MBIA INC
Form 8-K
September 19, 2008

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): September 19, 2008 (September 18, 2008)

MBIA INC.
(Exact name of registrant as specified in its charter)

Connecticut	**1-9583**	**06-1185706**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

113 King Street, Armonk, New York	**10504**
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code:
914-273-4545

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 7.01. REGULATION FD DISCLOSURE.

MBIA Inc. ("MBIA" or the "Company") issued a press release on September 18, 2008. A copy of the press release is attached as Exhibit 99.1 hereto.

The information in the press release is being furnished, not filed, pursuant to Item 7.01 of Form 8-K. Accordingly, the information in Item 7.01 of this Current Report, including Exhibit 99.1, will not be incorporated by reference into any registration statement filed by MBIA under the Securities Act of 1933, as amended, unless specifically identified therein as being incorporated by reference.

Item 8.01 OTHER EVENTS.

The following information is being filed pursuant to Item 8.01 – Other Events of Form 8-K.

On September 18, 2008, Moody's Investors Service, Inc. ("Moody's") announced that it placed the following ratings on review for possible downgrade:

- MBIA Insurance Corporation ("MBIA Corp.") -- insurance financial strength at A2 and surplus notes at Baa1;
- MBIA Insurance Corp. of Illinois -- insurance financial strength at A2;
- Capital Markets Assurance Corporation -- insurance financial strength at A2;
- MBIA UK Insurance Limited -- insurance financial strength at A2;
- MBIA Assurance S.A. -- insurance financial strength at A2;
- MBIA Mexico, S.A. de C.V. -- insurance financial strength at A2;
- MBIA Inc. -- senior unsecured debt at Baa2, provisional senior debt at (P) Baa2, provisional subordinated debt at (P) Baa3, and provisional preferred stock at (P) Ba1; and
- North Castle Custodial Trusts I-VIII -- contingent capital securities at Baa2.

Moody's announced that the rating action followed their announcement of an upward revision to cumulative loss projections for subprime RMBS exposures and referred to a special report titled "Subprime RMBS Loss Projection Update: September 2008". Moody's stated that because MBIA Corp. is meaningfully exposed to the risk of U.S. subprime mortgages and other residential mortgage products, the revised assumptions are expected to have a significant impact on MBIA Corp.'s capital positions and multi-notch downgrades are possible. Moody's also announced that as a result of this review, the Moody's-rated securities that are guaranteed by MBIA Corp. are also placed under review for possible downgrade, except those with higher public underlying ratings. According to Moody's, a list of these securities will be made available under "Ratings Lists" at www.moodys.com/guarantors.

On September 18, 2008, MBIA issued a press release commenting on Moody's ratings review.

Item 9.01 FINANCIAL STATEMENTS AND EXHIBITS.

99.1 Press Release issued by MBIA Inc. dated September 18, 2008.

SIGNATURES

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

MBIA INC.

By: /s/ Ram D. Wertheim
Ram D. Wertheim
General Counsel

Date: September 19, 2008

EXHIBIT INDEX TO CURRENT REPORT ON FORM 8-K

Dated September 19, 2008

Exhibit 99.1 Press Release issued by MBIA Inc. dated September 18, 2008.

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$263,726 $246,611

* At September 30, 2012, our owner occupied loans amounted to $157.2 million, or 25.6% of commercial mortgages as compared to $137.9 million, or 22.6% at December 31, 2011.

The Company has identified thirty loans as impaired, where it is probable that interest and principal will not be collected according to the contractual terms of the loan agreement. The balance of these impaired loans was $29.2 million at September 30, 2012, of which $20.2 million had a specific reserve of $10.9 million. The remaining $9.0 million of impaired loans did not have a reserve. Included within the impaired loans at September 30, 2012 are eight troubled debt restructured loans with a balance of $8.3 million with a total specific reserve of $4.2 million. The Company recognizes income on impaired loans when they are placed into non-accrual status on a cash basis when the loans are both current and the collateral on the loan is sufficient to cover the outstanding obligation to the Company. If these factors do not exist, the Company will not recognize income on such loans. Interest income would have increased by $631,000 in third quarter 2012 if interest on impaired loans had been accrued. The balance of impaired loans was $17.6 million at December 31, 2011, of which $14.5 million had specific reserves of $5.9 million. The Company did recognize interest income of $65,000 on impaired loans in the nine months ended September 30, 2012 and did not recognize any interest income for the nine months ended September 30, 2011.

The following table provides information about impaired loans at September 30, 2012 and December 31, 2011 (in thousands):

	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment	Interest income recognized
September 30, 2012					
Without an allowance recorded					
Construction	$276	$276	$-	$911	$-
Commercial mortgage	3,582	4,403	-	2,058	-
Commercial	4,219	6,257	-	2,017	-
Consumer - home equity	927	927	-	927	-
Residential	-	-	-	316	-
With an allowance recorded					
Construction	8,886	8,886	4,899	7,523	-
Commercial mortgage	7,742	8,287	4,028	4,090	-
Commercial	3,435	3,631	1,885	5,397	-
Consumer - home equity	-	-	-	81	-
Residential	93	93	71	47	-
Total					
Construction	$9,162	$9,162	$4,899	$8,434	$-
Commercial mortgage	$11,324	$12,690	$4,028	$6,148	$-
Commercial	$7,654	$9,888	$1,885	$7,414	$-
Consumer - home equity	$927	$927	$-	$1,008	$-
Residential	$93	$93	$71	$363	$-
December 31, 2011					
Without an allowance recorded					
Construction	$-	$-	$-	$100	$-
Commercial mortgage	-	-	-	310	-
Commercial	900	2,042	6,831	626	-
Consumer - home equity	927	927	3,765	371	-
Residential	1,264	1,414	149	662	-
With an allowance recorded					
Construction	4,949	4,949	2,296	2,123	-
Commercial mortgage	3,672	3,672	712	2,793	-
Commercial	5,550	5,550	2,724	3,075	-
Consumer - home equity	325	325	204	510	-
Residential	-	-	-	5,048	-
Total					
Construction	$4,949	$4,949	$2,296	$2,223	$-
Commercial mortgage	$3,672	$3,672	$712	$3,103	$-
Commercial	$6,450	$7,592	$9,555	$3,701	$-
Consumer - home equity	$1,252	$1,252	$3,969	$881	$-
Residential	$1,264	$1,414	$149	$5,710	$-

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The following tables summarize the Company's non-accrual loans, loans past due 90 days and other real estate owned for the periods indicated (the Company had no non-accrual leases at September 30, 2012 or December 31, 2011):

	September 30, 2012	September 30, 2011	December 31, 2011
		(in thousands)	
Non-accrual loans			
Construction *	$8,886	$2,321	$4,949
Commercial mortgage *	8,894	3,848	3,672
Commercial *	7,654	4,212	6,450
Consumer	927	1,560	1,252
Residential	93	5,260	1,264
Total non-accrual loans	26,454	17,201	17,587
Loans past due 90 days or more	3,861	5,550	4,101
Total non-performing loans	30,315	22,751	21,688
Other real estate owned	3,065	6,415	7,405
Total non-performing assets	$33,380	$29,166	$29,093

* Included in the non-accrual loans as of September 30, 2012 were five troubled debt restructured loans classified as follows: $725,000 in commercial mortgage, $2.3 million in commercial and $2.6 million in construction.

Of the $8.3 million of loans that were modified and considered troubled debt restructurings as of September 30, 2012 $5.6 million and $1.1 million were already included in non-accrual and non-performing loan totals as of that date. An analysis of those loans is as follows (dollars in thousands):

	September 30, 2012			December 31, 2011		
	Number	Pre-modification recorded investment	Post-modification recorded investment	Number	Pre-modification recorded investment	Post-modification recorded investment
Commercial	1	$ 2,255	$ 2,255	-	$ -	$ -
Commercial mortgage	3	3,156	3,156	1	759	759
Construction	4	2,913	2,913	-	-	-
Residential mortgage	-	-	-	1	364	364
Total	8	$ 8,324	$ 8,324	2	$ 1,123	$ 1,123

The balances below provide information as to how the loans were modified as troubled debt restructurings loans as of September 30, 2012 and December 31, 2011 (dollars in thousands):

	September 30, 2012			December 31, 2011		
	Adjusted interest rate	Extended maturity	Combined rate and maturity	Adjusted interest rate	Extended maturity	Combined rate and maturity

Commercial	$-	$2,255	$-	$-	$-	$-
Commercial mortgage	725	214	2,217	759	-	-
Construction	-	2,913	-	-	-	-
Residential mortgage	-	-	-	364	-	-
Total	$725	$5,382	$2,217	$1,123	$-	$-

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As of September 30, 2012 and December 31, 2011, the Company has no commitments to lend additional funds to loan customers whose terms have been modified in troubled debt restructurings.

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

Nine months ended September 30, 2012	Commercial	Commercial mortgage	Construction	Residential mortgage	Consumer	Direct lease financing	Unallocated	Total
Beginning balance	$ 10,214	$ 9,274	$ 5,352	$ 2,090	$ 1,346	$ 254	$ 1,038	$ 29,568
Charge-offs	(3,487)	(2,466)	(6,931)	-	(299)	(87)	-	(13,270)
Recoveries	505	1,028	95	85	-	13	-	1,726
Provision	1,843	476	12,544	81	626	(25)	(498)	15,047
Ending balance	$ 9,075	$ 8,312	$ 11,060	$ 2,256	$ 1,673	$ 155	$ 540	$ 33,071
Ending balance: Individually evaluated for impairment	$ 1,884	$ 4,028	$ 4,899	$ 71	$ -	$ -	$ -	$ 10,882
Ending balance: Collectively evaluated for impairment	$ 7,191	$ 4,284	$ 6,161	$ 2,185	$ 1,673	$ 155	$ 540	$ 22,189
Loans:								
Ending balance	$ 453,444	$ 614,410	$ 263,726	$ 97,589	$ 276,427	$ 146,728	$ 4,668	$ 1,856,992
Ending balance: Individually evaluated for impairment	$ 7,654	$ 11,324	$ 9,162	$ 93	$ 927	$ -	$ -	$ 29,160
Ending balance: Collectively evaluated for impairment	$ 445,790	$ 603,086	$ 254,564	$ 97,496	$ 275,500	$ 146,728	$ 4,668	$ 1,827,832

Twelve months ended December 31, 2011	Commercial	Commercial mortgage	Construction	Residential mortgage	Consumer	Direct lease financing	Unallocated	Total
	$ 6,051	$ 9,501	$ 5,030	$ 2,115	$ 578	$ 164	$ 624	$ 24,063

