information. Also included in management's estimates for loan losses are considerations with respect to the impact of economic events, the outcome of which are uncertain. The determination by management of the allowance for loan losses involves a high degree of subjectivity and requires management to estimate current and future credit risk based on both qualitative and quantitative facts, each of which is subject to significant change. The amount of future loan losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates that may be beyond the Bank's control, and these loan losses may exceed current estimates. Bank regulatory agencies, as an integral part of their examination process, review the Bank's loans and allowance for loan losses. Although we believe that the Bank's allowance for loan losses is adequate to provide for probable losses and that the methodology used by the Bank to determine the amount of both the allowance and provision is effective, we cannot assure you that we will not need to increase the Bank's allowance for loan losses, change our methodology for determining our allowance and provision for loan losses or that our regulators will not require us to increase this allowance. Any of these occurrences could materially reduce our earnings and profitability and could result in our sustaining losses. For more information about risks which are specific to the different types of loans we make and which could impact the allowance for loan losses, see Item 1," Business –Lending Activities."

Recent changes to the FASB accounting standards will result in a significant change to our recognition of credit losses and may materially impact our financial condition or results of operations.

In June 2016, the FASB issued an update to Accounting Standards Update (ASU or Update) 2016-13 – "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments". The Update changes the accounting for credit losses on loans and debt securities. For loans and held-to-maturity debt securities, the Update requires a current expected credit loss (CECL) approach to determine the allowance for credit

losses. CECL requires loss estimates for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts. Also, the Update eliminates the existing guidance for purchased credit impaired loans, but requires an allowance for purchased financial assets with more than insignificant deterioration since origination. In addition, the Update modifies the other-than-temporary impairment model for available-for-sale debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit. The CECL model will materially impact how we determine our allowance for loan and lease losses and may require us to significantly increase our allowance for loan and lease losses. Furthermore, our allowance for loan and lease losses may experience more fluctuations, some of which may be significant. Were we required to significantly increase our allowance for loan and lease losses, it may negatively impact our business, earnings, financial condition and results of operations. While we cannot yet determine how significantly transitioning to the CECL model will impact our allowance for loan and lease losses, we expect that it will result in an increase in the allowance for credit losses given the change to estimated losses over the contractual life adjusted for expected prepayments, as well as the addition of an allowance for debt securities. The amount of the increase will be impacted by the portfolio composition and credit quality at the adoption date as well as

economic conditions and forecasts at that time. The guidance is effective in first quarter 2020 with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption.

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

The Bank seeks to mitigate the risks inherent in its loan portfolio by adhering to specific underwriting practices. These practices vary depending on the facts and circumstances of each loan, but generally include analysis of a borrower's prior credit history, financial statements, tax returns and cash flow projections, valuation of certain types of collateral based on reports of independent appraisers and verification of liquid assets. Although the Bank believes that its underwriting criteria are appropriate for the various kinds of loans it makes, the Bank may incur losses on loans that meet its underwriting criteria, and these losses may exceed the amounts set aside as reserves in the Bank's allowance for loan losses. In addition, only certain SBA loans are 75% guaranteed by the U.S. government, and even for those we still assume credit risk on the remaining 25%. Such businesses may have a higher probability of failure which may result in higher losses on such loans. If the level of non-performing assets increases, interest income will be reduced. If we experience loan defaults in excess of amounts that we have included in our allowance for loan losses, we will have to increase the provision for loan losses which will reduce our income and might cause us to incur losses.

An inconsistent recovery from an extended period of weak economic and slow growth conditions in the U.S. economy have had, and may continue to have, significant adverse effects on our assets and operating results.

Since the end of the recession in 2009, the United States economy has been subject to low rates of growth in general and, in particular localities, recession-like conditions have occurred. As a result, the financial system in the United States, including credit markets and markets for real estate and real-estate related assets, have periodically been subject to weakness. These weaknesses have episodically resulted in declines in the availability of credit, reduction in the values of real estate and real estate-related assets, the reduction of markets for those assets and impairment of the ability of certain borrowers to repay their obligations. As a result of these conditions, we have been increasing our provision for loan losses, and have experienced an increase in the amount of loans charged off and non-performing assets in our Philadelphia-based commercial loan portfolio which is now reflected in discontinued operations. Rated investment securities, generally considered to be less risky than loans, have in recent economic periods, in certain instances, experienced greater than expected losses, which could recur. A continuation of weak economic conditions could further harm our financial condition and results of operations.

We are subject to extensive government regulation and supervision.

We and our subsidiary, The Bancorp Bank, are subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect customers, depositors' funds, the federal deposit insurance funds and the banking system as a whole, not stockholders. These regulations affect the Bank's lending practices, capital structure and requirements, investment activities, dividend policy, product offerings, expansionary

strategies and growth, among other things. The legal and regulatory landscape is frequently changing as Congress and the regulatory agencies having jurisdiction over our operations adopt or amend laws, or change interpretation of existing statutes, regulations or policies. These changes could affect the Company and the Bank in substantial and unpredictable ways. Additionally, while we have policies and procedures designed to prevent violations of the extensive federal and state regulations that we are subject to, there can be no assurance that such violations will not occur. Failure to comply with these statutes, regulations or policies could result in sanctions against us or the Bank by regulatory agencies, civil money penalties, reputational damage, and a downgrade in the Bank's ratings for capital adequacy, asset quality, management, earnings, liquidity and market sensitivity, any of which alone or in combination could have a material adverse effect on our financial condition and results of operations.

The entry into the Consent Orders and a supervisory letter from the Federal Reserve, have imposed certain restrictions and requirements upon us and the Bank.

The Bank entered into a Stipulation and Consent to the Issuance of a Consent Order effective August 7, 2012, which we refer to as the 2012 Consent Order. The Bank took this action without admitting or denying any charges of unsafe or unsound banking practices or violations of law or regulation. Under the 2012 Consent Order, the Bank agreed to increase its supervision of third party relationships, develop new written compliance and related internal audit compliance programs, develop a new third-party risk management program and screen new third-party relationships as provided in the 2012 Consent Order. As part of the 2012 Consent Order, the Bank agreed to pay a civil money penalty in the amount of $172,000, which was paid in 2012. The 2012 Consent Order was amended and restated in 2015 as noted below.

On June 5, 2014, the Bank entered into a Stipulation and Consent to the Issuance of a Consent Order with the FDIC, which we refer to as the 2014 Consent Order. The Bank took this action without admitting or denying any charges of unsafe or unsound banking practices or violations of law or regulation relating to the Bank's BSA compliance program. The 2014 Consent Order requires the Bank to take certain affirmative actions to comply with its BSA obligations. Satisfaction of the requirements of the 2014 Consent Order is subject to the review of the FDIC and the Delaware State Bank Commissioner. The Bank has and expects to continue to expend significant management and financial resources to address the Bank's BSA compliance program which will reduce our net income. Expenses associated with the required look back review were significant in 2015 and 2016. The look back review was completed in the third quarter of 2016.

Until the Bank submits to the FDIC a report summarizing the completion of certain BSA-related corrective action ("BSA Report"), the 2014 Consent Order restricts the Bank from signing and boarding new independent sales organizations, establishing new non-benefit reloadable prepaid card programs and originating Automated Clearing House transactions for new merchant-related payments. Until the BSA Report is submitted to and approved by the FDIC and Delaware State Bank Commissioner, those aspects of the growth of our card payment processing and prepaid card operations will be affected, which, unless offset by growth from existing customers and new customers in other areas of our prepaid card operations, could reduce growth of our deposits and non-interest income and, possibly, limit our ability to raise additional capital on acceptable terms.

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

On May 11, 2015, the Federal Reserve issued a letter, or the Supervisory Letter, to us as a result of the 2014 Consent Order and the 2014 Consent Order Amendment (which, at the time of the Supervisory Letter, was in proposed form), which provides that we shall not pay any dividends on our common stock or make any interest payments on our trust preferred securities, without the prior written approval of the Federal Reserve. It further provides that we may not incur any debt (excluding payables in the ordinary course of business) or redeem any shares of our stock, without the prior written approval of the Federal Reserve.

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

The 2015 Consent Order was based on FDIC allegations regarding electronic fund transfer, or EFT, error resolution practices, account termination practices and fee practices of various third parties with whom the Bank had previously provided, or currently provides, deposit-related products, whom we refer to as Third Parties. The 2015 Consent Order

continues the Bank's obligations originally set forth in the 2012 Consent Order, including its obligations to increase board oversight of the Bank's compliance management system, or CMS, improve the Bank's CMS, enhance its internal audit program, increase its management and oversight of Third Parties, and correct any apparent violations of law.

In addition to restating the general terms of the 2012 Consent Order, the 2015 Consent Order directs the Bank's Board of Directors to establish a Complaint and Error Claim Oversight and Review Committee, which we refer to as the Complaint and Error Claim Committee to review and oversee the Bank's processes and practices for handling, monitoring and resolving consumer complaints and EFT error claims (whether received directly or through Third Parties) and to review management's plans for correcting any weaknesses that may be found in such processes and practices. The Bank's Board of Directors appointed the required Complaint and Error Claim Committee on January 29, 2016.

The 2015 Consent Order also requires the Bank to implement a corrective action plan, or CAP, to remediate and provide restitution to those prepaid cardholders who asserted or attempted to assert, or were discouraged from initiating EFT error claims, and to provide restitution to cardholders harmed by EFT error resolution practices. The 2015 Consent Order requires that if, through the CAP, the Bank identifies prepaid cardholders who have been adversely affected by a denial or failure to resolve an EFT error claim, the Bank will ensure that monetary restitution is made. Neither we nor the Bank can predict the amount of any restitution which may be required, or the amount, if any, that the Bank may pay in connection therewith. Under the Bank's agreements with Third Parties, we believe that restitution is reimbursable to the Bank. The CAP is currently being implemented. To date, no restitution under the CAP has been made.

The 2015 Consent Order also imposed a $3 million civil money penalty on the Bank, which the Bank has paid and which was recognized as expense in the fourth quarter of 2015.

On March 7, 2018, the Bank entered into a Stipulation and Consent to Order for Restitution and Order To Pay Civil Money Penalty with the FDIC, which we refer to as the 2018 Restitution Order and 2018 CMP Order, respectively. The Bank took this action without admitting or denying any alleged violations of law or regulation. The FDIC's action principally emanates from one of the Bank's third-party payment processors ("Third-Party Processor") that suffered an internal system programming glitch. This inadvertently resulted in consumers that engaged in signature-based point of sale transactions during the period from December 2010 to November 2014 being charged a greater fee than what was disclosed by the Bank. The FDIC alleged the Bank's incorrect fee imposition due to the Third-Party Processor error was an unfair or deceptive act or practice and violated Section 5 of the Federal Trade Commission Act. The 2018 Restitution Order requires the Bank to develop a written Restitution Plan, subject to independent audit and FDIC non-objection, to ensure impacted consumers are compensated for any incorrectly charged fees. The 2018 Restitution Order requires the Bank to make such reimbursements if not otherwise made by the Third-Party Processor and the Bank is indemnified by the Third-Party Processor for such reimbursements. Impacted consumers have been reimbursed by the Third-Party Processor at its own expense. The Bank is in the process of complying with the written documentation and audit requirements of the Restitution Order.

The 2018 CMP Order imposed a $2 million civil money penalty on the Bank which the Bank has paid, and was recognized as expense on September 30, 2017. The civil money penalty is not subject to any indemnification or recovery from any third party.

We cannot assure you that our regulators will ultimately determine that we have met all of the requirements of the 2014 Consent Order, the 2014 Consent Order Amendment, the 2015 Consent Order, the Supervisory Letter, the 2018 Restitution Order or 2018 CMP Order to their satisfaction. We refer collectively to the 2014 Consent Order, the 2014 Consent Order Amendment, the 2015 Consent Order, the 2018 Restitution Order and the 2018 CMP Order as the Consent Orders. If our regulators believe that we have not made sufficient progress in complying with these Consent Orders, they could seek to impose additional regulatory requirements, operational restrictions, enhanced supervision and/or civil money penalties. If any of these measures is imposed in the future, it could reduce our earnings, result in our incurring losses or otherwise materially adversely affect our financial condition and results of operations and reduce or eliminate our ability to raise additional capital on acceptable terms.

Our reputation and business could be damaged by our entry into the Consent Orders with the FDIC and other negative publicity.

Reputational risk, or the risk to our business, earnings and capital from negative publicity, is inherent in our business. Negative publicity can result from actual or alleged conduct in a number of areas, including legal and regulatory compliance, lending practices, corporate governance, litigation, inadequate protection of customer data, ethical behavior of our employees, and from actions taken by regulators and others as a result of that

conduct. Damage to our reputation, including as a result of negative publicity associated with the Consent Orders or the Supervisory Letter, now or in the future could impact our ability to attract new and maintain existing loan and deposit customers, employees and business relationships, and could result in the imposition of additional regulatory requirements, operational restrictions, enhanced supervision and/or civil money penalties. Such damage could also adversely affect our ability to raise additional capital on acceptable terms.

The provisions contained in the Consent Orders present interpretive challenges that may give rise to a difference of interpretation by us and our regulators.

The provisions of the Consent Orders and the Supervisory Letter are subject to interpretation and may give rise to differing views between us and our regulators with respect to their scope and application. Accordingly, management, employees at all levels, and legal counsel of the Bank face significant challenges in applying the terms of the Consent Orders and the Supervisory Letter to the myriad factual scenarios that arise in the ordinary course of business. While we have sought, and will continue to seek, guidance from our regulators as to the application of the Consent Orders and the Supervisory Letter on our business, there can be no assurance that our regulators will provide such guidance or that we and our regulators will interpret the terms of the Consent Orders and the Supervisory Letter uniformly in every instance.

If the regulators interpret the Consent Orders or the Supervisory Letter in a manner contrary to our interpretation despite our good faith efforts to comply, the FDIC may conclude a violation has occurred, which may result in the imposition of additional regulatory requirements, operational restrictions, enhanced supervision and/or civil money penalties.

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

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

New lines of business, and new products and services may result in exposure to new risks.

The Bank has introduced, and in the future may introduce, new products and services to differing markets either alone or in conjunction with third parties. New lines of business, products or services could have a significant impact on the effectiveness of our system of internal controls or the controls of third parties and could reduce our revenues and potentially generate losses. There are material inherent risks and uncertainties associated with offering new products and services, especially when new markets are not fully developed or when the laws and regulations regarding a new product are not mature. New products and services, or entrance into new markets, may require substantial time, resources and capital, and profitability targets may not be achieved. Factors outside of our control, such as developing laws and regulations, regulatory orders, competitive product offerings and changes in commercial and consumer demand for products or services may also materially impact the successful launch and implementation of new products or services. Failure to manage these risks, or failure of any product or service offerings to be successful and profitable, could have a material adverse effect on our financial condition and results of operations.

