

Frank Mastrangelo, President & CFO of The Bancorp Discusses Recent Acquisition of BankFirst's SVS Unit

By Prepaid Media Staff

Last month, The Bancorp, Inc. and BankFirst announced that they had entered into an agreement whereby Delaware-based Bancorp will acquire all assets of South Dakota-based BankFirst's Stored Value Solutions ("SVS") prepaid card business. The transaction is expected to close in the fourth quarter of 2007 and needs FDIC approval under the Bank Merger Act.

Prepaid Media spoke with Frank Mastrangelo, President and CFO of The Bancorp, about the transaction. The Q&A is presented below.

(Prepaid Media also previously interviewed Jeremy Kuiper, Managing Director of SVS, and that Q&A can be found on www.paybefore.com, or by clicking here – Q&A with Jeremy Kuiper, Managing Director, Stored Value Solutions, BankFirst on Sale of Prepaid Business to The Bancorp).

PM: Please give us a brief overview of Bancorp.

FM: Bancorp is an FDIC insured bank, whose core business is to provide private-label banking products and services to non-bank financial services organizations to help them round out their product offerings and compete in their core markets. We have a number of vertical markets on which we focus, such as health care where we private label HSAs for health carriers, TPAs, and large brokerage firms on a national basis. We also private label banking services in the form of cash management and lending services to non-bank, independent trust companies and brokerage firms so that they can compete with banks' wealth management arms or organizations like Merrill Lynch and Goldman Sachs, which themselves have banking charters. We also have a payment processing line of business where we sponsor independent sales and service organizations' acquiring efforts. And, we

act as an ODFI for various other payment organizations and bill payment entities. The SVS acquisition is our first foray on the issuing side of the business outside of some small stored value programs we have issued.

PM: How would you describe Bancorp's position in the prepaid card market?

FM: Prior to the acquisition we were practically non-existent in the prepaid card market. We do have a handful of small programs focused on payroll and commission payments. However, our programs to date have been small—we dabbled in prepaid and really never made the commitment to properly manage our offerings. Via this acquisition, we are bringing in an experienced business team to grow this new division.

PM: Is that why you acquired a prepaid business instead of building one?

FM: Yes. It's difficult to create and grow a new line of business. It was more attractive to acquire a prepaid business than to build one. BankFirst has been successful in this area and we viewed this acquisition as a unique opportunity; one that doesn't come along every day. By acquiring BankFirst SVS, we will catapult Bancorp into this space with a very experienced management team.

PM: Tell us about the acquisition process.

FM: This was an opportunity that was brought to our attention in an area – prepaid – in which we had great interest. But we were not out shopping. Instead, we were keeping our eyes and ears open for opportunities in this space. Once we saw the opportunity with BankFirst we did comparisons to other companies as part of our due diligence.

PM: How do the cultures of the two organizations mesh?



Frank Mastrangelo

FM: When we started the due diligence effort on the BankFirst SVS group, culturally it was like we were looking at ourselves. There are a lot of similarities among the various third-party program sponsorship models. We are both very similar in that way and we knew pretty quickly that this was a good match. Also, I view Bancorp as an entrepreneurial organization and I think the philosophical approaches are similar in both organizations.

PM: What synergies do you share?

FM: There are many important synergies that result from the marriage of our strengths. There are synergies in our payment processing line of business, where for example our ACH origination component focuses on partnering with payroll companies, so there are obvious synergies there with the SVS business offering. In regards to the

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health care business, SVS brings experience in the issuance of health care prepaid cards and we can marry that to our experience and portfolio of health savings account carriers, TPAs, and brokers, which makes for a nice synergistic relationship. We have clients asking for FSA services, which BankFirst SVS provides, and BankFirst SVS has FSA clients interested in HSA services, which we provide. I believe that on both sides of the transaction our partners are clambering for the other part of the service that we each had not been offering. For instance, our HSA clients, especially TPAs, are looking for a stackable card-based program that would encompass their FSA services. I believe that BankFirst has the FSA offerings but not the HSA services that we have.

PM: So this is an example of the cross selling you discussed with analyst as part of the announcement of the acquisition?

FM: That's right. Leveraging SVS's capability in payroll cards with our payroll providers is another natural cross sell into a business segment where we already have relations and visa-versa.

PM: How would you describe your client base?

FM: We have a myriad of clients, some of which are publicly disclosed and some of which are not. If you look at our private client segment it's widely known that one of our largest clients is Legg Mason. In our health care line, we have a strong constituent of regional Blue Cross Blue Shield carriers, including CareFirst organizations. The type of partners we work with varies from business segment to business segment.

PM: Please explain the integration plan and how the prepaid card business will be grown?

FM: The transition plan is being finalized. I can say that BankFirst's SVS unit issues on a number of platforms and that is not going to change. The conversion is going to be focused on the underlying demand

deposit system and the ACH origination required for card loads and unloads, and interfacing. I do not want to underestimate the complexity of the conversion but I do not believe that transition will be onerous. I think it will be easily accomplished given the experienced technical resources we now have on both sides. We think this can be accomplished with little impact to clients.

PM: Where in Bancorp will SVS report and will there be full retention of the BankFirst SVS unit?

FM: Jeremy Kuiper, managing director of SVS will continue to run the unit and report directly to me. We have retained the whole SVS unit and we intend to invest, hire, and grow the unit.

PM: As part of the acquisition will there be a renaming of the prepaid unit or will it remain SVS?

FM: Both groups advocate a name change to reflect the business going forward. It will be something much broader than just SVS, which does not encompass the gamut of the business going forward. We are in full agreement on that. We will make an announcement in the near future on this front.

PM: What is your market and product strategy over the short- and long-term?

FM: As I mentioned, we are still mapping out a plan and a very involved short- and long-term strategy. What I can say is that on the horizon there are several opportunities BankFirst has been incubating that we have an interest in, such as worker's compensation. We have relationships in that space with companies that could expedite the efforts of SVS to service that market with cards and other services. We really appreciate that SVS has an emerging markets unit which seeks to incubate new ideas into new vertical markets. We think that we will replicate that kind of approach across the rest of Bancorp's operations.

PM: With the acquisition of SVS you now have a reported 3.5 million prepaid cards in circulation. What is the expected rate of growth of these products?

FM: With our two organizations growing as fast as they have and the prepaid card industry growing as fast as it is, it is really difficult to project what will occur in the future. We are taking a conservative view in the models we are using. We do expect very nice growth moving forward.

PM: What is your take on the competitive landscape among banks competing in prepaid?

FM: It is very competitive. Like many other businesses that we have invested in, we like to have the advantages of being an early mover. But we were not an early mover in the case of prepaid. Now we have that advantage with the acquisition of SVS. If you look at the landscape, what you have are smaller banks with major positions and some very large banks that aren't quite as flexible in their program offering. What is missing are those banks in-between. Bancorp brings stability of capital and balance sheet strength, but at the same time, we believe more of mid-tier banks will become engaged in the space and more competitive over time.

PM: How high risk is this acquisition for Bancorp (a public company) with the prepaid industry still in the early stage and the market being volatile?

FM: I do not think its high risk at all.

PM: What do you think of the maturity of the prepaid card market and M&A activity?

FM: The M&A activity is unprecedented, and we believe the industry as a whole is just scratching the surface of the potential. We see growth that can be delivered year over year for a long time going forward; that is why we are elated about our acquisition. 