Beginning balance								
Charge-offs	(7,453)	(1,198)	(3,254)	(2,870)	(1,280)	(39)	-	(16,094)
Recoveries	2	89	4	-	6	-	-	101
Provision	11,614	882	3,572	2,845	2,042	129	414	21,498
Ending balance	$ 10,214	$ 9,274	$ 5,352	$ 2,090	$ 1,346	$ 254	$ 1,038	$ 29,568
Ending balance: Individually evaluated for impairment	$ 2,724	$ 712	$ 2,296	$ -	$ 204	$ -	$ -	$ 5,936
Ending balance: Collectively evaluated for impairment	$ 7,490	$ 8,562	$ 3,056	$ 2,090	$ 1,142	$ 254	$ 1,038	$ 23,632
Loans:								
Ending balance	$ 450,411	$ 609,487	$ 246,611	$ 96,110	$ 209,041	$ 129,682	$ 3,486	$ 1,744,828
Ending balance: Individually evaluated for impairment	$ 6,450	$ 3,672	$ 4,949	$ 1,264	$ 1,252	$ -	$ -	$ 17,587
Ending balance: Collectively evaluated for impairment	$ 443,961	$ 605,815	$ 241,662	$ 94,846	$ 207,789	$ 129,682	$ 3,486	$ 1,727,241

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Nine months ended September 30, 2011	Commercial	Commercial mortgage	Construction	Residential mortgage	Consumer	Direct lease financing	Unallocated	Total
Beginning balance	$ 6,051	$ 9,501	$ 5,030	$ 2,115	$ 578	$ 164	$ 624	$ 24,063
Charge-offs	(6,729)	(642)	(3,003)	(1,876)	(815)	-	-	(13,065)
Recoveries	2	14	3	-	-	-	-	19
Provision	11,034	(1,108)	2,061	2,636	1,688	(36)	379	16,654
Ending balance	$ 10,358	$ 7,765	$ 4,091	$ 2,875	$ 1,451	$ 128	$ 1,003	$ 27,671
Ending balance: Individually evaluated for impairment	$ 1,127	$ 615	$ 622	$ 1,037	$ 449	$ -	$ -	$ 3,850
Ending balance: Collectively evaluated for impairment	$ 9,231	$ 7,150	$ 3,469	$ 1,838	$ 1,002	$ 128	$ 1,003	$ 23,821
Loans:								
Ending balance	$ 461,679	$ 577,237	$ 242,806	$ 96,139	$ 205,243	$ 129,400	$ 3,144	$ 1,715,648
Ending balance: Individually evaluated for impairment	$ 4,212	$ 3,848	$ 2,321	$ 5,260	$ 1,560	$ -	$ -	$ 17,201
Ending balance: Collectively evaluated for impairment	$ 457,467	$ 573,389	$ 240,485	$ 90,879	$ 203,683	$ 129,400	$ 3,144	$ 1,698,447

The Company did not have loans acquired with deteriorated credit quality at either September 30, 2012 or December 31, 2011.

A detail of the Company’s delinquent loans by loan category is as follows (in thousands):

	30-59 Days	60-89 Days	Greater than	Total	Total

September 30, 2012	past due	past due	90 days	Non-accrual	past due	Current	loans
Commercial	$1,357	$1,500	$107	$7,654	$10,618	$442,826	$453,444
Commercial mortgage	1,042	-	3,077	8,894	13,013	601,397	614,410
Construction	-	-	667	8,886	9,553	254,173	263,726
Direct lease financing	788	1,026	8	-	1,822	144,906	146,728
Consumer - other	1,091	-	2	-	1,093	231,057	232,150
Consumer - home equity	-	420	-	927	1,347	42,930	44,277
Residential mortgage	-	-	-	93	93	97,496	97,589
Unamortized costs	-	-	-	-	-	4,668	4,668
	$4,278	$2,946	$3,861	$26,454	$37,539	$1,819,453	$1,856,992
December 31, 2011							
Commercial	$-	$242	$817	$6,450	$7,509	$442,902	$450,411
Commercial mortgage	278	1,763	1,597	3,672	7,310	602,177	609,487
Construction	-	825	942	4,949	6,716	239,895	246,611
Direct lease financing	1,230	606	745	-	2,581	127,101	129,682

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Consumer - other	-	-	-	1,252	1,252	164,145	165,397
Consumer - home equity	-	2	-	-	2	43,642	43,644
Residential mortgage	-	-	-	1,264	1,264	94,846	96,110
Unamortized costs	-	-	-	-	-	3,486	3,486
	$1,508	$3,438	$4,101	$17,587	$26,634	$1,718,194	$1,744,828

The Company evaluates its loans under an internal loan risk rating system as a means of identifying problem loans. The following table provides information by credit risk rating indicator for each segment of the loan portfolio not including loans held for sale at the dates indicated (in thousands):

	Commercial		Construction		Commercial mortgage		Residential mortgage	
	9/30/2012	12/31/2011	9/30/2012	12/31/2011	9/30/2012	12/31/2011	9/30/2012	12/31/2011
Risk Rating								
Pass	$331,624	$ 320,287	$236,486	$ 176,824	$490,001	$ 476,421	$28,792	$28,981
Special Mention	2,939	1,049	-	-	23,862	21,615	-	-
Substandard	8,045	7,696	9,553	6,716	12,740	6,867	-	1,264
Doubtful	-	-	-	-	-	-	93	-
Loss	-	-	-	-	-	-	-	-
Unrated subject to review	28,253	60,938	10,711	49,700	23,502	26,543	1,590	2,084
Unrated not subject to review	82,583	60,441	6,976	13,371	64,305	78,041	67,114	63,781
Total	$453,444	$ 450,411	$263,726	$ 246,611	$614,410	$ 609,487	$97,589	$96,110

	Consumer		Direct lease financing		Unamortized costs		Total	
	9/30/2012	12/31/2011	9/30/2012	12/31/2011	9/30/2012	12/31/2011	9/30/2012	12/31/2011
Risk Rating								
Pass	$56,020	$ 64,236	$54,747	$ 12,025	$-	$ -	$1,197,670	$1,078,774
Special Mention	-	-	-	-	-	-	26,801	22,664
Substandard	3,672	2,718	61	649	-	-	34,071	25,910
Doubtful	-	-	-	-	-	-	93	-
Loss	-	-	-	-	-	-	-	-
Unrated subject to review	25,573	2,873	-	29,174	-	-	89,629	171,312
Unrated not subject to review	191,162	139,214	91,920	87,834	4,668	3,486	508,728	446,168
Total	$276,427	$ 209,041	$146,728	$ 129,682	$4,668	$ 3,486	$1,856,992	$1,744,828

* Unrated loans consist of performing loans which did not exhibit any negative characteristics which would require the loan to be evaluated, or fell below the dollar threshold requiring review ender the Bank's internal policy and was not one of the loans otherwise selected in ongoing portfolio evaluation. The scope of the Bank's loan review policy

encompasses commercial and construction loans and leases which singly, or in aggregate for loans to related borrowers, exceed $3.0 million. The loan portfolio review coverage was approximately 68% at September 30, 2012 and approximately 65% at December 31, 2011. This review is performed by the loan review department, which is independent of the loan origination department and reports directly to the audit committee. Potential problem loans which are identified by either the independent loan review department or line management are reviewed. All classified loans are continuously reviewed quarterly by the independent loan review function of the Bank. Additionally, all loans are subject to ongoing monitoring by portfolio managers and loan officers. Also, many of the Bank's loans are relatively short term, and are subject to reconsideration with a full review in loan committee between one and three years.

Note 7. Transactions with Affiliates

The Company entered into a sublease for office space in Philadelphia, Pennsylvania with RAIT Financial Trust (RAIT) commencing in October 2000. The former Chief Executive Officer of RAIT (from December 2006 to February 2009), who was also a RAIT trustee, is the Chairman of the Company and a director and Chairman of the Executive Committee of the Bank. RAIT paid the Company approximately $228,000 and $223,000, for the nine months ended September 30, 2012 and 2011, respectively.

The Company entered into a space sharing agreement for office space in New York, New York with Resource America Inc. commencing in September 2011. The Chairman of the Board of Resource America, Inc is the father of the Chairman of the Board and the spouse of the Chief Executive Officer of the Company. The Chief Executive Officer of Resource America is the brother of the Chairman of the Board and the son of the Chief Executive Officer of the Company. Rent expense for the nine months ended September 30, 2012 was $77,000.

The Company entered into a space sharing agreement for office space in New York, New York with Atlas Energy, L.P. commencing in May 2012. The Chairman of the Board of Atlas Energy, L.P. is the brother of the Chairman of the Board and the son of the Chief Executive Officer of the Company. The Chief Executive Officer of Atlas Energy, L.P. is the father of the Chairman of the Board and the spouse of the Chief Executive Officer of the Company. Rent expense for the nine months ended September 30, 2012 was $14,000.

The Bank maintains deposits for various affiliated companies totaling approximately $47.1 million and $88.8 million as of September 30, 2012 and December 31, 2011, respectively.

The Bank has entered into lending transactions in the ordinary course of business with directors, executive officers, principal stockholders and affiliates of such persons on the same terms as those prevailing for comparable transactions with other borrowers. At September 30, 2012, these loans were current as to principal and interest payments and did not involve more than normal risk of collectability. At September 30, 2012, loans to these related parties amounted to $31.5 million as compared to $32.4 million at December 31, 2011.

The Company executed security transactions through PrinceRidge, a brokerage firm in which the Company's Chairman is a principal. For the nine months ended September 30, 2012 a total of $35.8 million of securities rated AAA by at least one rating agency were purchased from that firm at market, the market price having been confirmed by an independent security advisor. All of the securities purchased were commercial mortgage-backed securities. The Company does not pay a separate fee or commission to PrinceRidge. We do not have information as to PrinceRidge's actual profits or losses. All of the purchases were classified as available for sale.

Note 8. Fair Value Measurements

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

Estimated fair values have been determined by the Company using the best available data and an estimation methodology it believes to be suitable for each category of financial instruments. Changes in the assumptions or methodologies used to estimate fair values may materially affect the estimated amounts. Also, there may not be reasonable comparability between institutions due to the wide range of permitted assumptions and methodologies in the absence of active markets. This lack of uniformity gives rise to a high degree of subjectivity in estimating financial instrument fair values.

Cash and cash equivalents, which are comprised of cash and due from banks, our balance at the Federal Reserve Bank and federal funds sold, had recorded values of $544.7 million and $749.2 million as of September 30, 2012 and December 31, 2011, respectively, which approximated fair values.

The estimated fair values of investment securities are based on quoted market prices, if available, or by an estimated methodology based on management's inputs. The fair values of the Company's investment securities held-to-maturity are based on using "unobservable inputs" that are the best information available in the circumstances.