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

A significant portion of our income and cash flows depends on the difference between the interest rates we earn on interest earning assets, such as loans and investment securities, and the interest rates we pay on interest bearing liabilities such as deposits and borrowings. The value of our assets, and particularly loans with fixed or capped rates of interest, may also vary with interest rate changes. We discuss the effects of interest rate changes on the market value of our portfolio and net interest income in “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Asset and Liability Management.” Interest rates are highly sensitive to many factors which are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Federal Reserve. Changes in monetary policy, including changes in interest rates, will influence not only the interest we receive on our loans and investment securities and the amount of interest we pay on deposits, but also our ability to originate loans and obtain deposits and our costs in doing so. If the rate of interest we pay on our deposits and other borrowings increases more than the rate of interest we earn on our loans and other

investments, our net interest income, and therefore our earnings, could decline or we could sustain losses. Our earnings could also decline or we could sustain losses if the rates on our loans and other investments fall more quickly than those on our deposits and other borrowings. While the Bank is generally asset sensitive, which implies that significant increases in market rates would generally increase margins, while decreases in interest rates would generally decrease margins, we cannot assure you that increases or decreases in margins will follow such a pattern in the future. Our net interest income is also determined by our level of loan production to replace loan payoffs and to grow our different loan portfolios. In the case of loans held for sale into secondary markets or securitizations, loans must be originated to replace loans sold to maintain related net interest income. Loan demand may vary for economic and competitive reasons and we cannot assure you that historical rates of loan growth will continue or as to other loan production.

We are subject to lending risks.

There are risks inherent in making all loans. These risks include interest rate changes over the time period in which loans may be repaid and changes in the national economy or local economies in which our borrowers operate. Such changes may impact the ability of our borrowers to repay their loans or the value of the collateral securing those loans. Although we have discontinued our Philadelphia-based commercial lending operations, we still hold a significant number of commercial, construction and commercial mortgage loans, some with relatively large balances. The deterioration of one or a few of these loans would cause a significant increase in non-performing loans, notwithstanding that such loans are now held for sale. Weak economic conditions have caused increases in our delinquent and defaulted loans in recent years. We cannot assure you that we will not experience further increases in delinquencies and defaults or that any such increases will not be material. On a consolidated basis, an increase in non-performing loans could result in an increase in our provision for loan losses or in loan charge-offs and consequent reductions in our earnings. Our specialty lending operations are subject to additional risks including, with respect to our SBA loans, the risk that the U.S. Government's partial guaranty on SBA loans is withdrawn due to noncompliance with regulations. For more information about the risks which are specific to the different types of loans we make and which could impact our allowance for loan losses, see Item 1," Business –Lending Activities."

There is a significant concentration in prepaid card fee income which is subject to various risks.

We realize a significant portion of our revenues from prepaid card and other prepaid products and services. Actions by government agencies relating to service charges, or increased regulatory compliance costs, could result in reductions in income which may not be offset by reductions in expense. Some of our clients have significant volume, the loss of which would materially affect our revenues. Prepaid card deposits comprise a significant portion of the Bank's deposits.

Regulatory and legal requirements applicable to the prepaid card industry are unique and frequently changing.

Achieving and maintaining compliance with frequently changing legal and regulatory requirements requires a significant investment in qualified personnel, hardware, software and other technology platforms, external legal counsel and consultants and other infrastructure components. These investments may not ensure compliance or otherwise mitigate risks involved in this business. Our failure to satisfy regulatory mandates applicable to prepaid financial products could result in actions against us by our regulators, legal proceedings being instituted against us by consumers, or other losses, each of which could reduce our earnings or result in losses, make it more difficult to conduct our operations, or prohibit us from conducting specific operations. Other risks related to prepaid cards include competition for prepaid and other payment mediums, possible changes in the rules of networks, such as Visa and MasterCard and others, in which the Bank operates and state regulations related to prepaid cards including escheatment.

The potential for fraud in the card payment industry is significant.

Issuers of prepaid cards and other companies have suffered significant losses in recent years with respect to the theft of cardholder data that has been illegally exploited for personal gain. The theft of such information is regularly reported and affects individuals and businesses. Losses from various types of fraud have been substantial for certain card industry participants. The Bank in many cases has indemnification agreements with third parties; however, such indemnifications may not fully cover losses. Although fraud has not had a material impact on the profitability of the Bank, it is possible that such activity could impact the Bank in the future.

Risk management processes and strategies must be effective, and concentration of risk increases the potential for losses.

Our risk management processes and strategies must be effective, otherwise losses may result. We manage asset quality, liquidity, market sensitivity, operational, regulatory, third-party vendor and partner relationship risks and other risks through various processes and strategies throughout the organization. If our risk management judgments and strategies are not effective, or unanticipated risks arise, our income could be reduced or we could sustain losses.

We may depend in part upon wholesale and brokered certificates of deposit to satisfy funding needs.

In the future we may rely in part on funds provided by wholesale deposits and brokered certificates of deposit to support the growth of our loan portfolio. Wholesale and brokered certificates of deposit are highly sensitive to changes in interest rates and, accordingly, can be a more volatile source of funding. Use of wholesale and brokered deposits involves the risk that growth supported by such deposits would be halted, or the Bank’s total assets could contract, if the rates offered by the Bank were less than those

offered by other institutions seeking such deposits, or if the depositors were to perceive a decline in the Bank's safety and soundness, or both. In addition, if we were unable to match the maturities of the interest rates we pay for wholesale and brokered certificates of deposit to the maturities of the loans we make using those funds, increases in the interest rates we pay for such funds could decrease our consolidated net interest income. Moreover, if the Bank ceases to be categorized as "well capitalized" under banking regulations, it will be prohibited from accepting, renewing or rolling over brokered deposits without the consent of the FDIC.

Our prepaid card and other deposit accounts obtained with the assistance of third parties have been classified as brokered.

In December 2014, the FDIC issued new guidance classifying prepaid deposit accounts and other deposit accounts obtained in cooperation with third parties as brokered, resulting in the vast majority of the Bank's deposits being classified as brokered. We do not believe that these deposits are subject to the volatility risks associated with brokered wholesale deposits or brokered certificates of deposit. However, if the Bank ceases to be categorized as "well capitalized" under banking regulations, it will be prohibited from accepting, renewing or rolling over brokered deposits without the consent of the FDIC. In such a case, the FDIC's refusal to grant consent to our accepting, renewing or rolling over brokered deposits could effectively restrict or eliminate the ability of the Bank to operate its business lines as presently conducted.

We operate in highly competitive markets.

We face substantial competition in all phases of our operations from a variety of different competitors, including commercial banks and their holding companies, savings and loan associations, mutual savings banks, credit unions, leasing companies, consumer finance companies, factoring companies, insurance companies and money market mutual funds and card issuers.

We face national and even global competition with respect to our other products and services, including payment acceptance products and services, private label banking, fleet leasing, government guaranteed lending and prepaid payment solutions. Our commercial partners and banking customers for these products and services are located throughout the United States, and the competition is strong in each category. We encounter competition from some of the largest financial institutions in the world as well as smaller specialized regional banks and financial service companies. Increased competition with any of these product or service offerings could result in reduced pricing and lower profit margins, fragmented market share and a failure to enjoy economies of scale, loss of customer and depositor base, and other risks that individually, or in the aggregate, could have a material adverse effect on our financial condition and results of operations.

Some of the financial services organizations with which we compete are not subject to the same degree of regulation as federally-insured and regulated financial institutions such as ours. As a result, those competitors may be able to access funding and provide various services more easily or at less cost than we can.

We derive a significant percentage of our deposits, total assets and income from deposit accounts generated with the assistance of diverse independent companies, including those which provide prepaid card account marketing services, and investment advisory firms.

Deposit accounts acquired with the assistance of our top twenty affinity relationships totaled $2.98 billion at December 31, 2017. We provide oversight over these relationships which must meet all internal and regulatory requirements. We may exit relationships where such requirements are not met or be required by our regulators to exit such relationships. Also, an affinity group could terminate a relationship with us for many reasons, including being able to obtain better terms from another provider or dissatisfaction with the level or quality of our services. If an affinity group relationship were to be terminated, it could materially reduce our deposits, assets and income. We cannot assure you that we could replace such relationship. If we cannot replace such relationship, we may be required to seek higher rate funding sources as compared to the exiting affinity group and interest expense might increase. We may also be required to sell securities or other assets to meet funding needs which would reduce revenues or potentially generate losses.

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

Several online banking operations as well as the online banking programs of conventional banks have instituted affinity group marketing strategies similar to ours. As a consequence, we have encountered competition in this area and anticipate that we will continue to do so in the future. This competition may increase our costs, reduce our revenues or revenue growth or, because we

are a relatively small banking operation without the name recognition of other, more established banking operations, make it difficult for us to compete effectively in obtaining affinity group relationships.

Our lending limit may adversely affect our competitiveness.

Our regulatory lending limit as of December 31, 2017 to any one customer or related group of customers was $48.1 million for unsecured loans and $80.2 million for secured loans. Our lending limit is substantially smaller than that of many financial institutions with which we compete. While we believe that our lending limit is sufficient for our targeted market of small to mid-size businesses within the four specialty lending operations upon which we focus as well as affinity group members, it may in the future affect our ability to attract or maintain customers or to compete with other financial institutions. Moreover, to the extent that we incur losses and do not obtain additional capital, our lending limit, which depends upon the amount of our capital, will decrease.

Environmental liability associated with lending activities could result in losses.

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

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

We utilize the Internet and other automated electronic processing in our banking services without physical locations, as distinguished from the Internet banking service of an established conventional bank. Independent Internet banks often have found it difficult to achieve profitability and revenue growth. Several factors contribute to the unique problems that Internet banks face. These include concerns for the security of personal information, the absence of personal relationships between bankers and customers, the absence of loyalty to a conventional hometown bank, the customer's difficulty in understanding and assessing the substance and financial strength of an Internet bank, a lack of confidence in the likelihood of success and permanence of Internet banks and many individuals' unwillingness to trust their personal assets to a relatively new technological medium such as the Internet. As a result, many potential customers may be unwilling to establish a relationship with us.

Many conventional financial institutions offer the option of Internet banking and financial services to their existing and prospective customers. The public may perceive conventional financial institutions as being safer, more responsive, more comfortable to deal with and more accountable as providers of their banking and financial services, including their Internet banking services. We may not be able to offer Internet banking and financial services and personal relationship characteristics that have sufficient advantages over the Internet banking and financial services and other characteristics of established conventional financial institutions to enable us to compete successfully.

Moreover, both the Internet and the financial services industry are undergoing rapid technological changes, with frequent introductions of new technology-driven products and services. In addition to improving the ability to serve customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our ability to compete will depend, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our

operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. Such products may also prove costly to develop or acquire.

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

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

A failure of cyber security may result in a loss of customers and our being liable for damages for such failure.

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

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

We obtain essential technological and customer services support for the systems we use from third-party providers. We outsource our check processing, check imaging, transaction processing, electronic bill payment, statement rendering, and other services to third-party vendors. For a description of these services, see Item 1, “Business—Other Operations—Third-Party Service Providers.” Our agreements with each service provider are generally cancelable without cause by either party upon specified notice periods. If one of our third-party service providers terminates its agreement with us and we are unable to replace it with another service provider, our operations may be interrupted. Even a temporary disruption in services could result in our losing customers, incurring liability for any damages our customers may sustain, or losing revenues. Moreover, there can be no assurance that a replacement service provider will provide its services at the same or a lower cost than the service provider it replaces.

We may be affected by government regulation including those mandating capital levels and those specifying limitations resulting from Community Reinvestment Act ratings.

We are subject to extensive federal and state banking regulation and supervision, which has increased in the past several years as a result of stresses the financial system has undergone for an extended period of years. The regulations are intended primarily to protect our depositors’ funds, the federal deposit insurance fund and the safety and soundness of the Bank, not our shareholders. Regulatory requirements affect lending practices, product offerings, capital structure, investment practices, dividend policy and growth. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory

accounting practices. The capital amounts and classification of us and the Bank are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Moreover, capital requirements may be modified based upon regulatory rules or by regulatory discretion at any time reflecting a variety of factors including deterioration in asset quality. A failure by either the Bank or us to meet regulatory capital requirements will result in the imposition of limitations on our operations and could, if capital levels drop significantly, result in our being required to cease operations. Regulatory capital requirements must also be satisfied such that mandated capital ratios are maintained as the Bank grows, or growth may be required to be curtailed. Moreover, a failure by either the Bank or us to comply with regulatory requirements regarding lending practices,

investment practices, customer relationships, anti-money laundering detection and prevention, and other operational practices (see "Business--Regulation Under Banking Law" and “Risk Factors- The entry into the Consent Orders and a supervisory letter from the Federal Reserve, have imposed certain restrictions and requirements upon us and the Bank”) could result in regulatory sanctions and possibly third-party liabilities. Changes in governing law, regulations or regulatory practices could impose additional costs on us or impair our ability to obtain deposits or make loans and, as a consequence, our consolidated revenues and profitability.

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

Failure to maintain a satisfactory CRA rating may result in business restrictions. On January 18, 2018, the Bank received its 2017 CRA Performance Evaluation that accorded the institution a “Satisfactory” rating which was an upgrade from the “Needs to Improve” rating it had been assigned since June 2015. Subsequent to the upgraded rating, the Bank filed its Community Support Statement with the Federal Housing Finance Agency who determined the Bank was in compliance with 12 CFR part 1290 effective as of February 5, 2018. Certain restrictions imposed on the holding company by the Federal Reserve have also been lifted as a result of the “Satisfactory” rating. The Bank continues to oversee its CRA activities in accordance with its Strategic Plan which is effective through June 30, 2018.

As a result of the previous needs to improve rating, certain business restrictions had been in place, including FDIC limits on change in control, new branches, branch relocation, main office relocation, and mergers (regular, interim or corporate reorganizations). The Federal Reserve restrictions include limitations on holding company commencement of direct or indirect new financial activity and holding company change in control. The Federal Housing Finance Agency has also imposed restrictions on receiving long-term advances and participating in their Affordable Housing Program and Community Investment Cash Advances Program. There can be no assurance that we will maintain a satisfactory rating and if not maintained, the business restrictions previously in place would be reinstated.

Implemented, proposed and future regulatory and legislative financial reforms may result in new laws and regulations that we expect will increase our compliance burdens and operating costs.

The passage of new laws and the adoption of new rules and regulations cannot be fully or accurately predicted. Any such proposed laws and regulations may limit our operations, require higher levels of capital and liquidity, create additional compliance burdens, or otherwise impact our operations. The passage of the Dodd-Frank Act in 2010, and the rules and regulations emanating therefrom, have significantly changed, and will continue to change the bank regulatory structure, and affect the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. While a significant number of regulations have already been promulgated to implement the Dodd-Frank Act, many of the details and much of the impact of the Dodd-Frank Act may not be known for lengthy periods, which could have a material adverse effect on the financial services industry, generally, and our company in particular.

The Dodd-Frank Act's "Durbin Amendment," which applies to all banks, required the Federal Reserve to adopt a rule establishing debit card interchange fee standards and limits and prohibiting network exclusivity and routing requirements. The Dodd-Frank Act exempts from the debit card interchange fee standards any issuing bank that, together with its affiliates, have assets of less than $10 billion. Because of our asset size, we are exempt from the debit card interchange fee standards but may lose the exemption if it is amended or we, together with our subsidiaries, surpass $10 billion in assets.

The Federal Reserve has implemented routing regulatory requirements to prohibit network exclusivity arrangements on debit card transactions and ensure merchants will have choices in debit card routing, which apply to us. The regulations require issuers to make at least two unaffiliated networks available to the merchant, without regard to the method of authentication (PIN or signature), for both debit cards and prepaid cards. As currently applied, a card issuer can guarantee compliance with the network exclusivity regulations by enabling the debit card to process transactions through one signature network and one unaffiliated PIN network. Cards usable only with PINs must be enabled with two unaffiliated PIN networks.

On March 21, 2014, the United States Court of Appeals for the District of Columbia Circuit upheld the Federal Reserve's rules on network exclusivity and interchange fees as written and thereby rejected a challenge brought by a group of merchant trade associations. On January 21, 2015, the Supreme Court of the United States declined to take an appeal filed by the plaintiff merchant trade associations, effectively ending the litigation and upholding the Federal Reserve's final rules regarding network exclusivity and interchange fees as written.

It is difficult to predict at this time what specific impact many aspects of the Dodd-Frank Act and the yet to be written implementing rules and regulations will have on regional banks; however, we expect that at a minimum they will increase our operating and compliance costs and obligations, which could reduce or eliminate our ability to generate profits.

On October 5, 2016, the CFPB released the Final Prepaid Rule. The original effective date of the Final Prepaid Rule was October 1, 2017, but applicability of certain requirements of the Final Prepaid Rule were delayed until October 1, 2018. On April 20, 2017, the CFPB released a final rule delaying the general effective date of the Final Prepaid Rule until April 1, 2018. However, on January 25, 2018 the CFPB issued additional technical amendments and extended the effective date of the Final Prepaid Rule to April 1, 2019. The Bank is preparing itself for compliance with its requirements. The Final Prepaid Rule represents a material change in the rules and regulations governing prepaid cards. We rely on prepaid cards as the largest single component of our deposits and the largest single component of our non-interest income. We cannot reasonably quantify the financial impact, if any, that implementation of the Final Prepaid Rule may have on the Bank's business, financial condition, or results of operations.

A further downgrade of the U.S. government credit rating could negatively impact our investment portfolio and other operations.

A significant amount of our investment portfolio is rated by outside ratings agencies as explicitly or implicitly backed by the United States government. In 2011, the credit rating of the United States government was lowered, and it is possible it may be downgraded further, based upon rating agencies' evaluations of the effect of increasing levels of government debt and related Congressional actions. A lowering of the United States government credit ratings may reduce the market value or liquidity of our investment portfolio.

Potential acquisitions may disrupt our business and dilute stockholder value.

Acquiring other banks or businesses involves various risks including, but not limited to:

- potential exposure to unknown or contingent liabilities of the target entity;
- exposure to potential asset quality issues of the target entity;
- difficulty and expense of integrating the operations and personnel of the target entity;
- potential disruption to our business;
- potential diversion of our management's time and attention;
- the possible loss of key employees and customers of the target entity;

- difficulty in estimating the value of the target entity;
- potential changes in banking or tax laws or regulations that may affect the target entity; and
- difficulty navigating and integrating legal, operating cultural differences between the United States and the countries of the target entity's operations.

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

We may be subject to potential liability and business risk from actions by our regulators related to supervision of third parties.

Our regulators or auditors may require us to increase the level and manner of our oversight of the third parties from which we acquire deposit accounts and with which we offer products and services. Although we have added significant compliance staff and have used outside consultants, our internal and external compliance examiners must be satisfied with the results of such augmentation and enhancement. We cannot assure you that we will satisfy all related requirements. See "Risk Factors The entry into the Consent Orders and a supervisory letter from the Federal Reserve, have imposed certain restrictions and requirements upon us and the Bank". Not achieving a compliance management system which is deemed adequate could result in sanctions against the Bank. Our ongoing review and analysis of our compliance management system and implementation of any changes resulting from that review and analysis will likely result in increased non-interest expense.

The Bank may be subject to civil money penalties in connection with examination findings.

Like all regulated banking institutions, we are at risk of the imposition of civil money penalties by our regulators, based on, among other things, apparent violations of law, repeat violations, or supervisory determinations of non-compliance with any consent order. Depending on the circumstances, the imposition and size of any such penalty is at the discretion of the regulator. While the Bank is contractually indemnified for related losses, civil money penalties, if assessed against the Bank, are not recoverable from third parties.

We are currently subject to tax audits, and challenges to our tax positions or adverse changes or interpretations of tax laws could result in tax liability.

We are subject to federal and applicable state income tax laws and regulations. On June 30, 2016, we received written notice from the Internal Revenue Service that it will be conducting an audit of our tax returns for the tax years 2011, 2012, 2013 and 2014. The audit is in process. We are also periodically subject to state escheat audits. Income tax and escheat laws and regulations are often complex and require significant judgment in determining our effective tax rate and in evaluating our tax positions. The current audits or any future audits or challenges of such determinations may adversely affect our effective tax rate, tax payments or financial condition.

Recently enacted U.S. tax legislation made significant changes to federal tax law, including the taxation of corporations, by, among other changes, reducing the corporate income tax rate, disallowing certain deductions that had previously been allowed, and altering the expensing of capital expenditures. The implementation and evaluation of these changes may require significant judgment and substantial planning on our behalf. These judgments and plans may require us to take new and different tax positions that if challenged could adversely affect our effective tax rate, tax payments or financial condition.

In addition, the new tax legislation remains subject to potential amendments, technical corrections, and further regulatory guidance and interpretation, any of which could lessen or increase certain adverse impacts on us. Furthermore, as the new tax legislation goes into effect, future changes may occur at the federal or state level that could result in unfavorable adjustments to our tax liability.

The appraised fair value of the assets from our discontinued commercial loan operations may be more than the amounts received upon sale or other disposition.

Various internal and external inputs were utilized to analyze fair value of the discontinued commercial loan portfolio and the investment in unconsolidated entity which reflects the financing of the securitization of a portion of the discontinued assets. The valuations are estimates and actual sales prices could be significantly less than the estimates, which could materially affect our results of operations in future quarters.

We cannot predict whether income resulting from the reinvestment of proceeds from the loans we hold will match or exceed the income from loan dispositions.

We are seeking to sell or otherwise dispose of the loans in our discontinued commercial loan operations and expect that we will obtain a significant amount of cash from these dispositions. Although we believe, based upon current market conditions, that we will be able to invest such proceeds profitably, reinvestment income is difficult to predict and depends upon a number of economic

and market conditions beyond our control, including interest rates and the availability of suitable investments. We cannot assure you that we will be able to generate the same level of income from the reinvested proceeds as we generated from the loan portfolio being sold, or that suitable investments will be available to us. If not, our revenues and net income could be reduced materially.

Any future FDIC insurance premium increases will adversely affect our earnings.

Any further assessments or special assessments that the FDIC levies will be recorded as an expense during the appropriate period and will decrease our earnings. On February 9, 2011, the FDIC adopted a final rule which redefines the deposit insurance assessment base as required by the Dodd-Frank Act. The final rule sets the deposit insurance assessment base as average consolidated total assets minus average tangible equity. It also sets a new assessment rate schedule which reflects assessment rate adjustments based upon regulatory examination classification with increased rates for brokered deposits. The final rule became effective on April 1, 2011. If the Bank's rating is changed, insurance premiums will increase which will adversely affect our earnings. At December 31, 2017, the Bank's FDIC premium was increased to 26 basis points as a result of new guidance by the FDIC which reflected its previous reclassification of the vast majority of the Bank's deposits as brokered. A reduction in the assessment rate will depend on future FDIC evaluations of the Bank.

We have had material weaknesses in internal control over financial reporting in the past and cannot assure you that additional material weaknesses will not be identified in the future. Our failure to implement and maintain effective internal control over financial reporting could result in material misstatements in our financial statements which could require us to restate financial statements, cause investors to lose confidence in our reported financial information and have a negative effect on our stock price.

As previously reported, our management had identified material weaknesses in our internal and disclosure controls over financial reporting that affected our financial statements for the fiscal years ended December 31, 2012, 2013 and 2014 and prior periods. These weaknesses related to the timing of the recognition of loan losses and the recognition of other loan losses and resulted in a restatement of our financial statements for such periods. We believe these weaknesses have been remediated. However, we cannot assure you that additional significant deficiencies or material weaknesses in our internal control over financial reporting will not be identified in the future. Any failure to maintain or implement required new or improved controls, or any difficulties we encounter in their implementation, could result in additional material weaknesses, cause us to fail to meet our periodic reporting obligations or result in material misstatements in our financial statements. Any such failure could also adversely affect the results of periodic management evaluations and annual auditor attestation reports regarding the effectiveness of our internal control over financial reporting required under Section 404 of the Sarbanes-Oxley Act of 2002 and the rules promulgated under Section 404. The existence of a material weakness could result in errors in our financial statements that could result in a restatement of financial statements, cause us to fail to meet our reporting obligations and cause investors or customers to lose confidence in our reported financial information, leading to a decline in our stock price or a loss of business, and could result in stockholder actions against us for damages.

Risks related to ownership of our common stock.

The trading volume in our common stock is less than that of many financial services companies, which may reduce the price at which our common stock would otherwise trade.

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

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

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

Our ability to issue additional shares of our common stock, or the issuance of such additional shares, may reduce the price at which our common stock trades.

We cannot predict whether future issuances of shares of our common stock or the availability of shares for resale in the open market will decrease the market price per share of our common stock. We are not restricted from issuing additional shares of common stock, including any securities that are convertible into or exchangeable for, or that represent the right to receive shares of common stock. Sales of a substantial number of shares of our common stock in the public market or the perception that such sales might occur could materially adversely affect the market price of the shares of our common stock. The exercise of any options granted to directors, executive officers and other employees under our stock compensation plans, the vesting of restricted stock grants, the issuance of shares of common stock in acquisitions and other issuances of our common stock also could have an adverse effect on the market price of the shares of our common stock. The existence of options, or shares of our common stock reserved for issuance as restricted shares of our common stock may materially adversely affect the terms upon which we may be able to obtain additional capital in the future through the sale of equity securities.

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

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

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

We are a separate legal entity from the Bank and our other subsidiaries, and we do not have significant operations of our own. We have historically depended on the Bank's cash and liquidity as well as dividends to pay our operating expenses. Various federal and state statutory provisions limit the amount of dividends that subsidiary banks can pay to their holding companies without regulatory approval. The Bank is also subject to limitations under state law regarding the payment of dividends, including the requirement that dividends may be paid only out of net profits. In addition to these explicit limitations, it is possible, depending upon the financial condition of the Bank and other factors, that federal and state regulatory agencies could take the position that payment of dividends by the Bank would constitute an unsafe or unsound banking practice and may therefore seek to prevent the Bank from paying such dividends. Moreover, under the 2014 Consent Order Amendment, the Bank may not pay dividends without the approval of the FDIC. See "Risk Factors-Risks Relating to Our Business-The entry into the Consent Orders and a supervisory letter from the Federal Reserve, have imposed certain restrictions and requirements upon us and the Bank." Although we believe we have sufficient existing liquidity for our needs for the foreseeable future, there is risk that, if

the amendment remains undischarged for a lengthy period and the Bank is unable to obtain FDIC approval for one or more dividends, we may not be able to service our obligations as they become due or to pay dividends on our common stock or preferred stock. Even if, absent the amendment, the Bank has the capacity to pay dividends, it is not obligated to pay the dividends. Its Board of Directors may determine, as it did in the past, to retain some or all of its earnings to support or increase its capital base. Moreover, even if the Bank receives permission to pay dividends to us, under the Supervisory Letter, we may not pay dividends to our stockholders without the consent of the Federal Reserve until the Supervisory Letter is discharged.

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

Certain provisions of our certificate of incorporation and bylaws could make a merger, tender offer or proxy contest more difficult, even if such events were perceived by many of our stockholders as beneficial to their interests. These provisions include in particular our ability to issue shares of our common stock and preferred stock with such provisions as our board of directors may approve without further shareholder approval. In addition, as a Delaware corporation, we are subject to Section 203 of the Delaware General Corporation Law which, in general, prevents an interested stockholder, defined generally as a person owning 15% or more of a corporation’s outstanding voting stock, from engaging in a business combination with our company for three years following the date that person became an interested stockholder unless certain specified conditions are satisfied.

Item 1B. Unresolved Staff Comments.

The staff of the SEC has commented on three of our loan relationships, now included in discontinued operations, requesting detailed information concerning the amount and timing of our recognition of impairment losses originally reported in the first quarter of 2014, with respect to those relationships. As a result of these comments, we analyzed the relationships and on March 29, 2015 our audit committee, as reported in a Form 8-K filed April 1, 2015, determined that certain of our financial statements could not be relied upon and that such charges should be restated to prior periods. Upon resulting analysis of other unrelated loan charges, losses on other loans were also restated to prior periods including previously unreported losses. The restatements were made in our Form 10-K for 2014. We cannot assure you that the staff of the SEC will not have further comments related to the foregoing.

Item 2. Properties.