The net loan portfolio at September 30, 2012 and December 31, 2011 has been valued using the present value of discounted cash flow where market prices were not available. The discount rate used in these calculations is the estimated current market rate adjusted for credit risk. The carrying value of accrued interest approximates fair value.

The estimated fair values of demand deposits (i.e. interest-and noninterest-bearing checking accounts, savings, and certain types of demand and money market accounts are equal to the amount payable on demand at the reporting date (i.e. their carrying amounts). The fair values of securities sold under agreements to repurchase and short term borrowings are equal to their carrying amounts as they are overnight borrowings.

The fair values of certificates of deposit and subordinated debentures are estimated using a discounted cash flow calculation that applies current interest rates to discounted expected cash flows. Based upon time deposit maturities at September 30, 2012, the carrying values approximate their fair values. The carrying amount of accrued interest payable approximates its fair value (in thousands).

	September 30, 2012				
	Carrying amount	Estimated fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash and cash equivalents	$544,658	$544,658	$544,658	$-	$ -
Investment securities available-for-sale	634,894	634,894	3,075	631,211	608
Investment securities held-to-maturity	22,707	18,634	-	-	18,634
Federal Home Loan and Atlantic Central Bankers Bank stock	4,160	4,160	4,160	-	-
Commercial loans held for sale	7,970	7,970	-	-	7,970
Loans receivable, net	1,856,992	1,855,671	-	-	1,855,671
Demand and interest checking	2,300,025	2,300,025	2,300,025	-	-
Savings and money market	459,725	459,725	459,725	-	-
Time deposits	21,425	21,491	-	-	21,491
Subordinated debenture	13,401	9,268	-	-	9,268
Securities sold under agreements to repurchase	18,802	18,802	18,802	-	-
Accrued interest payable	100	100	100	-	-

	December 31, 2011	
	Carrying amount	Estimated fair value
Cash and cash equivalents	$749,174	$749,174
Investment securities available-for-sale	448,204	448,204
Investment securities held-to-maturity	18,044	13,826
Federal Home Loan and Atlantic Central Bankers Bank stock	5,088	5,088
Loans receivable, net	1,744,828	1,718,698
Demand and interest checking	2,192,938	2,192,938
Savings and money market	454,343	454,343
Time deposits	35,270	35,336
Subordinated debenture	13,401	9,287
Securities sold under agreements to repurchase	33,177	33,177
Accrued interest payable	123	123

The fair value of commitments to extend credit is estimated based on the amount of unamortized deferred loan commitment fees. The fair value of letters of credit is based on the amount of unearned fees plus the estimated cost to

terminate the letters of credit. Fair values of unrecognized financial instruments, including commitments to extend credit, and the fair value of letters of credit are considered immaterial.

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In addition, FASB ASC topic 820, Fair Value Measurements and Disclosures, establishes a common definition for fair value to be applied to assets and liabilities. It clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also establishes a framework for measuring fair value and expands disclosures concerning fair value measurements. FASB ASC topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Level 1 valuation is based on quoted market prices for identical assets or liabilities to which the Company has access at the measurement date. Level 2 valuation is based on other observable inputs for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets in active or inactive markets, inputs other than quoted prices that are observable for the asset or liability such as yield curves, volatilities, prepayment speeds, credit risks, default rates, or inputs that are derived principally from, or corroborated through, observable market data by market-corroborated reports. Level 3 valuation is based on “unobservable inputs” which the Company believes is the best information available in the circumstances. A financial instrument’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assets measured at fair value on a recurring basis, segregated by fair value hierarchy level, are summarized below (in thousands):

		Fair Value Measurements at Reporting Date Using		
	Fair value September 30, 2012	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investment				
U.S. Government agency securities	$8,828	$-	$8,828	$ -
Federally insured student loan securities	111,545	-	111,545	
Obligations of states and political subdivisions	163,375	-	163,375	-
Residential mortgage-backed securities	197,158	-	197,158	-
Commercial mortgage-backed securities	102,477	-	102,477	-
Other debt securities	48,436	-	47,828	608
Other equity securities	3,075	3,075	-	-
	$634,894	$3,075	$631,211	$ 608

		Fair Value Measurements at Reporting Date Using		
	Fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)

	December 31, 2011			
Investment				
U.S. Government agency securities	$9,285	$-	$9,285	$ -
Obligations of states and political subdivisions	150,666	-	150,666	-
Residential mortgage-backed securities	193,685	-	193,685	-
Commercial mortgage-backed securities	52,061	-	52,061	-
Other debt securities	39,532	-	38,902	630
Other equity securities	2,975	2,975	-	-
	$448,204	$2,975	$444,599	$ 630

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The changes in the Company's Level 3 assets are set forth below (in thousands).

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	Available-for-sale securities			
	September 30, 2012		December 31, 2011	
Beginning balance	$	630	$	748
Transfers into level 3		-		-
Transfers out of level 3		-		-
Total gains or losses (realized/unrealized)				
Included in earnings		-		(2)
Included in other comprehensive income		15		(62)
Purchases, issuances, and settlements				
Purchases		-		-
Issuances		-		-
Sales				
Settlements		(37)		(54)
Ending balance	$	608	$	630

The other debt securities included in level 3 at September 30, 2012 and December 31, 2011 have been valued on the present value of cash flows, which discounts expected cash flows from principal and interest using yield to maturity at the measurement date. The discount rate used in these calculations is the estimated current market rate adjusted for credit risk.

Assets measured at fair value on a nonrecurring basis, segregated by fair value hierarchy, during the periods shown are summarized below (in thousands):

		Fair Value Measurements at Reporting Date Using		
Description	Fair value September 30, 2012	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Impaired loans	$29,160	$-	$-	$ 29,160
Other real estate owned	3,065	-	-	3,065
	$32,225	$-	$-	$ 32,225

Description	Fair value December 31, 2011	Fair Value Measurements at Reporting Date Using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Impaired loans	$17,587	$-	$-	$ 17,587
Other real estate owned	7,405	-	-	7,405
	$24,992	$-	$-	$ 24,992

At September 30, 2012, impaired loans that are collateral dependent have been presented at their fair value, less costs to sell, of $29.2 million through specific reserves and other write downs of $10.9 million or by recording charge-offs when the carrying value exceeds the fair value. Included in the impaired balance at September 30, 2012 were troubled debt restructured loans with a balance of $8.3 million which have specific reserves of $4.2 million. Valuation techniques consistent with the market and/or cost approach were used to measure fair value and primarily included observable inputs for the individual impaired loans being evaluated such as recent sales of similar assets or observable market data for operational or carrying costs. In cases where such inputs were unobservable, the loan balance is reflected within the Level 3 hierarchy. The fair value of other real estate owned is based on an appraisal of the property using the market approach for valuation.

Note 9. Derivatives

The Company utilizes derivative instruments to assist in the management of interest rate sensitivity by modifying the repricing, maturity and option characteristics on commercial real estate loans held for sale. The Company entered into two interest rate swap agreements with an aggregate notional amount of $5.9 million. These swap agreements provide for the Company to receive an adjustable rate of interest based upon the three-month London Interbank Offering Rate (LIBOR). The Company recorded expense on derivative instruments of $14,000 for the nine months ended September 30, 2012. It recorded income of $156,000 for the nine months ended September 30, 2012 to recognize fair value income on related commercial real estate loans held for sale. The amount payable by the Company under these swap agreements was $14,000 at September 30, 2012.

The maturity dates, notional amounts, interest rates paid and received and fair value of the Company's remaining interest rate swap agreements as of September 30, 2012 are summarized below (in thousands):

	September 30, 2012			
Maturity date	Notional amount	Interest rate paid	Interest rate received	Fair value
August 1, 2022	$2,200	1.64 %	0.44 %	$5
September 27, 2022	3,700	1.74 %	0.36 %	(19)
Total	$5,900			$(14)

Note 10. Subsequent Events

The Company evaluated its September 30, 2012 financial statements for subsequent events through the date the financial statements were issued. The Company is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

Note 11. Recent Accounting Pronouncements

FASB Accounting Standards Update No. 2011-03. In April 2011, the FASB issued Standards Update (ASU) No. 2011-03, Reconsideration of Effective Control for Repurchase Agreements. This accounting standard modifies the criteria for determining when repurchase agreements would be accounted for as a secured borrowing rather than as a sale. Currently, an entity that maintains effective control over transferred financial assets must account for the transfer as a secured borrowing rather than as a sale. The provisions of ASU No. 2011-03 removes from the assessment of effective control the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee. The FASB believes that contractual rights and obligations determine effective control and that there does not need to be a requirement to assess the ability to exercise those rights. ASU No. 2011-03 does not change the other existing criteria used in the assessment of effective control. The provisions of ASU No. 2011-03 are effective prospectively for transactions, or modifications of existing transactions, that occur on or after January 1, 2012. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

FASB Accounting Standards Update No. 2011-04. In May 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. This accounting standard results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and International Financial Reporting Standards ("IFRS"). The changes to U.S. GAAP as a result of ASU No. 2011-04 are as follows: (1) The concepts of highest and best use and valuation premise are only relevant when measuring the fair value of nonfinancial assets (that is, it does not apply to financial assets or any liabilities). (2) U.S. GAAP currently prohibits application of a blockage factor in valuing financial instruments with quoted prices in active markets. ASU No. 2011-04 extends that prohibition to all fair value measurements. (3) An exception is provided to the basic fair value measurement principles for an entity that holds a group of financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk that are managed on the basis of the entity's net exposure to either of those risks. This exception allows the entity, if certain criteria are met, to measure the fair value of the net asset or liability position in a manner consistent with how market participants would price the net risk position. (4) ASU No. 2011-04 aligns the fair value measurement of instruments classified within an entity's shareholders' equity with the guidance for liabilities. (5) Disclosure requirements have been enhanced for recurring Level 3 fair value

measurements to disclose quantitative information about unobservable inputs and assumptions used, to describe the valuation processes used by the entity, and to describe the sensitivity of fair value measurements to changes in unobservable inputs and interrelationships between those inputs. In addition, entities must report the level in the fair value hierarchy of items that are not measured at fair value in the statement of condition but whose fair value must be disclosed. The provisions of ASU No. 2011-04 are effective for the Company's interim reporting period beginning on or after December 15, 2011. The adoption of ASU No. 2011-04 did not have a material impact on the Company's consolidated financial statements.

FASB Accounting Standards Update No. 2011-05. In June 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-05 Presentation of Comprehensive Income. This accounting standard allows an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The statement(s) are required to be presented with equal prominence as the other primary financial statements. ASU No. 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity but does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The provisions of ASU No. 2011-05 are effective for the Company's interim reporting period beginning on or after December 15, 2011, with retrospective application required. The adoption of ASU No. 2011-05 resulted in the addition of a statement of comprehensive income, but did not otherwise have a material impact on the Company's consolidated financial statements.

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

Forward-Looking Statements

When used in this Form 10-Q, the words "believes" "anticipates" "expects" and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties more particularly described in Item 1A, under the caption "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2011 and in other of our public filings with the Securities and Exchange Commission. These risks and uncertainties could cause actual results to differ materially from those expressed or implied in this Form 10-Q. We caution readers not place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances after the date of this report except as required by applicable law.

In the following discussion we provide information about our results of operations, financial condition, liquidity and asset quality. We intend that this information facilitate your understanding and assessment of significant changes and trends related to our financial condition and results of operations. You should read this section in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operation" included in our Annual Report on Form 10-K for the year ended December 31, 2011.

Overview

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

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

Nationally, we focus on providing our services to organizations with a pre-existing customer base who can use one or more selected banking services tailored to support or complement the services provided by these organizations to their customers. These services include private label banking; credit and debit card processing for merchants affiliated with independent service organizations; healthcare savings accounts for healthcare providers and third-party plan administrators; and prepaid cards, also known as stored value cards, for insurers, incentive plans, large retail chains and consumer service organizations. We typically provide these services under the name and through the facilities of each organization with whom we develop a relationship. We refer to this, generally, as affinity group banking. Our private label banking, merchant processing, healthcare accounts and prepaid card programs are a source of fee income

and low-cost deposits.

Critical Accounting Policies and Estimates

Our accounting and reporting policies conform with accounting principles generally accepted in the United States and general practices within the financial services industry. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates. We believe that the determination of our allowance for loan and lease losses, our determination of the fair value of financial instruments, and income tax 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 income statement. 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 account for our stock-based compensation plans based on the fair value of the awards made, which include stock options, restricted stock, and performance based shares. To assess the fair value of the awards made, management makes assumptions as to expected stock price volatility, option terms, forfeiture rates and dividend rates. All of these estimates and assumptions may be susceptible to significant change that may impact earnings in future periods.

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

Results of Operations

Third quarter 2012 to third quarter 2011

Net Income: Net income for the third quarter of 2012 was $3.6 million, compared to $2.3 million for the third quarter of 2011. The $1.3 million, or 56.0% increase, reflected a $2.0 million increase in net interest income and a $4.5 million increase in non-interest income (excluding security gains) which were partially offset by a $4.1 million increase in non-interest expense. Non-interest income (excluding security gains) increased to $11.1 million in third quarter 2012 from $6.7 million in third quarter 2011, primarily due to increases in prepaid card fees, which reflected an increased volume of accounts and related transaction fees. Other non-interest income categories increased as a result of both an increased volume of transactions and increased service charges on certain health savings accounts. Net interest income increased to $21.6 million primarily as a result of higher loan and investment security interest. The provision for loan and lease losses increased $521,000 in third quarter 2012, compared to third quarter 2011. Diluted earnings per share were $0.11 in third quarter 2012 compared to $0.07 in the third quarter of 2011. Return on average assets was 0.46% and return on average equity was 4.97% for the third quarter of 2012, as compared to 0.33% and 3.43%, respectively, for the third quarter of 2011.

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Net Interest Income: Our net interest income for third quarter 2012 increased to $21.6 million, an increase of $2.0 million or 10.0% from $19.6 million in third quarter 2011. Our interest income for third quarter 2012 increased to $24.4 million, an increase of $1.7 million or 7.4% from $22.7 million for third quarter 2011. The increase in interest income resulted primarily from higher balances of investment securities and loans. Investment security balances have been trending higher to levels more consistent with our peer ratios for securities to average assets. Our average investment securities increased to $625.3 million for third quarter 2012 from $384.8 million for third quarter 2011, while related interest income increased $833,000. Our average loans and leases increased to $1.84 billion for third quarter 2012 from $1.70 billion for third quarter 2011, while related interest income increased $776,000.

Our net interest margin (calculated by dividing net interest income by average interest earning assets) for third quarter 2012 decreased to 2.90% from 3.15% in third quarter of 2011, a decrease of 25 basis points. The decrease in the net interest margin resulted primarily from lower yields on interest earning assets. Such deposits were invested at the Federal Reserve Bank for liquidity purposes, but bore interest at only 25 basis points. Federal Reserve Bank deposits are included in interest earning deposits in the balance sheet, thereby lowering the net interest margin. In third quarter 2012, the average yield on our loans decreased to 4.30% from 4.47% for third quarter 2011, a decrease of 17 basis points. This decrease was partially offset by an 8 basis point decrease in the cost of our deposits to 0.37% from 0.45%. Yields on taxable investment securities were lower at 2.70% compared to 3.47%, respectively, a decrease of 77 basis points. The lower yield reflected new purchases with shorter average lives or earlier repricing periods which typically have lower yields and lower market rates on such purchases. Average interest earning deposits increased $114.4 million to $570.7 million in third quarter 2012 from $456.3 million in third quarter 2011, reflecting continued deposit growth. These funds earn interest at a rate of 25 basis points which lowers our asset yield and net interest margin. The interest cost of total deposits and interest bearing liabilities amounted to 0.40% for third quarter 2012 compared to 0.50% in third quarter 2011. The decrease is the result of continuing decreases in both our deposit rates due to the decrease in market interest rates, as well as changes in the mix of our deposits reflecting increases in demand and interest checking deposits. In third quarter 2012, average demand and interest checking deposits amounted to $2.30 billion, compared to $2.08 billion in third quarter 2011. Deposit growth continued in wealth management, health savings, merchant processing and prepaid cards. In third quarter 2012, average deposits amounted to $2.76 billion, compared to $2.46 billion in third quarter 2011.

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

	Three months ended September 30,							
	2012				2011			
	Average Balance	Interest (dollars in thousands)	Average Rate		Average Balance	Interest (dollars in thousands)	Average Rate	
Assets:								
Interest earning assets:								
Loans net of unearned discount **	$1,827,348	$19,646	4.30	%	$1,693,500	$18,927	4.47	%
Leases - bank qualified*	15,012	217	5.78	%	5,328	128	9.61	%
Investment securities-taxable	519,377	3,507	2.70	%	314,800	2,732	3.47	%
Investment securities-nontaxable*	105,918	1,091	4.12	%	70,049	1,003	5.73	%
	570,667	356	0.25	%	456,260	296	0.26	%

Interest earning deposits at Federal Reserve Bank								
Net interest earning assets	3,038,322	24,817	3.27	%	2,539,937	23,086	3.64	%
Allowance for loan and lease losses	(32,385)				(28,415)			
Other assets	78,241				258,610			
	$3,084,178				$2,770,132			
Liabilities and shareholders' equity:								
Deposits:								
Demand and interest checking	$2,296,193	$1,884	0.33	%	$2,078,118	$1,993	0.38	%
Savings and money market	436,484	574	0.53	%	354,189	696	0.79	%
Time	24,042	98	1.63	%	29,690	94	1.27	%
Total deposits	2,756,719	2,556	0.37	%	2,461,997	2,783	0.45	%
Repurchase agreements	20,489	24	0.47	%	23,271	96	1.65	%
Subordinated debt	13,401	218	6.51	%	13,401	216	6.45	%
Total deposits and interest bearing liabilities	2,790,609	2,798	0.40	%	2,498,669	3,095	0.50	%

Other liabilities	8,462				7,757			
Total liabilities	2,799,071				2,506,426			
Shareholders' equity	285,107				263,706			
	$3,084,178				$2,770,132			
Net interest income on tax equivalent basis *		$22,019				$19,991		
Tax equivalent adjustment		458				396		
Net interest income		$21,561				$19,595		
Net interest margin *			2.90	%			3.15	%

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

For third quarter 2012, average interest earning assets increased to $3.04 billion, an increase of $498.4 million or 19.6% from third quarter 2011. The increase reflected increased average balances of loans and leases of $143.5 million or 8.4%, and increased average balances of investment securities of $240.4 million or 62.5%. Average demand and interest checking deposits increased $218.1 million or 10.5%. Average savings and money market deposits increased $82.3 million or 23.2%. The Bank experienced growth in deposits relating to prepaid, wealth management, healthcare, merchant acquiring and other categories. Prepaid and merchant acquiring balances increased primarily due to the acquisition of new clients and processors.

Provision for Loan and Lease Losses. Our provision for loan and lease losses was $5.5 million for the third quarter of 2012 compared to $5.0 million for the third quarter of 2011. The increase in the provision is based on our evaluation of the adequacy of our allowance for loan and leases losses, particularly in light of current economic conditions. That evaluation reflected the impact of an increase in impaired loans which totaled $29.2 million at September 30, 2012 compared to $17.2 million at September 30, 2011. At September 30, 2012, our allowance for loan and lease losses amounted to $33.1 million or 1.78% of total loans as compared to $29.6 million or 1.69% of total loans at December 31, 2011. We believe that our allowance is adequate to cover inherent 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”, “-Summary of loan and lease loss experience,” “-Net charge-offs,” and “-Non-performing loans, loans 90 days delinquent and still accruing, and troubled debt restructurings,” below.

Non-Interest Income. Non-interest income was $11.1 million in third quarter 2012 compared to $6.7 million in third quarter 2011 before gains on securities of $107,000 in the third quarter of 2012 and $20,000 in the third quarter of 2011. The $4.5 million or 67.2% increase in third quarter 2012 compared to third quarter 2011 primarily reflected increases in prepaid card transaction volume. Those increases were reflected in a $3.4 million or 85.1% increase in prepaid fees to $7.5 million for third quarter 2012 from $4.0 million for third quarter 2011. It also reflected increases in service fees on deposit accounts of $339,000 or 57.6% to $928,000 for third quarter 2012 from $589,000 for third quarter 2011 reflecting the institution of monthly service charges on certain health savings accounts. Affinity fees increased $245,000 or 44.8% to $792,000 for third quarter 2012 from $547,000 for third quarter 2011. This increase

resulted primarily from an increase in fees from one affinity relationship. Other non-interest income increased $328,000 or 143.2% to $557,000 for third quarter 2012 from $229,000 from third quarter 2011. This increase reflected a $156,000 fair value adjustment on commercial mortgage loans held for sale in the third quarter of 2012 .