Our executive office and banking facility are located at 409 Silverside Road, Wilmington, Delaware. We maintain business development offices in Philadelphia, Pennsylvania, New York, New York, Chicago, Illinois, and Raleigh, North Carolina. Leasing offices are located in Charlotte, North Carolina, Crofton, Maryland, Orlando, Florida, Kent, Washington and Raritan, New Jersey. Prepaid card offices are located in the United States in Minneapolis, Minnesota, San Francisco, California and Sioux Falls, South Dakota. BSA/AML offices are in Tampa, Florida. Locations and certain additional information regarding our offices and other material properties at December 31, 2017 are listed below. We own a property in Orlando, Florida which houses our leasing operations business, consisting of a stand-alone building of 8,850 square feet.

Location	Expiration	Square Feet	Monthly Rent	
Bank Owned Property				
Orlando, Florida	-	8,850	-	
Leased Property				
Charlotte, North Carolina	2021	2,345	$	3,911
Chicago, Illinois	2020	6,864	10,701	
Crofton, Maryland	2020	2,287	3,640	
Kent, Washington	month-to-month	4,500	5,000	
Minneapolis, Minnesota	2020	3,181	2,757	
New York, New York	2025	7,815	44,936	
Raritan, New Jersey	2020	2,145	3,597	
Philadelphia, Pennsylvania	2025	14,839	30,812	
Raleigh, North Carolina	2019	1,729	2,848	
San Francisco, California	2020	2,622	17,719	
Sioux Falls, South Dakota	2022	38,611	54,674	
Tampa, Florida	2020	10,303	16,859	
Warminster, Pennsylvania	2022	2,003	2,153	
Wilmington, Delaware	2025	62,136	132,742	

We believe that our offices are suitable and adequate for our operations.

Item 3. Legal Proceedings.

For a discussion of the Consent Orders issued by the FDIC to the Bank and a supervisory letter the Company received from the Federal Reserve, see Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations- Regulatory Actions” and “Risk Factors- Risks relating to Our Business, the entry into the Consent Orders and a supervisory letter from the Federal Reserve, have imposed certain restrictions and requirements upon us and the Bank.”

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

On June 30, 2016, the Company received written notice from the Internal Revenue Service that it will be conducting an audit of the Company's tax returns for the tax years 2011, 2012, 2013 and 2014. The audit is in process.

The Company received a letter dated August 1, 2016, demanding inspection of its books and records pursuant to Section 220 of the Delaware General Corporation Law, or DCGL, from legal counsel representing a shareholder (the "Demand Letter"). The Company, through outside legal counsel, responded to the Demand Letter by permitting the shareholder to inspect certain of the Company’s books and records and by objecting to other requests. On January 30, 2017, the shareholder filed a complaint in the Court of Chancery of the State of Delaware seeking an order from the court, pursuant to Section 220 of the DGCL, compelling the Company to permit the shareholder to inspect additional books and records of the Company. The Company believes that its original response to the Demand Letter was appropriate in all respects and continues to defend against the complaint. On July 27, 2017, the Court of Chancery ruled in favor of the Company and granted an Order of Final Judgment Denying Plaintiff’s Demand To Inspect The Books And Records of Defendant. The court’s Order was subject to an appeal right which has now expired; no appeal was filed. Both the Demand Letter and the complaint threaten the commencement of a shareholder’s derivative suit against certain officers and directors of the Company seeking damages and other remedies on behalf of the Company. We have been advised by our counsel in the matter that reasonably possible losses cannot be estimated, but we and our counsel continue to believe the claim is without merit.

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

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

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

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

Quarter Ended	Price Range	
	High	Low
2017		
March 31, 2017	$ 7.98	$ 4.73
June 30, 2017	$ 7.77	$ 4.86
September 30, 2017	$ 8.37	$ 7.51
December 31, 2017	$ 10.25	$ 8.33
2016		
March 31, 2016	$ 6.36	$ 3.88
June 30, 2016	$ 7.05	$ 5.03
September 30, 2016	$ 6.45	$ 4.74
December 31, 2016	$ 8.20	$ 5.63

As of February 21, 2018, there were 56,149,494 shares of common stock outstanding held of record by 4,817 shareholders.

We have not paid cash dividends on our common stock since our inception, and do not plan to pay cash dividends on our common stock for the foreseeable future. Our payment of dividends is subject to restrictions discussed in Item 1, "Business—Regulation under Banking Law," and to a supervisory letter issued by the Federal Reserve discussed in Item 1A, "Risk Factors-Risks Relating to Our Business-The entry into the Consent Orders and a supervisory letter from the Federal Reserve, have imposed certain restrictions and requirements upon us and the Bank." Moreover, irrespective of such restrictions, it is our intent to retain earnings, if any, to increase our capital and fund the development and growth of our operations subject to regulatory restrictions. Our board of directors will determine any changes in our dividend policy based upon its analysis of factors it deems relevant. We expect that these factors would include our earnings, financial condition, cash requirements, regulatory capital levels and available investment opportunities.

Equity Compensation Plan Information

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) (c)
1999 Omnibus plan	255,000	$9.63	-
2005 Omnibus plan	212,750	$7.81	-
Stock option and equity plan of 2011	684,875	$8.63	462,352
Stock option and equity plan of 2013	1,564,454	$6.75	269,880
Total	2,717,079	$8.30	732,232

* All plans have been authorized by shareholders.

Performance graph

The following graph compares the performance of our common stock to the NASDAQ Composite Index and the NASDAQ Bank Stock Index. The graph shows the value of $100 invested in our common stock and both indices on December 31, 2012 for a five year period and the change in the value of our common stock compared to the indices as of the end of each year. The graph assumes the reinvestment of all dividends. Historical stock price performance is not necessarily indicative of future stock price performance.

	As of					
Index	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017
The Bancorp, Inc.	100.00	163.26	99.27	58.07	71.65	90.06
NASDAQ Bank Stock Index	100.00	138.90	142.85	152.31	205.66	212.88
NASDAQ Composite Stock Index	100.00	138.32	156.85	165.84	178.28	228.63

The following graph reflects stock performance since 2012, compared to the KBW bank index, which is an industry recognized peer group of regional and money center banks.

	As of					
Index	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017
The Bancorp, Inc.	100.00	163.26	99.27	58.07	71.65	90.06
KBW Bank Index	100.00	135.06	144.81	142.51	179.00	216.21

Item 6. Selected Financial Data.

The following table sets forth selected financial data as of and for the years ended December 31, 2017, 2016, 2015, 2014, and 2013. We derived the selected financial data from our consolidated financial statements for those periods included in this annual report on Form 10-K or our prior annual reports on Form 10-K. Our historical financial information for the three years ended December 31, 2014 has been adjusted to reflect the discontinuance of our commercial lending operations. As a result, our results of operations for the three years ended December 31, 2014 may not be comparable to the results of our operations reported for the prior periods. In addition, we have reclassified certain amounts in our historical audited consolidated financial statements, including amounts related to assets and liabilities reclassified as held for sale during these periods. These reclassifications had no effect on our reported net income (loss).

You should read the selected financial data in this table together with, and such selected financial data is qualified by reference to, our consolidated financial statements and the notes to those restated consolidated financial statements in Item 8 of this report and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 of this report.

	As of and for the years ended December 31,				
	2017	2016	2015	2014	2013
	(in thousands, except per share data)				
Income Statement Data:					
Interest income	$ 122,020	$ 102,219	$ 83,530	$ 70,720	$ 51,150
Interest expense	15,340	12,253	13,599	11,295	10,768
Net interest income	106,680	89,966	69,931	59,425	40,382
Provision for loan and lease losses	2,920	3,360	2,100	1,202	355
Net interest income after provision for loan and lease losses	103,760	86,606	67,831	58,223	40,027
Non-interest income	91,548	42,486	133,067	85,049	82,073
Non-interest expense	154,914	198,573	194,088	135,980	101,817
Income (loss) before income tax benefit	40,394	(69,481)	6,810	7,292	20,283
Income tax provision (benefit)	23,056	(12,664)	1,450	(14,523)	6,767
Net income (loss) from continuing operations	17,338	(56,817)	5,360	21,815	13,516
Net income (loss) discontinued operations net of tax	4,335	(39,675)	8,072	35,294	(27,938)
Net income (loss) available to common shareholders	$ 21,673	$ (96,492)	$ 13,432	$ 57,109	$ (14,422)
	$ 0.31	$ (1.28)	$ 0.14	$ 0.58	$ 0.36

Net income (loss) per share from continuing operations - basic					
Net income (loss) per share from discontinued operations - basic	$ 0.08	$ (0.89)	$ 0.21	$ 0.94	$ (0.75)
Net income (loss) per share - basic	$ 0.39	$ (2.17)	$ 0.35	$ 1.52	$ (0.39)
Net income (loss) per share from continuing operations - diluted	$ 0.31	$ (1.28)	$ 0.14	$ 0.57	$ 0.35
Net income (loss) per share from discontinued operations - diluted	$ 0.08	$ (0.89)	$ 0.21	$ 0.92	$ (0.75)
Net income (loss) per share - diluted	$ 0.39	$ (2.17)	$ 0.35	$ 1.49	$ (0.40)
Balance Sheet Data:					
Total assets	$ 4,708,147	$ 4,858,114	$ 4,765,823	$ 4,986,317	$ 4,593,588
Total loans, net of unearned costs	1,392,228	1,222,911	1,078,077	874,593	636,001
Allowance for loan and lease losses	7,096	6,332	4,400	3,638	3,881
Total cash and cash equivalents	908,935	999,059	1,155,162	1,114,235	1,235,949
Deposits	4,260,842	4,238,304	4,414,757	4,621,784	4,272,989

Shareholders' equity	324,149		298,963		320,001		319,023		247,127	
Selected Ratios:										
Return on average assets	nm		nm		0.29%		1.28%		nm	
Return on average common equity	nm		nm		4.20%		20.17%		nm	
Net interest margin	3.04%		2.74%		2.37%		2.60%		2.44%	
Book value per common share	$	5.81	$	5.40	$	8.47	$	8.46	$	6.57
Selected Capital and Asset Quality Ratios:										
Equity/assets	6.88%		6.15%		6.71%		6.40%		5.38%	
Tier I capital to average assets	7.90%		6.90%		7.17%		7.07%		6.09%	
Tier 1 or common equity capital to total risk-weighted assets	16.73%		13.34%		14.67%		11.54%		10.55%	
Total capital to total risk-weighted assets	17.09%		13.63%		14.88%		11.67%		11.87%	
Allowance for loan and lease losses to total loans	0.51%		0.52%		0.41%		0.42%		0.61%	

nm = not meaningful

43

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

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

Overview

In 2017, we recorded net income of $17.3 million in continuing operations. Net interest income increased 18.6% to $106.7 million from $90.0 million in 2016, primarily reflecting loan growth in SBLOC, SBA and leasing balances. From year end 2016 to year end 2017, SBLOC loans, SBA loans and leasing grew 16%, 9% and 9%, respectively. In both 2017 and 2016, the Federal Reserve increased short term rates, which also contributed to increased net interest income. Future rate increases should result in higher levels of net interest income in 2018, partially offset by lesser expected increases in funding costs. While our loans generally adjust more fully to Federal Reserve interest rate increases, funding costs generally increase to only a fraction of such rate increases. In 2017 compared to 2016, the primary driver of recurring fee income, prepaid fees, increased 4% to $53.4 million. Gain on sale of loans increased $15.0 million which resulted primarily from the sale of loans into securitizations in 2017.

We are working with our regulators to satisfy BSA and other compliance requirements and believe we are progressing. Our BSA and compliance efforts included the use of BSA consultants which resulted in significant costs: $29.1 million in 2016 and $41.4 million in 2015. Those expenses ended in the third quarter of 2016.

In 2017, total non-interest expense decreased $43.7 million mainly due to the conclusion of the BSA and lookback consulting expenses in 2016 and significant staff position reductions at the end of third quarter 2016. Ongoing cost cutting efforts were also reflected in a reduction in data processing and other expense categories. In 2017, income tax expense was impacted by legislation reducing federal corporate income tax rates. As a result, deferred tax assets were adjusted to the new rates, decreasing the value of those assets and increasing tax expense. The lower 21% tax rate is currently estimated to result in a combined 27% federal and state income tax rate in 2018.

In 2014, we discontinued our Philadelphia commercial lending operations following our determination that those operations were inconsistent with our strategic focus on generating low cost deposits and deploying that funding into lower risk, more granular and national lines of business and investment securities. We currently focus our lending activities upon four specialty lending segments: SBLOC loans, SBA loans, vehicle fleet and other equipment leasing, and the origination of loans for sale into commercial securitizations. The majority of the $39.7 million loss in discontinued operations in 2016 resulted from loans against a Florida mall which were written down by $23.9 million as a result of an "as is" appraisal when the loans became non-performing. The Bank has assumed legal ownership and possession of the mall and a letter of intent for its sale has been signed. The sale is scheduled to close in 2018. At year end 2017, our net discontinued assets amounted to $304.3 million compared to $360.7 million at year end 2016. As these balances are reduced, either through sales or repayment, we plan to invest the proceeds into our continuing lending lines.

Critical Accounting Policies and Estimates

Our accounting and reporting policies conform with generally accepted accounting principles in the United States and to general practices within the financial services industry. The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated 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 and our determination of the fair value of financial instruments involve a higher degree of judgment and complexity than our other significant accounting policies.

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

we may need additional provisions for loan losses. Any such additional provisions for loan losses will be a direct charge to our earnings. See “Allowance for Loan and Lease Losses”.

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

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

We periodically review our investment portfolio to determine whether unrealized losses on securities are temporary, based on evaluations of the creditworthiness of the issuers or guarantors, and underlying collateral, as applicable. In addition, we consider the continuing performance of the securities. We recognize credit losses through the consolidated statement of operations. If management believes market value losses are temporary and that we have the ability and intention to hold those securities to maturity, we recognize the reduction in other comprehensive income, through equity. We evaluate whether an other than temporary 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. If other than temporary impairment is determined, we estimate expected future cash flows to determine the credit loss amount with 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.

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

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

Financial Statement Restatement

We have adjusted our financial statement presentation for items related to discontinued operations. Separately, we have restated our financial statements for periods from 2010 through September 30, 2014, the last date through which financial statements previously had been filed prior to our filing of our Annual Report on Form 10-K for the year ended December 31, 2014 in September 2015. The restatement reflected the recognition of provisions for loan losses and loan charge-offs for discontinued operations in periods earlier than those in which those charges were initially recognized. The majority of these loan charges were originally recognized in 2014, primarily in the third quarter,

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

Regulatory Actions

The Bank entered into a Stipulation and Consent to the Issuance of a Consent Order effective August 7, 2012, which we refer to as the 2012 Consent Order. The Bank took this action without admitting or denying any charges of unsafe or unsound banking practices or violations of law or regulation. Under the 2012 Consent Order, the Bank agreed to increase its supervision of third-party relationships, develop new written compliance and related internal audit compliance programs, develop a new third-party risk management program and screen new third-party relationships as provided in the Consent Order. As part of the Consent Order, the Bank agreed to pay a civil money penalty in the amount of $172,000, which was paid in 2012. The 2012 Consent Order was amended and restated in 2015 as noted below.