Non-Interest Expense. Total non-interest expense was $21.9 million for third quarter 2012, an increase of $4.1 million or 23.3% over $17.8 million for third quarter 2011. Salaries and employee benefits amounted to $10.0 million, an increase of $2.0 million or 24.4% over $8.0 million for third quarter 2011. The increase in salaries and employee benefits reflected staff additions and expense related to customer service and a significantly expanded call center, compliance, small business lending, prepaid cards and our new commercial mortgage securitization department and a $157,000 increase in employee stock option expense. It also reflected annual salary increases between 0% and 3.0% for our staff. Depreciation and amortization increased $87,000 or 11.3% to $854,000 in third quarter 2012 from $767,000 in third quarter 2011 which reflected increased depreciation costs related to equipment for staff additions and increased amortization costs for internally developed software costs related to our affinity programs. Rent and occupancy increased $146,000 or 19.5% to $895,000 in third quarter 2012 from $749,000 in third quarter 2011 which reflected additional prepaid card, compliance and other office rent. Data processing increased $467,000 or 22.5% to $2.5 million in third quarter 2012 from $2.1 million in third quarter 2011 due to an increased number of deposit accounts and related transaction volume. Printing and supplies increased $27,000 or 6.8% to $422,000, in third quarter 2012 from $395,000 in third quarter 2011 reflecting increased deposit account volume. Audit expense decreased $11,000 or 3.7% to $284,000 for third quarter 2012 from $295,000 in third quarter 2011. Legal expense increased $581,000 or 87.8% to $1.2 million for third quarter 2012 from $662,000 in third quarter 2011. The increase reflected $310,000 of legal fees related to the acquisition of European prepaid card contracts and a platform on which to process related transactions. Losses on sale and write downs on other real estate owned increased $469,000 to $533,000 in third quarter of 2012 from $64,000 in third quarter of 2011 primarily due to a loss on

one property. Federal Deposit Insurance Corporation (FDIC) insurance expense increased $11,000 or 1.6% to $716,000 for third quarter 2012 from $705,000 in third quarter 2011. This increase resulted primarily from growth in deposits. Software, maintenance and equipment expense decreased $18,000 or 4.2% to $411,000 in third quarter 2012 from $429,000 in third quarter 2011. Other real estate owned expense decreased $387,000 or 108.4% to ($30,000) in third quarter 2012 from $357,000 in third quarter 2011. The decrease resulted from expense on a fewer number of properties and a reimbursement of expenses on one property. Other non-interest expense increased $807,000 or 27.1% to $3.8 million in third quarter 2012 from $3.0 million in third quarter of 2011. The $807,000 increase resulted primarily from increases in loan expenses of $261,000, an increase in telephone expense of $164,000, an increase in check card losses of $112,000 and increased losses related to prepaid cards of $56,000.

Income Taxes. Income tax expense was $1.8 million for third quarter 2012 compared to $1.2 million in third quarter 2011, an increase of $586,000. The increase resulted primarily from an increase in taxable income. Our effective tax rate for third quarter 2012 was 33.5% compared to 34.6% in third quarter 2011.

First nine months of 2012 to first nine months of 2011

Net Income: Net income for the first nine months of 2012 was $11.4 million, compared to $5.6 million for the first nine months of 2011. The $5.6 million, or 102.2% increase, reflected a $7.3 million increase in net interest income and a $12.4 million increase in non-interest income (excluding security gains and other-than-temporary impairment (OTTI)) which were partially offset by a $11.7 million increase in non-interest expense. Non-interest income (excluding security gains and other-than-temporary-impairment (OTTI)) increased to $34.0 million in first nine months 2012 from $21.6 million in the first nine months of 2011, primarily due to increases in prepaid card fees, which reflected an increased volume of accounts and related transaction fees. Other non-interest income categories increased as a result of both an increased volume of transactions and higher service charges on certain health savings accounts. Net interest income increased to $63.4 million primarily as a result of higher investment security and loan interest. The provision for loan and lease losses decreased $1.6 million in the first nine months of 2012 compared to the first nine months of 2011 reflecting decreased levels of net charge-offs and other factors. Diluted earnings per share were $0.34 in first nine months 2012 compared to $0.18 in the first nine months of 2011. Return on average assets was 0.43% and return on average equity was 5.44% for the first nine months of 2012, as compared to 0.27% and 3.06%, respectively, for the first nine months of 2011.

Net Interest Income: Our net interest income for first nine months 2012 increased to $63.4 million, an increase of $7.3 million or 13.0% from $56.1 million in first nine months 2011. Our interest income for first nine months 2012 increased to $72.2 million, an increase of $7.1 million or 10.9% from $65.1 million for first nine months 2011. The increase in interest income resulted primarily from higher balances of investment securities and loans. Investment security balances have been trending higher to levels more consistent with our peer ratios for securities to average assets. Our average investment securities increased to $544.8 million for first nine months 2012 from $328.1 million for first nine months 2011, while related interest income increased $3.6 million. Our average loans and leases increased to $1.79 billion for first nine months 2012 from $1.66 billion for first nine months 2011, while related interest income increased $2.5 million.

Our net interest margin (calculated by dividing net interest income by average interest earning assets) for first nine months 2012 decreased to 2.53% from 3.00% in first nine months of 2011, a decrease of 47 basis points. The decrease in the net interest margin resulted primarily from increases in deposit seasonality and deposit growth in excess of immediate funding needs. Such deposits were invested at the Federal Reserve Bank for liquidity purposes, but bore interest at only 25 basis points. Federal Reserve Bank deposits are included in interest earning deposits in the balance sheet, thereby lowering the net interest margin. In first nine months 2012, the average yield on our loans decreased to 4.31% from 4.45% for first nine months 2011, a decrease of 14 basis points. This decrease was partially

offset by a 10 basis point decrease in the cost of our deposits to 0.34% from 0.44%. Yields on taxable investment securities were lower at 3.04% compared to 3.49%, respectively, a decrease of 45 basis points.of the lower yield reflected new purchases with shorter average lives or earlier repricing periods which typically have lower yields and lower market rates on such purchases. Average interest earning deposits increased $515.0 million to $1.07 billion in first nine months 2012 from $558.3 million in first nine months 2011, reflecting deposit seasonality from primarily the first and second quarters. These funds earn interest at a rate of 25 basis points which lowers our asset yield and net interest margin. The interest cost

of total deposits and interest bearing liabilities amounted to 0.36% for first nine months 2012 compared to 0.48% in first nine months 2011. The decrease is the result of continuing decreases in both our deposit rates due to the decrease in market interest rates, as well as changes in the mix of our deposits and, in particular, a significant increase in demand deposits. In the first nine months of 2012, average demand and interest checking deposits amounted to $2.72 billion, compared to $2.14 billion in first nine months 2011. Deposit growth continued in wealth management, health savings, merchant processing and prepaid cards. In the first nine months of 2012, average deposits amounted to $3.20 billion, compared to $2.51 billion in first nine months of 2011.

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

	Nine months ended September 30,							
	2012				2011			
	Average Balance	Interest (dollars in thousands)	Average Rate		Average Balance	Interest (dollars in thousands)	Average Rate	
Assets:								
Interest earning assets:								
Loans net of unearned discount **	$1,780,565	$57,594	4.31	%	$1,655,013	$55,252	4.45	%
Leases - bank qualified*	13,081	614	6.26	%	4,174	302	9.65	%
Investment securities-taxable	442,043	10,068	3.04	%	253,507	6,629	3.49	%
Investment securities-nontaxable*	102,736	3,252	4.22	%	74,560	3,066	5.48	%
Interest earning deposits at Federal Reserve Bank	1,073,305	2,014	0.25	%	558,333	1,041	0.25	%
Net interest earning assets	3,411,730	73,542	2.87	%	2,545,587	66,290	3.47	%
Allowance for loan and lease losses	(31,728)				(26,597)			
Other assets	143,839				276,095			
	$3,523,841				$2,795,085			
Liabilities and shareholders' equity:								
Deposits:								
Demand and interest checking	$2,721,620	$5,971	0.29	%	$2,138,525	$5,991	0.37	%
Savings and money market	447,596	1,832	0.55	%	337,422	2,006	0.79	%
Time	28,403	301	1.41	%	29,608	241	1.09	%
Total deposits	3,197,619	8,104	0.34	%	2,505,555	8,238	0.44	%
Short term borrowings	-	-	0.00	%	996	3	0.40	%
Repurchase agreements	23,656	75	0.42	%	20,067	173	1.15	%
Subordinated debt	13,401	652	6.49	%	13,401	647	6.44	%
	3,234,676	8,831	0.36	%	2,540,019	9,061	0.48	%

Total deposits and interest bearing liabilities						
Other liabilities	9,526			8,944		
Total liabilities	3,244,202			2,548,963		
Shareholders' equity	279,639			246,122		
	$3,523,841			$2,795,085		
Net interest income on tax equivalent basis *		$64,711			$57,229	
Tax equivalent adjustment		1,353			1,179	
Net interest income		$63,358			$56,050	
Net interest margin *			2.53 %			3.00 %

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

For first nine months of 2012, average interest earning assets increased to $3.41 billion, an increase of $866,000 or 34.0% from first nine months of 2011. The increase reflected increased average balances of loans and leases of $134.5 million or 8.1%, and increased average balances of investment securities of $216.7 million or 66.1%. Average demand and interest checking deposits increased $583.1 million or 27.3%. Average savings and money market deposits increased $110.2 million or 32.7%. The Bank experienced growth in deposits relating to prepaid, wealth management, healthcare, merchant acquiring and other categories. Prepaid and merchant acquiring balances increased primarily due to the acquisition of new clients and processors.

Provision for Loan and Lease Losses. Our provision for loan and lease losses was $15.0 million for the first nine months of 2012 compared to $16.7 million for the first nine months of 2011. The decrease in the provision is based on our evaluation of the adequacy of our allowance for loan and leases losses, particularly in light of current economic conditions. That evaluation reflected the impact of lower levels of net charge-offs and other factors. At September 30, 2012, our allowance for loan and lease losses amounted to $33.1 million or 1.78% of total loans as compared to $29.6 million or 1.69% of total loans at December 31, 2011. 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", "-Summary of loan and lease loss experience," "-Net charge-offs," and "-Non-performing loans, loans 90 days delinquent and still accruing, and troubled debt restructurings," below.

Non-Interest Income. Non-interest income was $34.0 million in first nine months 2012 compared to $20.9 million in first nine months 2011 before security gains of $107,000 and OTTI of $126,000 in the first nine months of 2012 and before security gains of $623,000 and OTTI of $75,000 excluding a $718,000 legal settlement in the first nine months of 2011. The $13.1 million or 62.8% increase in first nine months 2012 compared to first nine months 2011 primarily reflected increases in prepaid card transaction volume. Those increases were reflected in a $10.4 million or 78.9% increase in prepaid fees to $23.6 million for first nine months 2012 from $13.2 million for first nine months 2011. First nine months prepaid income is impacted by our electronic tax refund business which increased significantly over the prior year period and which is concentrated in the first quarter and by an overall increase in other prepaid transaction volume. It also reflected increases in service fees on deposit accounts of $699,000 or 38.6% to $2.5 million for first nine months 2012 from $1.8 million for first nine months of 2011 reflecting the institution of monthly service charges on certain health savings accounts. Affinity fees increased $898,000 to $2.0 million for first nine months 2012 from $1.1 million, or 83.1% for first nine months 2011. That increase resulted primarily from an increase in fees from one affinity relationship. Other non-interest income decreased $396,000 or 29.2% to $961,000 for first nine months 2012 from $1.4 million from first nine months 2011. This decrease was primarily due to a $718,000 legal settlement in favor of the Bank in 2011.

Non-Interest Expense. Total non-interest expense was $64.7 million for first nine months 2012, an increase of $11.7 million or 22.2% over $53.0 million for first nine months 2011. Salaries and employee benefits amounted to $28.7 million, an increase of $6.1 million or 27.2% over $22.6 million for first nine months 2011. The increase in salaries and employee benefits reflected staff additions and expense related to compliance, small business lending, prepaid cards and our new commercial mortgage securitization department and a $597,000 increase in employee stock option expense. It also reflected annual salary increases between 0% and 3.0% for our staff. Depreciation and amortization increased $289,000 or 13.0% to $2.5 million in first nine months 2012 from $2.2 million in first nine months 2011 which reflected increased depreciation costs related to equipment for staff additions and increased amortization costs for internally developed software costs related to our affinity programs. Rent and occupancy increased $305,000 or 14.0% to $2.5 million in first nine months 2012 from $2.2 million in first nine months 2011 which reflected additional prepaid card, compliance and other office rent. Data processing increased $1.3 million or 19.1% to $7.9 million in first nine months 2012 from $6.6 million in first nine months of 2011 due to an increased number of deposit accounts and related transaction volume. Printing and supplies increased to $1.3 million, an increase of $261,000 or 24.3% from $1.1 million in first nine months 2011 reflecting increased deposit account volume. Audit expense increased $54,000 or 6.7% to $859,000 for first nine months 2012 from $805,000 in first nine months of 2011, reflecting higher information technology (IT) and data security audit costs. Legal expense increased $528,000 or 28.4% to $2.4 million for first nine months 2012 from $1.9 million in first nine months 2011. The increase reflected $310,000 of legal fees related to the acquisition of European prepaid card contracts and a platform on which to process related transactions. Losses and write downs on other real estate owned increased $1.9 million to $2.4 million in the first nine months of 2012 from $555,000 in first nine months 2011. The increase resulted from $1.3 million of losses on sale of

other real estate and write downs to reduce carrying costs to expected proceeds from sale. Federal Deposit Insurance Corporation (FDIC) insurance expense decreased $224,000 or 8.5% to $2.4 million for first nine months 2012 from $2.6 million in first nine months 2011. This decrease resulted primarily from a reduction in the assessment rate for the Bank which was partially offset by growth in deposits. Software, maintenance and equipment expense increased $149,000 or 12.7% to $1.3 million in first nine months 2012 from $1.2 million in first nine months 2011. This increase included software and hardware for the SBA lending unit and for loan, prepaid card, and deposit products, increased security, regulatory compliance and storage. Other real estate owned expense decreased $332,000 or 39.5% to $509,000 in first nine months 2012 from $841,000 in first nine months 2011. The decrease resulted from expense on a fewer number of properties. Other non-interest expense increased $1.4 million or 15.0% to $11.1 million in the first nine months 2012 from $9.7 million in the first nine months of 2011. The $1.4 million increase resulted primarily from an increase of $361,000 in customer identification verification expense for tax refund prepaid cards, $407,000 in loan expenses, $301,000 in telephone expense and $219,000 in check card losses. Other expense in 2012 also included a $173,000 civil money penalty which originated from 2010 and was related to a customer relationship which the Bank has terminated.

Income Taxes. Income tax expense was $6.2 million for first nine months 2012 compared to $2.9 million in first nine months 2011, an increase of $3.2 million. The increase resulted primarily from an increase in taxable income. Our effective tax rate for first nine months 2012 was 35.2% compared to 34.2% in first nine months 2011 reflecting the greater impact of tax exempt income on lower pre-tax income in the prior year.

Liquidity and Capital Resources

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

The primary source of funds for our financing activities during the first nine months of 2012 was cash inflows from net increases in deposits, which were $98.6 million. Loan repayments, also a source of funds, were exceeded by new loan disbursements during that period and securities maturities and repayments were exceeded by new purchases. While we do not have a traditional branch system, we believe that our core deposits, which include our demand, interest checking, savings and money market accounts, have similar characteristics to those of a bank with a branch system. We seek to set rates on our deposits at levels competitive with the rates offered in our market; however we do not seek to compete principally on rate. The focus of our business model is to identify affinity groups that control significant amounts of deposits as part of their business. A key component to the model is that the deposits are both stable and "sticky," in the sense that they do not react to fluctuations in the market. However, certain components of the deposits do experience seasonality, creating excess liquidity at certain times.

Historically, we have also used sources outside of our deposit products to fund our loan growth, including Federal Home Loan Bank (FHLB) advances, repurchase agreements, and institutional (brokered) certificates of deposit as a significant funding source. We have shifted to primarily using our deposits as our funding source as a result of deposit growth. We still maintain our secured borrowing lines with the Federal Home Loan Bank of Pittsburgh and other unsecured lines from our correspondent banks, which include Atlantic Central Bankers Bank, Wells Fargo Bank and PNC Bank. We have a $429.0 million line of credit with the Federal Home Loan Bank and $49.0 million in additional lines of credit with correspondent banks. As of September 30, 2012, we had no amounts outstanding on our borrowing lines. We expect to continue to use our facility with the Federal Home Loan Bank and our correspondent banks. At no time during the quarter did we experience any difficulties accessing these lines. We actively monitor our positions and contingent funding sources on a daily basis.

Included in our cash and cash-equivalents at September 30, 2012 are $540.0 million of interest earning deposits which primarily consisted of deposits with the Federal Reserve Bank. Traditionally, we sell our excess funds overnight to other financial institutions, with which we have correspondent relationships, to obtain better returns. As the federal funds rates decreased to the same 25 basis point level offered by the Federal Reserve Bank, we have adjusted our strategy to retain our excess funds at the Federal Reserve Bank, which also offers the full guarantee of the federal government. In addition, we diverted a portion of our excess funds to short term securities to generate better returns.

Funding was directed primarily at cash outflows required for purchases of investment securities (net of repayments), which were $185.5 million for the year to date period September 30, 2012 and $174.4 million for the prior year to date period ended September 30, 2011 and funding for net loan growth, which was $121.4 million for the year to date period September 30, 2012 and $115.2 million for the prior year to date period. We had outstanding commitments to fund loans, including unused lines of credit, of $476.6 million and $380.3 million as of September 30, 2012 and December 31, 2011, respectively.

We must comply with capital adequacy guidelines issued by the FDIC. A bank must, in general, have a Tier 1 leverage ratio of 5.0%, a ratio of Tier I capital to risk-weighted assets of 6.0% and a ratio of total capital to risk-weighted assets of 10.0% in order to be considered “well capitalized.” 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 September 30, 2012 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	
As of September 30, 2012						
The Company	9.20	%	14.51	%	15.77	%
The Bancorp Bank	7.58	%	11.98	%	13.24	%
"Well capitalized" institution (under FDIC regulations)	5.00	%	6.00	%	10.00	%
As of December 31, 2011						
The Company	8.69	%	14.64	%	15.89	%
The Bancorp Bank	6.13	%	10.34	%	11.60	%
"Well capitalized" institution (under FDIC regulations)	5.00	%	6.00	%	10.00	%

The excess deposits were substantially all maintained at the Federal Reserve Bank. See Results of Operations – Average Daily Balances.”

Asset and Liability Management

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

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

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

interest income, while a negative gap would tend to result in an increase in net interest income. During a period of rising interest rates, a positive gap would tend to result in an increase in net interest income while a negative gap would tend to affect net interest income adversely.

The following table sets forth the estimated maturity or repricing structure of our interest earning assets and interest bearing liabilities at September 30, 2012. We estimate the repricing characteristics of deposits based on historical performance, past experience at other institutions, wholly 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. The table does not assume any prepayment of fixed-rate loans and mortgage-backed securities, which are scheduled based on their anticipated cash flow, including prepayments based on historical data and current market trends. The table does not necessarily indicate the impact of general interest rate movements on our net interest income because the repricing of certain categories of assets and liabilities is beyond our control as, for example, prepayments of loans and withdrawal of deposits. As a result, certain assets and liabilities indicated as repricing within a stated period may in fact reprice at different times and at different rate levels.

	1-90 Days	91-364 Days	1-3 Years	3-5 Years	Over 5 Years
	(dollars in thousands)				
Interest earning assets:					
Loans net of deferred loan costs	$795,003	$293,900	$330,707	$222,550	$214,832
Investment securities	163,381	47,486	123,467	134,058	189,209
Interest earning deposits	540,010	-	-	-	-
Total interest earning assets	1,498,394	341,386	454,174	356,608	404,041
Interest bearing liabilities:					
Demand and interest checking	1,435,899	128,309	128,309	-	-
Savings and money market	114,931	229,863	114,931	-	-
Time deposits	1,481	11,073	8,822	25	24
Securities sold under agreements to repurchase	18,802	-	-	-	-
Subordinated debenture	3,401	-	-	10,000	-
Total interest bearing liabilities	1,574,514	369,245	252,062	10,025	24
Gap	$(76,120)	$(27,859)	$202,112	$346,583	$404,017
Cumulative gap	$(76,120)	$(103,979)	$98,133	$444,716	$848,733
Gap to assets ratio	-2 %	*	6 %	11 %	13 %
Cumulative gap to assets ratio	-2 %	-3 %	3 %	14 %	27 %

* While demand deposits are non-interest bearing, related fees paid to affinity groups may reprice according to specified indices.

The methods used to analyze interest rate sensitivity in this table have 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. Accordingly actual results can and often do differ from projections.

Financial Condition

General. Our total assets at September 30, 2012 were $3.11 billion, of which our total loans were $1.86 billion. At December 31, 2011 our total assets were $3.01 billion, of which our total loans were $1.74 billion.

Interest earning deposits and federal funds sold. At September 30, 2012, we had a total of $540.0 million of interest earning deposits as compared to $652.9 million at December 31, 2011. These deposits were comprised primarily of balances at the Federal Reserve Bank, which pays interest on such balances.

Investment portfolio. For detailed information on the composition and maturity distribution of our investment portfolio, see Note 5 to the Financial Statements. Total investment securities increased to $657.6 million at September 30, 2012, an increase of $191.4 million or 41.0% from year-end 2011. The increase in investment securities was primarily a result of increased purchases of U.S government insured student loan securities which reprice quarterly to

three-month LIBOR. The purchases carry higher yields than overnight investments which, because of the historically low rate environment, earn approximately 25 basis points.