On June 5, 2014, the Bank entered into a Stipulation and Consent to the Issuance of a Consent Order with the FDIC, which we refer to as the 2014 Consent Order. The Bank took this action without admitting or denying any charges of unsafe or unsound banking practices or violations of law or regulation relating to the Bank's Bank Secrecy Act, or BSA, compliance program. The 2014 Consent Order requires the Bank to take certain affirmative actions to comply with its BSA obligations. Satisfaction of the requirements of the 2014 Consent Order is subject to the review of the FDIC and the Delaware State Bank Commissioner. The Bank has and expects to continue to expend significant management and financial resources to address the Bank's BSA compliance program which will reduce our net income. Expenses associated with the required look back review were significant in 2015 and 2016. The look back review was completed in the third quarter of 2016.

Until the Bank submits to the FDIC a report summarizing the completion of certain BSA-related corrective action ("BSA Report"), the 2014 Consent Order restricts the Bank from signing and boarding new independent sales organizations, establishing new non-benefit reloadable prepaid card programs and originating Automated Clearing House transactions for new merchant-related payments. Until the BSA Report is submitted to and approved by the FDIC and Delaware State Bank Commissioner, those aspects of the growth of our card payment processing and prepaid card operations will be affected, which, unless offset by growth from existing customers and new customers in other areas of our prepaid card operations, could reduce growth of our deposits and non-interest income and, possibly, limit our ability to raise additional capital on acceptable terms.

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

On May 11, 2015, the Federal Reserve issued a letter, or the Supervisory Letter, to us as a result of the 2014 Consent Order and the 2014 Consent Order Amendment, (which, at the time of the Supervisory Letter, was in proposed form), which provides that we shall not pay any dividends on our common stock or make any interest payments on our trust preferred securities, without the prior written approval of the Federal Reserve. It further provides that we may not incur any debt (excluding payables in the ordinary course of business) or redeem any shares of our stock, without the prior written approval of the Federal Reserve.

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

The 2015 Consent Order was based on FDIC allegations regarding electronic fund transfer, or EFT, error resolution practices, account termination practices and fee practices of various third parties with whom the Bank had previously provided, or currently provides, deposit-related products whom we refer to as Third Parties. The 2015 Consent Order continues the Bank's obligations originally set forth in the 2012 Consent Order, including its obligations to increase board oversight of the Bank's compliance management system, or CMS, improve the Bank's CMS, enhance its internal audit program, increase its management and oversight of Third Parties, and correct any apparent violations of law.

In addition to restating the general terms of the 2012 Consent Order, the 2015 Consent Order directs the Bank’s Board of Directors to establish a Complaint and Error Claim Oversight and Review Committee, which we refer to as the Complaint and Error Claim Committee to review and oversee the Bank’s processes and practices for handling, monitoring and resolving consumer complaints and EFT error claims (whether received directly or through Third Parties) and to review management's plans for correcting

any weaknesses that may be found in such processes and practices. The Bank's Board of Directors appointed the required Complaint and Error Claim Committee on January 29, 2016.

The 2015 Consent Order also requires the Bank to implement a corrective action plan, or CAP, to remediate and provide restitution to those prepaid cardholders who asserted or attempted to assert, or were discouraged from initiating EFT error claims and to provide restitution to cardholders harmed by EFT error resolution practices. The 2015 Consent Order requires that if, through the CAP, the Bank identifies prepaid cardholders who have been adversely affected by a denial or failure to resolve an EFT error claim, the Bank will ensure that monetary restitution is made. Neither we nor the Bank can predict the amount of any restitution which may be required, or the amount, if any, that the Bank may pay in connection therewith. Under the Bank's agreements with Third Parties, we believe that restitution is reimbursable to the Bank. The CAP is currently being implemented. To date, no restitution under the CAP has been made.

The 2015 Consent Order also imposed a $3 million civil money penalty on the Bank, which the Bank has paid and which was recognized as expense in the fourth quarter of 2015.

In December 2014, the FDIC issued new guidance which reclassified the Bank's prepaid card deposits and most other deposits as brokered deposits because such deposits are obtained with the assistance of third parties. The reclassification resulted in a 10 basis point increase in our assessment rate which is reflected in the increased FDIC insurance expense in subsequent periods. A reduction in the assessment rate will depend on future FDIC evaluations of the Bank. The Bank's deposits do not exhibit the volatility normally associated with brokered deposits obtained through deposit brokers and are considered to be stable and low cost.

On March 7, 2018, the Bank entered into a Stipulation and Consent to Order for Restitution and Order To Pay Civil Money Penalty with the FDIC, which we refer to as the 2018 Restitution Order and 2018 CMP Order, respectively. The Bank took this action without admitting or denying any alleged violations of law or regulation. The FDIC's action principally emanates from one of the Bank's third-party payment processors ("Third Party Processor") that suffered an internal system programming glitch. This inadvertently resulted in consumers that engaged in signature-based point of sale transactions during the period from December 2010 to November 2014 being charged a greater fee than what was disclosed by the Bank. The FDIC alleged the Bank's incorrect fee imposition due to the Third Party Processor error was an unfair or deceptive act or practice and violated Section 5 of the Federal Trade Commission Act. The 2018 Restitution Order requires the Bank to develop a written Restitution Plan, subject to independent audit and FDIC non-objection, to ensure impacted consumers are compensated for any incorrectly charged fees. The 2018 Restitution Order requires the Bank to make such reimbursements if not otherwise made by the Third Party Processor and the Bank is indemnified by the Third Party Processor for such reimbursements. Impacted consumers have been reimbursed by the Third Party Processor at its own expense. The Bank is in the process of complying with the written documentation and audit requirements of the Restitution Order. The 2018 CMP Order imposed a $2 million civil money penalty on the Bank which the Bank has paid, and was recognized as expense on September 30, 2017. The civil money penalty is not subject to any indemnification or recovery from any third party.

Results of Operations

Overview: Net interest income continued its upward trend in 2017 and 2016 as a result of higher loan balances and higher yields, reflecting the Federal Reserve's interest rate increases. Future rate increases should support higher levels of net interest income in 2018, partially offset by lesser expected increases in funding costs. While our loans generally adjust more fully to Federal Reserve interest rate increases, funding costs generally increase to only a fraction of such

rate increases. Funding costs remained at low levels in 2017, 2016 and 2015, and amounted to .40% in 2017. The increase in net interest income resulted primarily from loan growth and higher yields in targeted specialty lending segments, primarily SBLOC, SBA and leasing. The provision for loan and lease losses decreased $440,000 to $2.9 million in 2017 reflecting lower provisions for other consumer loans. Non-interest income in 2017 increased by $11.5 million after adjusting 2016 for a $37.5 million change in value of investment in unconsolidated entity. Investment in unconsolidated entity is the Bank's interest in Walnut Street, which is comprised of discontinued loans sold into a securitization as detailed in the following paragraph. The $11.5 million increase reflected a $15.0 million increase in gain on sale of loans into securitizations. In 2017, compared to 2016, the primary driver of recurring fee income, prepaid fees, increased $2.0 million to $53.4 million. Non-interest expense in 2017 decreased $43.7 million, reflecting a $29.1 million decrease in BSA expense and $14.6 million of reductions in salary, data processing and other expenses. Expense reductions in 2017 were partially offset by a $2.3 million civil money penalty and a $1.1 million data processing contract exit fee in that year. The exit fee will be significantly exceeded by future savings. Lower data processing expense reflected the impact of a renegotiated data processing contract and the phase out of an affinity program. In 2017, income tax expense was impacted by legislation reducing the federal corporate income tax rate to 21%. As

a result, deferred tax assets were adjusted to the new rates, lowering their value and increasing tax expense. The lower 21% tax rate is currently estimated to result in a combined 27% federal and state income tax rate in 2018.

In 2014, the Bank discontinued its regional Philadelphia commercial loan division to focus on its aforementioned national specialty lending lines of business. The majority of a $40.0 million loss in 2016 in discontinued operations resulted from loans against a Florida mall which were written down by $23.9 million as a result of an “as is” appraisal when the loans became non-performing. We have taken ownership of that mall property and its sale is expected to conclude in second quarter 2018. At year end 2017, our net discontinued assets amounted to $304.3 million compared to $360.7 million at year end 2016. Net commercial discontinued loans totaled $209.0 million at year end 2017. These loans consisted primarily of loans secured by commercial real estate including construction and land loans. As these balances are reduced, either through sales or repayment, we plan to invest the proceeds into our continuing lending lines. Efforts to sell these loans continue and if not sold, the loans will be retained. We also retain the financing receivable of $74.5 million from the 2014 Walnut Street securitization. That entity is also primarily comprised of discontinued commercial real estate loans, including construction and land loans or real estate collateral resulting from the default of such loans.

At December 31, 2017, our continuing specialty lending lines had grown over the year between 9% to 16% and total loans amounted to $1.39 billion, an increase of $169.3 million over the $1.22 billion balance at December 31, 2016. Our investment securities available for sale increased $45.9 million to $1.29 billion from $1.25 billion between those respective dates. The increase in our investment securities balances reflected the timing of investment security purchases based upon market conditions.

Net Income: 2017 compared to 2016. Net income from continuing operations was $17.3 million in 2017 as compared to a net loss of $56.8 million in 2016. In 2017, net interest income grew by $16.7 million and non-interest income increased $11.5 million after adjusting 2016 for a $37.5 million change in value of investment in unconsolidated entity, noted previously. The $16.7 million, or 18.6%, increase in 2017 net interest income over 2016 resulted primarily from loan growth and higher yields in targeted specialty lending segments, primarily SBLOC, SBA and leasing. The $11.5 million increase in non-interest income reflected a $15.0 million increase in gain on sale of loans into securitizations and a $2.0 million, or 4%, increase in prepaid fees to approximately $53.4 million. In 2017, a $2.5 million gain on the sale of our health savings accounts was offset by a loss of $3.4 million on the sale of our European prepaid operations. The largest decrease in other non-interest expense in 2017 was the conclusion of the BSA and lookback consulting expenses in the third quarter of 2016. These expenses amounted to $29.1 million in 2016. Salaries decreased $6.1 million primarily due to company-wide staff reductions made at the end of the third quarter of 2016, which reversed an increasing trend. Data processing expense decreased in 2017 by $4.5 million primarily due to contract renegotiations. Legal expense increased $1.4 million reflecting increased SEC subpoena expense related to the restatement of the financial statements. We expect SEC subpoena expense to continue to be significant through the completion of the SEC’s inquiries. Software expense increased $1.4 million which reflected additional information technology infrastructure to improve efficiency and scalability, including BSA software to satisfy BSA regulatory requirements. A decrease in other non-interest expense of $3.9 million resulted primarily from a $2.2 million decrease in travel and entertainment expense. In 2017, income tax expense was impacted by legislation reducing corporate income tax rates. As a result, deferred tax assets were adjusted to the new rates, lowering their value and increasing tax expense. The lower 21% federal tax rate is currently estimated to result in a combined 27% federal and state income tax rate in 2018. Reflecting these changes, net income from continuing operations amounted to $17.3 million in 2017 compared to net loss of $56.8 million in 2016, or continuing operations earnings per diluted share of $0.31 compared to continuing operations loss per share of $1.28 in 2016. Net income from discontinued operations was $4.3 million for 2017 compared to net loss from discontinued operations of $39.7 million for 2016. Including discontinued operations, diluted income per share was $0.39 for 2017 compared to loss per share of $2.17 for 2016 on net income of $21.7 million and net loss of $96.5 million, respectively.

Net Income: 2016 compared to 2015. Net loss from continuing operations was $56.8 million in 2016 reflecting a tax benefit rate of 18.2% instead of the statutory 34% as a result of additional valuation allowances against deferred tax

assets. Our 2016 net loss compared to net income from continuing operations of $5.4 million in 2015. While in 2016, net interest income grew by $20.0 million, and BSA lookback expense decreased by $12.4 million, 2016 BSA lookback expense still amounted to $29.1 million. Additionally, in 2016, there was a $16.8 million increase in other non-interest expenses and $37.5 million of charges from the change in value of our investment in the unconsolidated entity, Walnut Street. The remaining BSA lookback expense, increases in other non-interest expense and the Walnut Street charge resulted in the 2016 loss. The $37.5 million of charges to the retained interest in Walnut Street reflected continued clarification of market and credit loss related assumptions based on information from available sources including updated market information and projections of potential future loan losses based on new facts or circumstances. As a result of deferred tax assets relating primarily to Walnut Street and discontinued loan charges, at December 31, 2016 approximately $25.0 million of valuation allowances against income taxes had been established. The BSA lookback expense concluded in third quarter 2016. Additionally, at the end of the third quarter of 2016, significant bank-wide and department-wide reductions were made in

staffing and in the fourth quarter, non-interest expense was reduced compared to third quarter 2016. The $20.0 million, or 28.6%, increase in 2016 net interest income over 2015 resulted primarily from loan growth in targeted specialty lending segments, primarily SBLOC, SBA, leasing, and loans generated for sale in secondary capital markets for commercial loan securitizations. Prepaid fee income grew 8.1% to approximately $51.3 million. The largest increase in other non-interest expense in 2016 was in salary which increased $13.6 million. Staff additions and related increases in costs were made to our BSA and regulatory compliance functions and to our information technology, institutional banking and SBA departments. At the end of the third quarter of 2016, company-wide staff reductions were made and salary expense in the fourth quarter of 2016 decreased, which reversed an increasing trend. Legal expense increased $2.9 million reflecting increased SEC subpoena expense related to the restatement of the financial statements. We expect SEC subpoena expense to continue to be significant through the completion of the SEC's inquiries. Software expense increased $3.9 million, which reflected additional information technology infrastructure to improve efficiency and scalability including BSA software to satisfy BSA regulatory requirements. A decrease in other non-interest expense of $3.7 million resulted primarily from a $3 million civil money penalty recognized in 2015. Reflecting these changes, net loss from continuing operations amounted to $56.8 million in 2016 compared to net income of $5.4 million in 2015, or a continuing operations loss per share of $1.28 compared to continuing operations income per diluted share of $.14 in 2015. Net loss from discontinued operations was $39.7 million for 2016 compared to net income from discontinued operations of $8.1 million for 2015. Including discontinued operations, loss per share was $2.17 for 2016 compared to diluted income per share of $.35 for 2015 on net loss of $96.5 million and net income of $13.4 million, respectively.

Net Interest Income: 2017 compared to 2016. Our net interest income for 2017 increased to $106.7 million, an increase of $16.7 million, or 18.6%, from $90.0 million for 2016, reflecting a $19.8 million, or 19.4%, increase in interest income to $122.0 million from $102.2 million for 2016. The increase in net interest income resulted primarily from higher loan balances and yields in SBLOC, SBA and leasing. Loans generated for sale in secondary markets until those loans are sold or securitized, also contributed significant interest income. Additionally, in 2017, the Federal Reserve increased short term rates by 75 basis points in total while in December 2016 it had increased those rates by 25 basis points. Those increases resulted in higher yields on those loans which immediately adjust to changes in market interest rates, which comprise the majority of our loans. The 2017 increases and any future rate increases we expect should further increase net interest income. Our average loans and leases increased 11.0% to $1.78 billion in 2017 from $1.61 billion for 2016, while related interest income increased $11.5 million on a tax equivalent basis. Our average investment securities were $1.30 billion for 2017 compared to $1.36 billion for 2016, while related interest income increased $4.2 million on a tax equivalent basis. The increase was largely due to floating rate securities which adjusted to the Federal Reserve's interest rate increases.

Our net interest margin (calculated by dividing net interest income by average interest earning assets) for 2017 increased 30 basis points to 3.04% from 2.74% for 2016. The increase reflected higher yields on loans and floating rate securities resulting from the aforementioned Federal Reserve increases. For 2017, the average yield on our interest earning assets increased to 3.37% from 2.98% for 2016, an increase of 39 basis points. The cost of total deposits for 2017 increased to 0.38% from 0.30% for 2016. The cost of total deposits and interest bearing liabilities also increased to 0.40% for 2017 from 0.31% for 2016. These increases reflected the lesser impact of the Federal Reserve increases on deposits. In 2017, average demand and interest checking deposits amounted to $3.37 billion, compared to $3.35 billion in 2016, an increase of 0.7%. Average savings and money market balances comprise a minimal portion of the Bank's funding and averaged $439.6 million in 2017 with an average 0.51% rate.

Net Interest Income: 2016 compared to 2015. Our net interest income for 2016 increased to $90.0 million, an increase of $20.0 million, or 28.6%, from $69.9 million for 2015, reflecting an $18.7 million, or 22.4%, increase in interest income to $102.2 million from $83.5 million for 2015. The increase in net interest income resulted primarily from higher loan balances in various lending categories including SBLOC, SBA leasing and loans generated for sale or securitization in secondary markets. Additionally, in both December 2016 and 2015, the Federal Reserve increased short term interest rates by 25 basis points. Those increases resulted in higher yields on those loans and securities which immediately adjust to changes in market interest rates. The 2016 increase and any future rate increases we

expect should further increase net interest income. Our average loans and leases increased 26.6% to $1.61 billion in 2016 from $1.27 billion for 2015, while related interest income increased $17.7 million on a tax equivalent basis. Our average investment securities decreased 5.9% to $1.36 billion for 2016 from $1.44 billion for 2015, while related interest income decreased $4.2 million on a tax equivalent basis. We decreased our nontaxable investment securities portfolio because our deferred tax assets were available to eliminate federal income taxes in future periods, precluding the need for tax exempt income in the short term. Interest expense decreased by $1.3 million in 2016 compared to 2015, reflecting lower average deposit balances, as yields were comparable in both periods.

Our net interest margin (calculated by dividing net interest income by average interest earning assets) for 2016 increased 37 basis points to 2.74% from 2.37% for 2015. The increase reflected lower balances maintained at the Federal Reserve. Deposits invested at the Federal Reserve bore interest at only 50 basis points beginning in fourth quarter 2015 and 25 basis points previously. The increase also reflected an increased yield on loans and securities which repriced immediately to the 25 basis point rate increase by the Federal Reserve in December 2015. For 2016, the average yield on our interest earning assets increased to 2.98% from 2.44% for 2015, an increase of 54 basis points. The cost of total deposits remained flat at 0.30% for 2016 and 2015. The cost of total deposits and interest bearing liabilities also remained flat at 0.31% for 2016 and 2015. In 2016, average demand and interest checking deposits amounted to $3.35 billion, compared to $3.98 billion in 2015, a decrease of 15.8%. The decrease primarily reflected our exit from less profitable deposit relationships, including the sale of health savings accounts. Average savings and money market balances comprise a minimal portion of the Bank's liabilities and, while they grew in 2016, their yield decreased, consistent with the strategy to exit less profitable deposit relationships. As a result of that strategy, in 2016, average total deposits decreased 12.4% to $3.82 billion, compared to $4.36 billion in 2015.

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

	Year ended December 31,					
	2017			2016		
	Average balance	Interest	Average rate	Average balance	Interest	Averag rate
	(dollars in thousands)					
Assets:						
Interest earning assets:						
Loans net of unearned fees and costs **	$ 1,763,392	$ 78,033	4.43%	$ 1,587,306	$ 66,436	4.19%
Leases - bank qualified*	20,750	1,613	7.77%	20,718	1,748	8.44%
Investment securities-taxable	1,284,941	36,121	2.81%	1,303,445	31,219	2.40%
Investment securities-nontaxable*	14,094	470	3.33%	54,271	1,139	2.10%
Interest earning deposits at Federal Reserve	495,568	5,202	1.05%	466,728	2,237	0.48%
Federal funds sold and securities purchased under agreements to resell	61,309	1,310	2.14%	30,448	450	1.48%
Net interest earning assets	3,640,054	122,749	3.37%	3,462,916	103,229	2.98%
Allowance for loan and lease losses	(6,865)			(4,741)		
Assets held for sale from discontinued operations	310,058	12,655	4.08%	490,115	18,275	3.73%

Other assets	221,096				266,777			
	$ 4,164,343				$ 4,215,067			
Liabilities and Shareholders' Equity:								
Deposits:								
Demand and interest checking	$ 3,371,969	$ 12,155	0.36%		$ 3,347,191	$ 9,399	0.28%	
Savings and money market	439,625	2,263	0.51%		394,434	1,526	0.39%	
Time	-	-	-		77,576	447	0.58%	
Total deposits	3,811,594	14,418	0.38%		3,819,201	11,372	0.30%	
Short-term borrowings	24,224	336	1.39%		57,517	359	0.62%	
Securities sold under agreements to repurchase	239	-	0.00%		685	2	0.29%	
Subordinated debt	13,401	586	4.37%		13,401	520	3.88%	
Total deposits and interest bearing liabilities	3,849,458	15,340	0.40%		3,890,804	12,253	0.31%	
Other liabilities	3,329				14,916			
Total liabilities	3,852,787				3,905,720			

Shareholders' equity	311,556					309,347				
	$	4,164,343				$	4,215,067			
Net interest income on tax equivalent basis *			$	120,064				$	109,251	
Tax equivalent adjustment			729					1,010		
Net interest income			$	119,335				$	108,241	
Net interest margin *					3.04%					2.74%

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

	Year ended December 31, 2015			
	Average balance		Interest (dollars in thousands)	Average rate
Assets:				
Interest earning assets:				
Loans net of unearned fees and costs **	$	1,245,189	$ 48,733	3.91%
Leases - bank qualified*	25,126		1,734	6.90%
Investment securities-taxable	989,705		19,918	2.01%
Investment securities-nontaxable*	452,526		16,646	3.68%
Interest earning deposits at Federal Reserve	935,093		2,354	0.25%
Federal funds sold and securities purchased under agreements to resell	40,402		578	1.43%
Net interest earning assets	3,688,041		89,963	2.44%
Allowance for loan and lease losses	(4,111)			
Assets held for sale from discontinued operations	715,116		28,925	4.04%
Other assets	311,501			
	$	4,710,547		

Liabilities and Shareholders' Equity:				
Deposits:				
Demand and interest checking	$ 3,975,475	$ 10,982	0.28%	
Savings and money market	337,168	1,867	0.55%	
Time	44,789	275	0.61%	
Total deposits	4,357,432	13,124	0.30%	
Short-term borrowings	4,575	12	0.26%	
Securities sold under agreements to repurchase	5,224	15	0.29%	
Subordinated debentures	13,401	448	3.34%	
Total deposits and interest bearing liabilities	4,380,632	13,599	0.31%	
Other liabilities	10,403			
Total liabilities	4,391,035			
Shareholders' equity	319,512			

	$ 4,710,547		
Net interest income on tax equivalent basis *		$ 105,289	
Tax equivalent adjustment		6,433	
Net interest income		$ 98,856	
Net interest margin *			2.37%

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

In 2017, average interest earning assets increased to $3.64 billion, an increase of $177.1 million, or 5.1%, from 2016. The increase reflected a $176.1 million, or 11.0%, increase in average loans and leases. The increase resulted primarily from higher SBLOC, SBA and leasing balances. Average balances of investment securities decreased $58.7 million, or 4.3%, as investment security maturities were reinvested into higher yielding loans. Average demand and interest checking deposits were comparable, increasing only $24.8 million, or 0.7%.

Volume and Rate Analysis. The following table sets forth the changes in net interest income attributable to either changes in volume (average balances) or to changes in average rates from 2015 through 2017 on a tax equivalent basis. The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

	2017 versus 2016 Due to change in:			2016 versus 2015 Due to change in:	
	Volume	Rate	Total	Volume	Rate
	(in thousands)				
Interest income:					
Taxable loans net of unearned discount	$ 7,648	$ 3,949	$ 11,597	$ 14,132	$ 3,571
Bank qualified tax free leases net of unearned discount	3	(138)	(135)	(52)	66
Investment securities-taxable	(436)	5,338	4,902	7,064	4,237
Investment securities-nontaxable	(3,272)	2,603	(669)	(10,422)	(5,085)
Interest earning deposits	146	2,819	2,965	145	(262)
Federal funds sold	597	263	860	(148)	20
Assets held for sale from discontinued operations	(7,569)	1,949	(5,620)	(8,531)	(2,119)
Total interest earning assets	(2,883)	16,783	13,900	2,188	428
Interest expense:					
Demand and interest checking	$ 70	$ 2,686	$ 2,756	$ (1,736)	$ 153
Savings and money market	190	547	737	441	(782)
Time	(223)	(224)	(447)	188	(16)
Total deposit interest expense	37	3,009	3,046	(1,107)	(645)
Short-term borrowings	21	(44)	(23)	310	37
Subordinated debt	-	66	66	-	72
Other borrowed funds	(1)	(1)	(2)	(13)	-
Total interest expense	57	3,030	3,087	(810)	(536)
Net interest income:	$ (2,940)	$ 13,753	$ 10,813	$ 2,998	$ 964

Provision for Loan and Lease Losses. Our provision for loan and lease losses was $2.9 million for 2017, $3.4 million for 2016 and $2.1 million for 2015. Provisions are based on our evaluation of the adequacy of our allowance for loan and lease losses, particularly in light of current economic conditions. That evaluation reflected the impact of the levels of charge-offs which totaled $2.2 million, $1.5 million and $1.4 million in 2017, 2016 and 2015, respectively, and growth in loan portfolios. The decrease in the 2017 provision over 2016 reflected a lower provision for other consumer loan balances, which continued to decline. The increase in the 2016 provision over 2015 reflected higher SBA loan and leasing provisions which reflected higher levels of classified loans and growth in those portfolios. At December 31, 2017, our allowance for loan and lease losses amounted to $7.1 million, or 0.51%, of total loans. We believe that our allowance is adequate to cover expected losses. For more information about our provision and allowance for loan and lease losses and our loss experience see “—Financial Condition—Allowance for Loan and Lease Losses” and “—Summary of Loan and Lease Loss Experience,” below.

Non-Interest Income: 2017 compared to 2016. Non-interest income was $91.5 million for 2017, compared to $42.5 million for 2016. The $49.1 million increase reflected the $37.5 million reduction of charges for the change in value

of investment in unconsolidated entity (Walnut Street) in 2016. The charges reflected continued clarification of market and credit loss related assumptions based on information from available sources including updated market information and projections of potential future loan losses based on new facts or circumstances. After adjustment for that charge in 2016, the $11.5 million increase in non-interest income primarily reflected a $15.0 million increase in loan sales into securitizations, reflecting higher margins. Prepaid card fees increased $2.0 million, or 4.0%, from $51.3 million to $53.4 million in 2017 resulted from new clients and organic growth from existing clients. In 2017, service fees on deposit accounts increased $1.7 million, or 32.5%, to $6.8 million, primarily due to increases in service charges on retirement accounts. Card payment and ACH processing fees increased $792,000, or 14.3%, to $6.3 million reflecting increases in ACH payment volume. Non-interest income also reflected a $3.4 million loss on the sale of European card

operations which was partially offset by a $2.5 million gain on sale of the remaining health savings portfolio. These sales resulted as we focused on our more profitable and, with respect to European operations, less risky lines of business.

Non-Interest Income: 2016 compared to 2015. Non-interest income was $42.5 million for 2016, compared to $133.1 million for 2015. The $90.6 million decrease reflected a $33.5 million gain on sale of the majority of our health savings business and $14.4 million of securities gains in 2015. The health savings sale resulted from a strategy to decrease non-strategic and less profitable deposits and the securities gains resulted from the sale of substantially the entire tax-exempt municipal bond portfolio in the fourth quarter of 2015. The sales were made to accelerate the Bank's utilization of deferred tax assets and a portion of the proceeds were invested in taxable securities with slightly higher yields. The 2016 reduction also included $37.5 million of charges for the change in value of investment in unconsolidated entity which consists of Walnut Street. The charges reflected continued clarification of market and credit loss related assumptions based on information from available sources including updated market information and projections of potential future loan losses based on new facts or circumstances. Prepaid card fees increased $3.8 million, or 8.1%, from $47.5 million to $51.3 million in 2016 as a result of the addition of new clients and organic growth from existing clients. Commercial loan sales income decreased $7.2 million to $2.9 million reflecting a lower volume of loan sales and lower margins reflecting increased competition. In 2016, service fees on deposit accounts decreased $2.3 million, or 31.3%, to $5.1 million, reflecting the impact of the sale of the majority of our healthcare accounts, which was partially offset by increases in service charges on retirement accounts. The sale of health savings accounts also was reflected in the elimination of the debit card income in 2016, which had totaled $1.6 million in 2015. Health savings account holders utilized debit cards to access their accounts, which resulted in fee income.