Other securities, included in the held-to-maturity classification at September 30, 2012 consisted of four single issuer trust preferred securities and two pooled issuer trust preferred securities. The amortized cost of the single issuer trust preferred securities was $16.3 million, of which two securities totaling $4.2 million were issued by two different banks and two securities totaling $12.1 million were issued by two different insurance companies. The two pooled trust preferred securities totaled $1.4 million and were collateralized by bank trust preferred securities.

The following table provides additional information related to our single issuer trust preferred securities as of September 30, 2012 (in thousands):

Single issuer	Book value	Fair value	Unrealized gain/(loss)	Credit rating
Security A	$ 1,888	$ 1,999	$ 111	Not rated
Security B	2,360	2,393	33	Not rated
Security C	3,240	2,857	(383)	Not rated
Security D	8,847	5,049	(3,798)	Not rated

Class: All of the above are trust preferred securities.

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The following table provides additional information related to our pooled trust preferred securities as of September 30, 2012:

Pooled issue	Class	Book value	Fair value	Unrealized gain/(loss)	Credit rating	Excess subordination
Pool A (17 performing issuers)	Mezzanine *	$777	$592	$(185)	Ca	***
Pool B (14 performing issuers)	Mezzanine **	595	544	(51)	Ca	***

* The actual deferrals and defaults as a percentage of the original collateral were 27%. Assumed losses resulting from expected deferrals and defaults as a percentage of remaining collateral is .75% annually with 15% recovery with a two year lag.
** The actual deferrals and defaults as a percentage of the original collateral were 27%. Assumed losses resulting from expected deferrals and defaults as a percentage of remaining collateral is 1.2% every three years with no recoveries.
*** There is no excess subordination in these 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 the following conditions: 1) we intend to sell or it is more likely than not we will be required to sell the security before a recovery in value, or 2) we do not expect to recover the entire amortized cost basis of the security. If we intend to sell or it is more likely than not we will be required to sell the security before a recovery in value, a charge is recorded in net realized capital losses equal to the difference between the fair value and amortized cost basis of the security. For those other-than-temporarily impaired debt securities which do not meet the first condition and for which we do not expect to recover the entire amortized cost basis, the difference between the security's amortized cost basis and the fair value is separated into the portion representing a credit impairment, which is recorded in net realized capital losses, and the remaining impairment, which is recorded in other comprehensive income. Generally, a security's credit impairment is the difference between its amortized cost basis and 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 capital losses becomes the security's new cost basis. As prescribed by accounting standards, for year to date September 30, 2012 and December 31, 2011 respectively, we recognized other-than-temporary impairment charges of $126,000 and $75,000 related to trust preferred securities classified in our held-to-maturity portfolio.

Investments in Federal Home Loan and Atlantic Central Bankers Bank stock are recorded at cost and amounted to $4.2 million at September 30, 2012 and $5.1 million at December 31, 2011.

Investment securities with a carrying value of $37.0 million at September 30, 2012 and $44.6 million at December 31, 2011, were pledged as collateral for Federal Home Loan Bank advances and to secure securities sold under repurchase agreements as required or permitted by law.

Loans held for sale. Loans held for sale are comprised of commercial mortgage loans and residential mortgage loans originated for sale in the secondary market. The fair value of commercial mortgage loans originated for sale is based

on purchase commitments or quoted prices for the same or similar loans. The residential mortgage loans held for sale are carried at the lower of cost of market.

Loan portfolio. Total loans increased to $1.86 billion at September 30, 2012 from $1.74 billion at December 31, 2011.

The following table summarizes our loan portfolio not including loans held for sale by loan category for the periods indicated (in thousands):

	September 30, 2012	December 31, 2011
Commercial	$453,444	$450,411
Commercial mortgage *	614,410	609,487
Construction	263,726	246,611
Total commercial loans	1,331,580	1,306,509
Direct lease financing	146,728	129,682
Residential mortgage	97,589	96,110
Consumer loans and others	276,427	209,041
	1,852,324	1,741,342
Unamortized loan costs	4,668	3,486
Total loans, net of deferred loan costs	$1,856,992	$1,744,828
Supplemental loan data:		
Construction 1-4 family	$71,599	$85,189
Commercial construction, acquisition and development	192,127	161,422
	$263,726	$246,611

* At September 30, 2012, our owner occupied loans amounted to $157.2 million, or 25.6% of commercial mortgages as compared to $137.9 million, or 22.6% at December 31, 2011.

Allowance for loan and lease losses. We review the adequacy of our allowance for loan and lease losses on at least a quarterly basis to determine that the provision for loan losses is made in an amount necessary to maintain our allowance at a level that is appropriate, based on management's estimate of inherent losses. Our estimates of loan and lease losses are intended to, and, in management's opinion, do, meet the criteria for accrual of loss contingencies in accordance with ASC topic 450, Contingencies, and ASC topic 310, Receivables. The process of evaluating this adequacy has two basic elements: first, the identification of problem loans or leases based on current financial information and the fair value of the underlying collateral; and second, a methodology for estimating general loss reserves. For loans or leases classified as "special mention," "substandard" or "doubtful," we reserve all losses inherent in the portfolio at the time we classify the loan or lease. This "specific" portion of the allowance is the total of potential, although unconfirmed, losses for individually classified loans. In this process, we establish specific reserves based on an analysis of the most probable sources of repayment and liquidation of collateral. While each impaired loan is individually evaluated, not every loan requires a reserve when the collateral value and estimated cash flows exceed the current balance.

The second phase of our analysis represents an allocation of the allowance. This methodology analyzes pools of loans that have similar characteristics and applies historical loss experience and other factors for each pool including management's experience with similar loan and lease portfolios at other institutions, the historic loss experience of our peers and a review of statistical information from various industry reports to determine the allocable portion of the allowance. This estimate is intended to represent the potential unconfirmed and inherent losses within the portfolio. Individual loan pools are created for major loan categories: commercial loans, commercial mortgages, construction loans, direct lease financing and various types of loans to individuals. We augment historical experience for each loan

pool by accounting for such items as current economic conditions, current loan portfolio performance, loan policy or management changes, loan concentrations, increases in our lending limit, average loan size and other factors as appropriate. Our Chief Risk Officer, who reports directly to our audit committee, oversees the loan review department processes and measures the adequacy of the allowance independently of management. The loan review department's oversight parameters include borrower relationships over $3.0 million and loans that are 90 days or more past due or which have been previously adversely classified. Approximately 68% of the portfolio was reviewed at September 30, 2012 and approximately 65% of the portfolio was reviewed at December 31, 2011.

The following table presents delinquencies by type of loan as follows (in thousands):

September 30, 2012	30-59 Days past due	60-89 Days past due	Greater than 90 days	Non-accrual	Total past due	Current	Total loans
Commercial	$1,357	$1,500	$107	$7,654	$10,618	$442,826	$453,444
Commercial mortgage	1,042	-	3,077	8,894	13,013	601,397	614,410
Construction	-	-	667	8,886	9,553	254,173	263,726
Direct lease financing	788	1,026	8	-	1,822	144,906	146,728
Consumer - other	1,091	-	2	-	1,093	231,057	232,150
Consumer - home equity	-	420	-	927	1,347	42,930	44,277
Residential mortgage	-	-	-	93	93	97,496	97,589
Unamortized costs	-	-	-	-	-	4,668	4,668
	$4,278	$2,946	$3,861	$26,454	$37,539	$1,819,453	$1,856,992

December 31, 2011							
Commercial	$-	$242	$817	$6,450	$7,509	$442,902	$450,411
Commercial mortgage	278	1,763	1,597	3,672	7,310	602,177	609,487
Construction	-	825	942	4,949	6,716	239,895	246,611
Direct lease financing	1,230	606	745	-	2,581	127,101	129,682
Consumer - other	-	-	-	1,252	1,252	164,145	165,397
Consumer - home equity	-	2	-	-	2	43,642	43,644
Residential mortgage	-	-	-	1,264	1,264	94,846	96,110
Unamortized costs	-	-	-	-	-	3,486	3,486
	$1,508	$3,438	$4,101	$17,587	$26,634	$1,718,194	$1,744,828

Although we consider our allowance for loan and lease losses to be adequate based on information currently available, future additions to the allowance may be necessary due to changes in economic conditions, our ongoing loss experience and that of our peers, changes in management's assumptions as to future delinquencies, recoveries and losses, deterioration of specific credits and management's intent with regard to the disposition of loans and leases.

Summary of loan and lease loss experience. The following tables summarize our credit loss experience for each of the periods indicated:

The following table summarizes select asset quality ratios for each of the periods indicated:

	As of or for the three months ended September 30,			
	2012		2011	
Ratio of the allowance for loan losses to total loans	1.78	%	1.61	%
Ratio of the allowance for loan losses to nonperforming loans (1)	109.09	%	121.63	%
Ratio of the nonperforming assets to total assets (1)	1.07	%	0.86	%
Ratio of the net charge-offs to average loans	0.64	%	0.79	%

(1) Includes loans 90 days past due still accruing interest

The ratio of the allowance for loan and lease losses to total loans increased to 1.78% at September 30, 2012 from 1.61% at September 30, 2011. The increase primarily reflected an increase in the reserves for impaired loans. The ratio of the allowance for loan losses to non-performing loans decreased to 109.09% at September 30, 2012 from 121.63% at September 30, 2011 as a result of increased non-performing loans. The ratio of non-performing assets to total assets increased as a result of increased non-performing loans at September 30, 2012. Net charge-offs to average loans decreased to 0.64% year to date September 30, 2012 from 0.79% year to date September 30, 2011, due primarily to increased recoveries.

Net charge-offs. Net charge-offs were $11.5 million for the nine months ended September 30, 2012 a decrease of $1.5 million over net charge-offs for the same period of 2011. The majority of the charge-offs in the first nine months of 2012 were associated with eleven commercial loans totaling $5.5 million, eight construction loans totaling $6.9 million and one consumer loan totaling $151,000.

Non-performing loans, loans 90 days delinquent and still accruing, and troubled debt restructurings. Loans are considered to be non-performing if they are on a non-accrual basis or they are past due 90 days or more and still accruing interest. A loan which is past due 90 days or more and still accruing interest remains on accrual status only when it is both adequately secured as to principal and interest, and is in the process of collection. Troubled debt restructurings are loans with terms that have been renegotiated to provide a reduction or deferral of interest or principal because of a weakening in the financial positions of the borrowers. The following tables summarize our non-performing loans, other real estate owned and our loans past due 90 days or more still accruing interest (in thousands). The footnote details the troubled debt restructurings.