Non-Interest Expense: 2017 compared to 2016. Total non-interest expense in 2017 was $154.9 million, a decrease of $43.7 million, or 22.0%, over the $198.6 million in 2016. In 2017, there was a decrease of $29.1 million in BSA lookback consulting expenses, which ended in the third quarter of 2016. Lookback expenses were being incurred to analyze historical transactions for potential BSA exceptions as required by the 2014 Consent Order. Salary expense decreased $6.1 million to $75.8 million in 2017, a decrease of 7.5% over the $82.0 million in 2016. The decrease reflected bank-wide and department-wide reductions in staffing at the end of third quarter 2016. Depreciation and amortization decreased $530,000 to $4.5 million, or 10.6%, from $5.0 million in 2016, which reflected reduced spending on fixed assets and equipment. Rent and occupancy decreased $640,000 to $5.7 million, or 10.1%, from $6.3 million in 2016, which reflected a reduction in leased space and more efficient use of office space. Data processing expense decreased $4.5 million, or 30.9%, to $10.2 million from $14.7 million in 2016. The decrease reflected the impact of a renegotiated data processing contract and lower account and transaction volume as a result of the planned exit of an affinity program which had changed ownership. It also reflected the impact of the consolidation of our call centers as an efficiency and cost cutting measure. Also in 2017, we paid a $1.1 million one time fee to exit a data processing contract which will result in future savings. Printing and supplies expense decreased $1.6 million, or 54.3%, to $1.4 million from $3.0 million in 2016. The decrease reflected elevated expense in 2016 due to service charge mailings and other communications in that year as well as cost reduction efforts. Audit expense increased $577,000, or 52.2%, to $1.7 million from $1.1 million in 2016 which reflected increased regulatory compliance audit fees. Legal expense increased $1.4 million, or 20.8%, to $8.1 million from $6.7 million in 2016. The increase in legal expense reflected higher fees related to regulatory matters including fees associated with an SEC subpoena related to the restatement of the financial statements (see "—Regulatory Actions"). Amortization of intangible assets increased $125,000, or 8.9%, to $1.5 million in 2017 from $1.4 million in 2016. The increase resulted from the amortization of customer intangibles resulting from the purchase of approximately $60 million of lease receivables in 2016. FDIC insurance remained relatively flat at $10.1 million for 2017 and 2016. Software expense increased $1.4 million, or 12.9%, to $12.6 million from $11.2 million in 2016. The increase reflected additional information technology infrastructure to improve efficiency and scalability including BSA software to satisfy BSA regulatory requirements. Insurance expense remained relatively flat at $2.3 million in 2017 and 2016. Telecom and information technology network communications expense decreased $189,000, or 9.5%, to $1.8 million from $2.0 million in 2016,

reflecting the closure of certain locations. Securitization and servicing expense decreased $874,000, or 83.7%, to $170,000 from $1.0 million in 2016. Expense in 2016 reflected expenditures related to a potential securitization for loans which were instead sold directly to a single buyer. Consulting expense decreased $3.2 million, or 58.8%, to $2.2 million from $5.4 million in 2016. The decreased expense reflected reduced regulatory related and investor relations consulting. Other non-interest expense decreased $3.9 million, or 22.4%, to $13.5 million from $17.4 million in 2016. The decrease resulted primarily from decreases of $2.2 million for travel and entertainment, $1.0 million for customer identification expense and $745,000 for postage. The decrease in travel and entertainment expense reflected the impact of staff reductions and cost cutting efforts. The decrease in customer identification expense primarily reflected the exit of one affinity group and reduced health savings volume due to the sale of that business. The decrease in postage expense reflected the impact of the sale of the health savings business and elevated 2016 expense resulting from service charge and other communications mailings in that year.

Non-Interest Expense: 2016 compared to 2015. Total non-interest expense in 2016 was $198.6 million, an increase of $4.5 million, or 2.3%, over the $194.1 million in 2015. In 2016, there was a decrease of $12.4 million in BSA lookback consulting

expenses, which ended in the third quarter of 2016. Lookback expenses were being incurred to analyze historical transactions for potential BSA exceptions as required by the 2014 Consent Order. That decrease was offset by a $13.6 million increase in salary expense which amounted to $82.0 million in 2016, an increase of 19.8% over the $68.4 million in 2015. Staff additions and related increases in costs were made to our BSA and regulatory compliance functions and to our information technology, institutional banking and SBA departments. At the end of the third quarter of 2016, significant bank-wide and department-wide reductions were made in staffing and, in the fourth quarter, non-interest expense was reduced compared to third quarter 2016. Depreciation and amortization increased $235,000 to $5.0 million, or 5.0%, from $4.7 million in 2015, which reflected additional leasehold improvements and equipment for staff additions and information technology upgrades. Rent and occupancy increased $661,000 to $6.3 million, or 11.7%, from $5.7 million in 2015, which reflected a new sales office in San Francisco, leasing sales offices in Washington state and New Jersey and an SBA office in North Carolina. Data processing expense increased $339,000, or 2.4%, to $14.7 million from $14.4 million in 2015, reflecting increased transaction volume. Printing and supplies expense increased $315,000, or 11.9%, to $3.0 million from $2.7 million in 2015 reflecting mailings related to service charge increases and other periodic communications with customers. Audit expense decreased $898,000, or 44.8%, to $1.1 million from $2.0 million in 2015. The lower expense in 2016 reflected lower compliance audit expense and the transfer of certain audit functions in-house. Legal expense increased $2.9 million, or 74.6%, to $6.7 million from $3.8 million in 2015. The increase in legal expense reflected higher fees related to regulatory matters including fees associated with an SEC subpoena related to the restatement of the financial statements (see ”—Regulatory Actions”). Amortization of intangible assets increased $217,000, or 18.3%, to $1.4 million in 2016 from $1.2 million in 2015. The increase resulted from the amortization of customer intangibles resulting from the purchase of lease receivables. FDIC insurance decreased $1.2 million, or 10.8%, to $10.1 million from $11.3 million for 2015. The decrease resulted primarily from decreased average deposits. In 2015, we also had an additional assessment of approximately $293,000 due to the prior period financial restatements. Software expense increased $3.9 million, or 54.6%, to $11.2 million from $7.2 million in 2015. The increase reflected additional information technology infrastructure to improve efficiency and scalability including BSA software to satisfy BSA regulatory requirements. Insurance expense increased $372,000, or 19.3%, to $2.3 million from $1.9 million in 2015. The increase reflected higher limits and premiums for cyber and director and officer coverages. Telecom and information technology network communications expense were comparable in both years at $2.0 million. Securitization and servicing expense decreased $904,000, or 46.4%, to $1.0 million from $1.9 million in 2015 reflecting a lower volume of sales. Consulting expense increased $1.1 million, or 24.7%, to $5.4 million from $4.3 million in 2015. The increased expense reflected consulting related to reducing European prepaid operations expense, a more scalable SBLOC loan processing system, consulting for information related to internal reporting and investor relations consulting. Other non-interest expense decreased $3.7 million or, 17.4%, to $17.4 million from $21.1 million in 2015. The decrease reflected a $3 million civil money penalty assessed in 2015 in connection with the amendment to the 2014 Consent Order, a $1.0 million decrease in other operating taxes and a $372,000 decrease in meals and entertainment. European prepaid operations were sold in April 2017.

Income Tax Benefit and Expense

Income tax expense for continuing operations was $23.1 million for 2017 versus benefit of $12.7 million for 2016 and expense of $1.5 million for 2015. The tax expense rate of 57.1% in 2017 significantly exceeded statutory federal and state rates, as a result of the net impact of the reduction in federal corporate tax rate from 34% to 21%. The reduction required an adjustment through tax expense for the difference between the prior and new tax rate, which will be effective in 2018, applied to total net deferred tax assets. We currently estimate a combined federal and state statutory tax rate of 27% for 2018. The tax benefit rate of 18.2% in 2016 was lower than the 34% statutory rate as a result of additional allowances against deferred tax assets recognized in that year. The effective tax rate for 2015 was 21.3% which reflected the impact of tax exempt municipal securities income. As a result of deferred tax assets relating to Walnut Street, at December 31, 2017 there were approximately $10.0 million of related valuation allowances. Future reversals of these allowances are dependent on the excess of future recoveries on loans over any additional charges related to Walnut Street. The amount of those reversals and corresponding decreases to income tax expense in any period will also depend on the level of taxable income and projected period of utilization of the deferred tax

assets. Based upon available information, we do not believe that these allowances will reverse in the future.

Liquidity and Capital Resources

Liquidity defines our ability to generate funds to support asset growth, meet deposit withdrawals, satisfy borrowing needs and otherwise operate on an ongoing basis. We invest the funds we do not need for daily operations primarily in our interest bearing account at the Federal Reserve.

Our primary source of funding has been deposits. While there was only a modest increase in deposits of $22.5 million in 2017, our deposit levels in 2017 exceeded our ability to deploy the funds in our loan portfolios. Excess funds were invested in

available for sale securities which increased to $1.29 billion at December 31, 2017 from $1.25 billion at December 31, 2016. Loan repayments, also a source of funds, were exceeded by new loan disbursements during 2017, resulting in net loan growth of approximately $172.9 million.

While we do not have a traditional branch system, we believe that our core deposits, which include our demand, interest checking, savings and money market accounts, have similar characteristics to those of a bank with a branch system. The majority of our deposit accounts are obtained with the assistance of third parties and as a result are classified as brokered by the FDIC. The FDIC guidance for classification of deposit accounts as brokered is relatively broad, and generally includes accounts which were referred to or "placed" with the institution by other companies. If the Bank ceases to be categorized as "well capitalized" under banking regulations, it will be prohibited from accepting, renewing or rolling over brokered deposits without the consent of the FDIC. In such a case, the FDIC's refusal to grant consent to our accepting, renewing or rolling over brokered deposits could effectively restrict or eliminate the ability of the Bank to operate its business lines as presently conducted.

We focus on customer service which we believe has resulted in a history of customer loyalty. Stability, low cost and customer loyalty comprise key characteristics of core deposits which we believe are comparable to core deposits of peers with branch systems. As a result of the stability and low cost of our transaction account deposits, we have not, unlike peers, required the use of more costly and volatile certificates of deposit. However, certain components of our deposits do experience seasonality, creating greater excess liquidity at certain times in 2017. The largest deposit inflows occur in the first quarter of the year when certain of our accounts are credited with tax refund payments from the U.S. Treasury.

While consumer transaction accounts including prepaid accounts comprise the vast majority of our funding needs, we maintain secured borrowing lines with the Federal Home Loan Bank, or the FHLB, and the Federal Reserve. As of December 31, 2017, we had a $294.4 million line of credit with the FHLB and a $327.6 million line with the Federal Reserve. These lines may be collateralized by specified types of loans or securities. As of December 31, 2017, we had no amounts outstanding on these borrowing lines. We expect to continue to maintain our facilities with the FHLB and Federal Reserve. We actively monitor our positions and contingent funding sources on a daily basis.

As a result of the discontinuance of our commercial loan operations, we have received and expect to continue to receive during 2018, cash proceeds from the sale or repayment of discontinued loans. We currently anticipate that these proceeds will be deployed into loans in our continuing operations. Approximately $304.3 million of discontinued assets remained on our balance sheet as of December 31, 2017, consisting primarily of loans secured by commercial real estate. If not sold, these loans will be retained until repaid. We also retain the financing receivable from the 2014 Walnut Street securitization for a portion of the discontinued commercial loans. At December 31, 2017, the balance of that receivable was $74.5 million.

Included in our cash and cash-equivalents at December 31, 2017, were $841.5 million of interest earning deposits which primarily consisted of deposits with the Federal Reserve. These amounts may vary on a daily basis. Accordingly, the majority of our available liquidity is comprised of the aforementioned available for sale securities and lines of credit with the FHLB and Federal Reserve.

In 2017, $569.7 million of securities sales and repayments were comparable to purchases of $579.9 million. In 2016, $362.0 million of sales and repayments of investment securities were exceeded by purchases of $549.5 million which reflected purchases to replace sales of tax exempt securities in the fourth quarter of 2016. In 2015, sales and

repayments of securities exceeded purchases, with related funding used for loan funding. At December 31, 2017, we had outstanding commitments to fund loans, including unused lines of credit, of $1.45 billion, the vast majority of which are SBLOC lines. We attempt to increase line usage; however, usage has been historically consistent. Additionally, net loan growth was $172.9 million in 2017, $146.4 million in 2016 and $205.0 million in 2015.

As a holding company conducting substantially all of our business through our bank subsidiary, our need for liquidity consists principally of cash needed to make required interest payments on our trust preferred securities. As of December 31, 2017, we had approximate cash reserves of $15.3 million at the holding company. Current quarterly interest payments on the $13.4 million of trust preferred securities are approximately $150,000 based on a floating rate of 3.25% over the three-month London Interbank Offered Rate, or LIBOR. As a result of a Supervisory Letter, Federal Reserve approval is required for any dividend from us, and FDIC approval is required for any dividend from the Bank to us, which, apart from the $15.3 million of cash on hand, is our principal source of liquidity. See Item 1, “Business—Regulation under Banking Law,” and Item 1A, “Risk Factors-Risks Relating to Our Business-The entry into the Consent Orders and a supervisory letter from the Federal Reserve, have imposed certain restrictions and

requirements upon us and the Bank". The Federal Reserve approved the payment of the interest due March 15, 2018 on our trust preferred securities. Future payments are subject to future approval by the Federal Reserve.

We expect that the conditions under which the 2014 Consent Order Amendment was issued will be remediated and the FDIC will permit the Bank to resume paying dividends to us to fund holding company operations. There can, however, be no assurance that the FDIC will, in fact, allow the resumption of Bank dividends to us upon completion of the remediation or, if allowed, as to the timing thereof. Accordingly, there is risk that we will need to obtain alternate sources of funding at the holding company level to service our trust preferred securities. There can be no assurance that such sources would be available to us on acceptable terms or at all.

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 8.0%, a ratio of total capital to risk-weighted assets of 10.0% and a ratio of common equity to risk-weighted assets of 6.50% to be considered "well capitalized". The Tier I leverage ratio is the ratio of Tier 1 capital to average assets for the period. "Tier I capital" includes common shareholders' equity, certain qualifying perpetual preferred stock and minority interests in equity accounts of consolidated subsidiaries, less intangibles. At December 31, 2017, we were "well capitalized" under banking regulations.