	September 30, 2012	September 30, 2011	December 31, 2011
		(in thousands)	
Non-accrual loans			
Construction *	$8,886	$2,321	$4,949
Commercial mortgage *	8,894	3,848	3,672
Commercial *	7,654	4,212	6,450
Consumer	927	1,560	1,252
Residential	93	5,260	1,264
Total non-accrual loans	26,454	17,201	17,587
Loans past due 90 days or more	3,861	5,550	4,101
Total non-performing loans	30,315	22,751	21,688
Other real estate owned	3,065	6,415	7,405
Total non-performing assets	$33,380	$29,166	$29,093

* Included in the non-accrual loans as of September 30, 2012 are five troubled debt restructured loans classified as follows: $725,000 in commercial mortgage, $2.3 million in commercial and $2.6 million in construction.

Of the $8.3 million of loans that were modified and considered troubled debt restructurings as of September 30, 2012 $5.6 million and $1.1 million were already included in non-accrual and non-performing loan totals . An analysis of those loans is as follows (dollars in thousands):

	September 30, 2012			December 31, 2011		
	Number	Pre-modification recorded investment	Post-modification recorded investment	Number	Pre-modification recorded investment	Post-modification recorded investment
Commercial	1	$ 2,255	$ 2,255	-	$ -	$ -
Commercial mortgage	3	3,156	3,156	1	759	759
Construction	4	2,913	2,913	-	-	-
Residential mortgage	-	-	-	1	364	364
Total	8	$ 8,324	$ 8,324	2	$ 1,123	$ 1,123

The balances below provide information as to how the loans were modified as troubled debt restructurings loans during the nine months ended September 30, 2012 and year ended December 31, 2011. $5.6 million and $1.1 million were already included in non-accrual and non-performing loan totals as of September 30, 2012 and December 31, 2011, respectively, and are detailed as follows (dollars in thousands).

	September 30, 2012			December 31, 2011		
	Adjusted interest rate	Extended maturity	Combined rate and maturity	Adjusted interest rate	Extended maturity	Combined rate and maturity
Commercial	$-	$2,255	$-	$-	$-	$-
Commercial mortgage	725	214	2,217	759	-	-
Construction	-	2,913	-	-	-	-
Residential mortgage	-	-	-	364	-	-
Total	$725	$5,382	$2,217	$1,123	$-	$-

The following table provides information about impaired loans at September 30, 2012 and December 31, 2011 (in thousands):

	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment	Interest income recognized
September 30, 2012					
Without an allowance recorded					
Construction	$276	$276	$-	$911	$-
Commercial mortgage	3,582	4,403	-	2,058	-
Commercial	4,219	6,257	-	2,017	-
Consumer - home equity	927	927	-	927	-
Residential	-	-	-	316	-
With an allowance recorded					
Construction	8,886	8,886	4,899	7,523	-
Commercial mortgage	7,742	8,287	4,028	4,090	-
Commercial	3,435	3,631	1,885	5,397	-
Consumer - home equity	-	-	-	81	-
Residential	93	93	71	47	-
Total					
Construction	$9,162	$9,162	$4,899	$8,434	$-
Commercial mortgage	$11,324	$12,690	$4,028	$6,148	$-
Commercial	$7,654	$9,888	$1,885	$7,414	$-
Consumer - home equity	$927	$927	$-	$1,008	$-
Residential	$93	$93	$71	$363	$-
December 31, 2011					
Without an allowance recorded					
Construction	$-	$-	$-	$100	$-
Commercial mortgage	-	-	-	310	-
Commercial	900	2,042	6,831	626	-
Consumer - home equity	927	927	3,765	371	-
Residential	1,264	1,414	149	662	-
With an allowance recorded					
Construction	4,949	4,949	2,296	2,123	-
Commercial mortgage	3,672	3,672	712	2,793	-
Commercial	5,550	5,550	2,724	3,075	-
Consumer - home equity	325	325	204	510	-
Residential	-	-	-	5,048	-
Total					
Construction	$4,949	$4,949	$2,296	$2,223	$-
Commercial mortgage	$3,672	$3,672	$712	$3,103	$-
Commercial	$6,450	$7,592	$9,555	$3,701	$-
Consumer - home equity	$1,252	$1,252	$3,969	$881	$-
Residential	$1,264	$1,414	$149	$5,710	$-

We had $26.5 million of non-accrual loans at September 30, 2012 compared to $17.6 million of non-accrual loans at December 31, 2011. The increase in non-accrual loans was primarily due to $25.9 million of loans placed on non-accrual status offset by $10.3 million of loan charge-offs, $2.0 million of loans transferred to other real estate owned and $4.9 million of loan payments. Included within the non-accrual loans at September 30, 2012 are five troubled debt restructured loans with a balance of $5.6 million. Loans past due 90 days or more still accruing interest amounted to $3.9 million at September 30, 2012 and $4.1 million at December 31, 2011. The $240,000 decrease reflected $3.0 million of additions partially offset by $1.5 million of loans transferred to non-accrual status, $1.4 million of loan payments and $277,000 of charge-offs.

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We had $3.1 million of other real estate owned at September 30, 2012 compared to $7.4 million at December 31, 2011. The decrease in other real estate owned was primarily due to $5.2 million of cash received due to sales, $1.4 million of write-downs and $1.0 million of realized losses which were partially offset by $3.2 million of additions.

The following table classifies our loans (not including loans held for sale) by categories which are used throughout the industry as of September 30, 2012 and December 31, 2011 (in thousands):

	Commercial		Construction		Commercial mortgage		Residential mortgage	
	9/30/2012	12/31/2011	9/30/2012	12/31/2011	9/30/2012	12/31/2011	9/30/2012	12/31/2011
Risk Rating								
Pass	$331,624	$ 320,287	$236,486	$ 176,824	$490,001	$ 476,421	$28,792	$28,981
Special Mention	2,939	1,049	-	-	23,862	21,615	-	-
Substandard	8,045	7,696	9,553	6,716	12,740	6,867	-	1,264
Doubtful	-	-	-	-	-	-	93	-
Loss	-	-	-	-	-	-	-	-
Unrated subject to review	28,253	60,938	10,711	49,700	23,502	26,543	1,590	2,084
Unrated not subject to review	82,583	60,441	6,976	13,371	64,305	78,041	67,114	63,781
Total	$453,444	$ 450,411	$263,726	$ 246,611	$614,410	$ 609,487	$97,589	$96,110

	Consumer		Direct lease financing		Unamortized costs		Total	
	9/30/2012	12/31/2011	9/30/2012	12/31/2011	9/30/2012	12/31/2011	9/30/2012	12/31/2011
Risk Rating								
Pass	$56,020	$ 64,236	$54,747	$ 12,025	$-	$ -	$1,197,670	$1,078,774
Special Mention	-	-	-	-	-	-	26,801	22,664
Substandard	3,672	2,718	61	649	-	-	34,071	25,910
Doubtful	-	-	-	-	-	-	93	-
Loss	-	-	-	-	-	-	-	-
Unrated subject to review	25,573	2,873	-	29,174	-	-	89,629	171,312
Unrated not subject to review	191,162	139,214	91,920	87,834	4,668	3,486	508,728	446,168
Total	$276,427	$ 209,041	$146,728	$ 129,682	$4,668	$ 3,486	$1,856,992	$1,744,828

* Unrated loans consist of performing loans which did not exhibit any negative characteristics which would require the loan to be evaluated, or fell below the dollar threshold requiring review and was not one of the loans otherwise selected in ongoing portfolio evaluation. The scope of the Bank's loan review policy encompasses commercial and construction loans and leases which singly or in the aggregate in the case of loans with related borrowers, equal or exceed $3.0 million. The loan portfolio review coverage was approximately 68% at September 30, 2012 and approximately 65% at December 31, 2011. This review is performed by the loan review department, which is independent of the loan department and reports directly to the audit committee. All classified loans are reviewed by the independent loan review function of the Bank. Potential problem loans which are identified by either the independent loan review department or line management are also reviewed. All loans are subject to review by their relationship manager and senior loan personnel. Also, many of the Bank's loans are relatively short term, and are

subject to reconsideration with a full review in loan committee between one and three years.

Deposits. A primary source of funding is deposit acquisition. We offer a variety of deposit accounts with a range of interest rates and terms, including demand, checking and money market accounts. One strategic focus is growing these accounts through affinity groups. To offset deposit seasonality, management has historically used certificates of deposit including brokered certificates of deposit. However, as a result of deposit growth in other areas, the use of brokered certificates of deposit are currently minimal. At September 30, 2012, we had total deposits of $2.78 billion compared to $2.68 billion at December 31, 2011, an increase of $98.6 million or 3.7%, which was the result of growth in prepaid, wealth management and healthcare amounts. Increases in average deposit trends have allowed us to virtually eliminate time deposits, which may bear higher interest rates than transaction accounts. The following table presents the average balance and rates paid on deposits for the periods indicated (in thousands):

	For the nine months ended September 30, 2012			For the year ended December 31, 2011		
	Average balance	Average rate		Average balance	Average rate	
	(unaudited)					
Demand and interest checking	$2,721,620	0.29	%	$2,175,972	0.35	%
Savings and money market	447,596	0.55	%	355,094	0.86	%
Time	28,403	1.41	%	31,066	1.14	%
Total deposits	$3,197,619	0.34	%	$2,562,132	0.43	%

Borrowings. We had no outstanding advances from the Federal Home Loan Bank as of September 30, 2012 and December 31, 2011. Additionally, we had no outstanding balances on the Bank's lines of credit as of September 30, 2012 and December 31, 2011. We do not have any policy prohibiting us from incurring debt.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Except as discussed in Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” there has been no material change in our assessment of our sensitivity to market risk since our presentation in our Annual Report on Form 10-K for the year ended December 31, 2011.

Item 4. Controls and Procedures

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

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

There has been no change in our internal control over financial reporting that occurred during the quarter ended September 30, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 6. Exhibits

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

SIGNATURES

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

THE BANCORP INC.
(Registrant)

November 9, 2012	/s/ Betsy Z. Cohen
Date	Betsy Z. Cohen Chief Executive Officer
November 9, 2012	/s/ Paul Frenkiel
Date	Executive Vice President of Strategy, Chief Financial Officer and Secretary

Exhibit No.	Description
3.1	Certificate of Incorporation (1)
3.2	Bylaws (1)
31.1	Rule 13a-14(a)/15d-14(a) Certifications
31.2	Rule 13a-14(a)/15d-14(a) Certifications
32.1	Section 1350 Certifications
32.2	Section 1350 Certifications
101.INS	XBRL Instance Document (2)
101.SCH	XBRL Taxonomy Extension Schema Document(2)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document(2)

101.DEF	XBRL Taxonomy Extension Definition Linkbase Document(2)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document(2)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document(2)

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

(2) Furnished herewith.