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

	Tier 1 capital to average assets ratio	Tier 1 capital to risk-weighted assets ratio	Total capital to risk-weighted assets ratio	Common equity tier 1 to risk weighted assets
As of December 31, 2017				
The Bancorp, Inc.	7.90%	16.73%	17.09%	16.73%
The Bancorp Bank	7.61%	16.23%	16.59%	16.23%
"Well capitalized" institution (under FDIC regulations)	5.00%	8.00%	10.00%	6.50%
As of December 31, 2016				
The Bancorp, Inc.	6.90%	13.34%	13.63%	13.34%
The Bancorp Bank	6.84%	13.24%	13.53%	13.24%
"Well capitalized" institution (under FDIC regulations)	5.00%	8.00%	10.00%	6.50%

Asset and Liability Management

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

As a financial institution, potential interest rate volatility is a primary component of our market risk. Fluctuations in interest rates will ultimately impact the level of our earnings and the market value of all of our interest earning assets, other than those with short-term maturities. We do not own any trading assets. We use hedging transactions only for fixed rate commercial loans originated for sale into secondary securities markets. During 2017, we discontinued making fixed rate loans requiring hedging transactions.

We have adopted policies designed to stabilize net interest income and preserve capital over a broad range of interest rate movements. To effectively administer the policies and to monitor our exposure to fluctuations in interest rates, we maintain an asset/liability committee, consisting of the Bank's Chief Executive Officer, Chief Accounting Officer, Chief Financial Officer and Chief Credit Officer. This committee meets quarterly to review our financial results, develop strategies to optimize margins and to

respond to market conditions. The primary goal of our policies is to optimize margins and manage interest rate risk, subject to overall policy constraints for prudent management of interest rate risk.

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, all else equal. 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 December 31, 2017. 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. Loans currently at their interest rate floors are classified at their maturity date, though they are tied to variable interest rates. The majority of demand and 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. We estimate the repricing characteristics of these deposits based on historical performance, past experience, judgmental predictions 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. Additionally, although non-interest bearing demand accounts are not paid interest we estimate certain of the balances will reprice as a result of the fees that are paid to the affinity groups which are based upon a rate index, and therefore are included in interest expense. 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 and related behavior of certain categories of assets and liabilities is beyond our control as, for example, prepayments of loans and withdrawal of deposits. As a result, certain assets and liabilities indicated as repricing within a stated period may, in fact, reprice at different times and at different rate levels.

	1-90 Days	91-364 Days	1-3 Years	3-5 Years	Over 5 Years
	(dollars in thousands)				
Interest earning assets:					
Commercial loans held for sale	$ 296,929	$ 20,999	$ 50,310	$ 16,279	$ 118,799
Loans net of deferred loan costs	921,809	59,210	215,976	186,558	8,675
Investment securities	367,911	160,287	177,540	241,188	433,938
Interest earning deposits	841,471	-	-	-	-
Securities purchased under agreements to resell	64,312	-	-	-	-
Total interest earning assets	2,492,432	240,496	443,826	444,025	561,412
Interest bearing liabilities:					
Demand and interest checking	2,470,279	66,121	66,121	-	-
Savings and money market	113,469	226,939	113,469	-	-

Securities sold under agreements to repurchase	217	-	-	-	-
Subordinated debenture	13,401	-	-	-	-
Total interest bearing liabilities	2,597,366	293,060	179,590	-	-
Gap	$ (104,934)	$ (52,564)	$ 264,236	$ 444,025	$ 561,412
Cumulative gap	$ (104,934)	$ (157,498)	$ 106,738	$ 550,763	$ 1,112,175
Gap to assets ratio	-2%	-1%	6%	9%	12%
Cumulative gap to assets ratio	-2%	-3%	2%	12%	24%

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

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

We believe that the assumptions utilized in evaluating our estimated net interest income are reasonable; however, the interest rate sensitivity of our assets, liabilities and off-balance sheet financial instruments as well as the estimated effect of changes in interest rates on estimated net interest income could vary substantially if different assumptions are used or actual experience differs from presumed behavior of various deposit and loan categories. The following table shows the effects of interest rate shocks on our MVPE and net interest income. Rate shocks assume that current interest rates change immediately and sustain parallel shifts. For interest rate increases or decreases of 100 and 200 basis points, our policy includes a guideline that our MVPE ratio should not decrease more than 10% and 15%, respectively, and that net interest income should not decrease more than 10% and 15%, respectively. As illustrated in the following table, we complied with our asset/liability policy at December 31, 2017. While our modeling suggests an increase in market rates will have a positive impact on margin (as shown in the table below), the amount of such increase cannot be determined, and there can be no assurance any increase will be realized.

Net portfolio value at

	December 31, 2017		Net interest income	
Rate scenario	Amount	Percentage change	Amount	Percentage change
	(dollars in thousands)			
+200 basis points	$ 635,190	2.47%	$ 166,037	12.33%
+100 basis points	627,578	1.24%	157,097	6.28%
Flat rate	619,884	0.00%	147,811	0.00%
-100 basis points	597,171	-3.66%	140,594	-4.88%
-200 basis points	523,120	-15.61%	123,924	-16.16%

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

We do not use derivatives except for swaps for fixed rate loans which are originated for sale into securitizations. The swaps hedge interest rate risk between the time the loans are disbursed and sold.

Historically, we have used variable rate commercial loans as the principal means of limiting interest rate risk. Both the Bank's SBLOC and SBA loans are primarily variable rate. We continue to evaluate market conditions and may change our current gap strategy in response to changes in those conditions.

Financial Condition

General. Our total assets at December 31, 2017 were $4.71 billion, of which our total loans and loans held for sale from continuing operations were $1.90 billion and our assets held for sale (from discontinued operations) were $304.3 million, $270.0 million of which were loans. At December 31, 2016, our total assets were $4.86 billion, of which our total loans and loans held for sale from continuing operations were $1.89 billion and our assets held for sale (from discontinued operations) were $360.7 million, $340.4 million of which were loans. Investment securities available for sale increased to $1.29 billion at December 31, 2017 from $1.25 billion at December 31, 2016. The decrease in total assets at December 31, 2017 reflected a decrease in commercial loans held for sale. Variations in this balance result from the timing of securitizations and originations. The decrease was more than offset by planned exits of less profitable deposit relationships in 2017.

Interest earning deposits and federal funds sold. At December 31, 2017, we had a total of $841.5 million of interest earning deposits, comprised primarily of balances at the Federal Reserve, which pays interest on such balances.

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

For detailed information on the composition and maturity distribution of our investment portfolio, see Note D to the Consolidated Financial Statements. Total investment securities increased to $1.38 billion on December 31, 2017, an increase of $38.8 million, or 2.9%, from a year earlier. The increase in investment securities was primarily a result of purchases of government agency securities in anticipation of security paydowns expected in the first half of 2018.

Other securities included in the held-to-maturity classification at December 31, 2017 consisted of three securities secured by diversified portfolios of corporate securities and two single-issuer trust preferred securities.

A total of $11.0 million of other debt securities - single issuers is comprised of the amortized cost of two single-issuer trust preferred securities of $11.0 million, of which one security for $1.9 million was issued by a bank and one security for $9.1 million was issued by an insurance company.

A total of $75.3 million of other debt securities – pooled is comprised of three securities consisting of diversified portfolios of corporate securities.

The following table provides additional information related to our single issuer trust preferred securities as of December 31, 2017 (in thousands):

Single issuer	Book value	Fair value	Unrealized gain/(loss)	Credit rating
Security A	$ 1,915	$ 2,020	$ 105	Not rated
Security B	9,116	6,600	(2,516)	Not rated

Class: All of the above are trust preferred securities.

Under the accounting guidance related to the recognition of other-than-temporary impairment charges on debt securities, an impairment on a debt security is deemed to be other-than-temporary if it meets either of the following conditions: i) we intend to sell or it is more likely than not we will be required to sell the security before a recovery in value, or ii) we do not expect to recover the entire amortized cost basis of the security. If we intend to sell or it is more likely than not we will be required to sell the security before a recovery in value, a charge is recorded in net realized losses in the consolidated statement of operations equal to the difference between the fair value and amortized cost basis of the security. For those other-than-temporarily impaired debt securities which do not meet the first condition and for which we do not expect to recover the entire amortized cost basis, the difference between the security's amortized cost basis and the fair value is separated into the portion representing a credit impairment, which is recorded in net realized losses in the consolidated statement of operations, and the remaining impairment, which is recorded in other comprehensive income. Generally, a security's credit impairment is the difference between its amortized cost basis and the best estimate of its expected future cash flows discounted at the security's effective yield prior to impairment. The previous amortized cost basis, less the impairment recognized in net realized losses on the consolidated income statement, becomes the security's new cost basis. We recognized no other-than-temporary impairment charges related to trust preferred securities classified in our held-to-maturity portfolio for 2017, 2016 and 2015.

The following table presents the book value and the approximate fair value for each major category of our investment securities portfolio. At December 31, 2017 and 2016, our investments were categorized as either available-for-sale or held-to-maturity (in thousands).

	Available-for-sale December 31, 2017		Held-to-maturity December 31, 2017	
	Amortized cost	Fair value	Amortized cost	Fair value
U.S. Government agency securities	$ 50,107	$ 49,902	$ -	$ -
Asset-backed securities	269,164	270,085	-	-
Tax-exempt obligations of states and political subdivisions	9,893	9,988	-	-
Taxable obligations of states and political subdivisions	64,739	65,861	-	-
Residential mortgage-backed securities	452,723	448,852	-	-
Collateralized mortgage obligation securities	248,663	246,493	-	-
Commercial mortgage-backed securities	204,469	203,303	-	-
Corporate debt securities	-	-	86,380	85,345
	$ 1,299,758	$ 1,294,484	$ 86,380	$ 85,345

	Available-for-sale December 31, 2016		Held-to-maturity December 31, 2016	
	Amortized cost	Fair value	Amortized cost	Fair value
U.S. Government agency securities	$ 27,771	$ 27,702	$ -	$ -
Asset-backed securities	355,622	355,396	-	-
Tax-exempt obligations of states and political subdivisions	15,492	15,484	-	-
Taxable obligations of states and political subdivisions	78,143	79,049	-	-
Residential mortgage-backed securities	347,120	342,569	-	-
Collateralized mortgage obligation securities	160,649	159,823	-	-
Commercial mortgage-backed securities	117,844	117,086	-	-
Foreign debt securities	56,603	56,497	-	-
Corporate debt securities	95,005	95,008	93,467	91,799
	$ 1,254,249	$ 1,248,614	$ 93,467	$ 91,799

Investments in Federal Home Loan and Atlantic Central Bankers Bank stock are recorded at cost and amounted to $991,000 at December 31, 2017 and $1.6 million at December 31, 2016.

At December 31, 2017 and 2016, investment securities with a fair value of approximately $310.9 million and $607.2 million, respectively, were pledged to secure a line of credit with the FHLB. At December 31, 2017 and 2016, investment securities with a fair value of approximately $225.6 million and $0 million, respectively, were pledged to secure a line of credit with the Federal Reserve.

The following tables show the contractual maturity distribution and the weighted average yields of our investment securities portfolio as of December 31, 2017 (in thousands):

Available-for-sale	Zero to one year	Average yield	After one to five years	Average yield	After five to ten years	Average yield	Over ten years
U.S. Government agency securities	$ -	-	$ 451	3.47%	$ 24,067	2.29%	$ 25,3
Asset-backed securities *	-	-	6,912	2.66%	55,907	2.54%	207,266
Tax-exempt obligations of states and political subdivisions **	1,488	0.98%	3,734	2.06%	3,722	2.81%	1,044
Taxable obligations of states and political subdivisions	758	1.50%	5,168	2.69%	52,285	3.41%	7,650
Residential mortgage-backed securities	-	-	4,756	2.39%	98,090	2.41%	346,006
Collateralized mortgage obligation securities	-	-	-	-	6,522	2.21%	239,971
Commercial mortgage-backed securities	-	-	-	-	78,038	2.64%	125,265
Total	$ 2,246		$ 21,021		$ 318,631		$ 952,5
Weighted average yield		1.16%		2.52%		2.64%	

* The average yield of asset backed securities is as follows: collateralized loan obligation securities 3.01%, federally insured student loan securities 2.37% and other asset-backed securities 2.98%.

** If adjusted to their taxable equivalents, yields would approximate 1.24%, 2.61%, 3.56% and 5.70% for zero to one year, one to five years, five to ten years and over ten years, respectively, at a Federal tax rate of 21%.

Held-to-maturity	Zero to one year	Average yield	After one to five years	Average yield	After five to ten years	Average yield	Over ten years	
Other debt securities	$ -	-	$ -	-	$ -	-	$	86,380
Total	$ -		$ -		$ -		$	86,380
Weighted average yield				-				

Loan Portfolio. We have developed a detailed credit policy for our lending activities and utilize loan committees to oversee the lending function. SBLOC and other consumer loans, SBA, Leases and CMBS each have their own loan committee. The Chief Executive Officer and Chief Credit Officer serve on all loan committees. Each committee also includes lenders from that particular type of specialty lending. The Chief Credit Officer is responsible for both regulatory compliance and adherence to our internal credit policy. Key committee members have lengthy experience and certain of them have had similar positions at substantially larger institutions.

We originate substantially all of our portfolio loans, although from time to time we purchase lease pools. If a proposed loan should exceed our lending limit, we would sell a participation in the loan to another financial institution. The following table summarizes our loan portfolio, not including loans held for sale, by loan category for the periods indicated (in thousands):

	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014	December 31, 2013
SBA non-real estate	$ 71,263	$ 74,644	$ 68,887	$ 62,425	$ 45,875
SBA commercial mortgage	142,086	126,159	114,029	82,317	69,730

SBA construction	16,740	8,826	6,977	20,392	51
SBA loans *	230,089	209,629	189,893	165,134	115,656
Direct lease financing	378,029	346,645	231,514	194,464	175,610
SBLOC	730,462	630,400	575,948	421,862	293,109
Other specialty lending	30,720	11,073	48,315	48,625	1,588
Other consumer loans	14,133	17,374	23,180	36,168	45,152
	1,383,433	1,215,121	1,068,850	866,253	631,115
Unamortized loan fees and costs	8,795	7,790	9,227	8,340	4,886
Total loans, net of deferred loan fees and costs	$ 1,392,228	$ 1,222,911	$ 1,078,077	$ 874,593	$ 636,001

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

December 31, 2017	December 31, 2016	December 31,	December 31,	December 31,