

FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, DC 20429

FORM 10-Q

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

For the Quarterly Period Ended: **September 30, 2008**

FDIC certificate number: **34929**

First Bank of Delaware

(Exact name of business issuer as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

51-0389698
IRS Employer Identification
Number

Brandywine Commons II, Rocky Run Parkway, Wilmington, DE 19803

(Address of principal executive offices)

(Zip code)

302-529-5984

(Issuer's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): YES NO

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

11,401,301 shares of Issuer's Common Stock, par value
\$0.05 per share, issued and outstanding as of November 10, 2008

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PART I - FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

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First Bank of Delaware
Consolidated Balance Sheets
as of September 30, 2008 and December 31, 2007
(Dollars in thousands, except share data)
(unaudited)

ASSETS:	<u>September 30, 2008</u>	<u>December 31, 2007</u>
Cash and due from banks	\$ 2,097	\$ 1,715
Interest bearing deposits with banks	751	344
Federal funds sold	30,759	13,933
Total cash and cash equivalents	<u>33,607</u>	<u>15,992</u>
Investment securities available for sale, at fair value	7,830	17,195
Federal Home Loan Bank stock, at cost	161	124
Loans held for sale	590	139
Loans receivable (net of allowance for loan losses of \$2,918 and \$2,581, respectively)	70,955	76,765
Premises and equipment, net	3,504	3,575
Other real estate owned	293	18
Accrued interest receivable	308	462
Bank owned life insurance	1,804	1,757
Other assets	5,414	3,334
Total Assets	<u>\$ 124,466</u>	<u>\$ 119,361</u>
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Liabilities:		
Deposits:		
Demand – non-interest-bearing	\$ 44,848	\$ 31,072
Demand – interest-bearing	192	319
Money market and savings	21,968	30,093
Time under \$100,000	11,805	10,052
Time \$100,000 or more	1,234	9,267
Total Deposits	<u>80,047</u>	<u>80,803</u>
Accrued interest payable	109	374
Due to short term consumer loan servicers and purchasers	-	84
Accrued expenses	3,253	2,625
Other liabilities	2,267	1,315
Total Liabilities	<u>85,676</u>	<u>85,201</u>
Shareholders' Equity:		
Common stock par value: \$0.05; shares authorized: 15,000,000		
Shares issued and outstanding at September 30, 2008: 11,401,301	570	569
Shares issued and outstanding at December 31, 2007: 11,359,017	570	569
Additional paid in capital	13,374	13,284
Retained earnings	25,167	20,604
Stock held by deferred compensation plan	(384)	(384)
Accumulated other comprehensive income	63	87
Total Shareholders' Equity	<u>38,790</u>	<u>34,160</u>
Total Liabilities and Shareholders' Equity	<u>\$ 124,466</u>	<u>\$ 119,361</u>

(See notes to unaudited consolidated financial statements)

First Bank of Delaware
Consolidated Statements of Income
For the Three and Nine Months Ended September 30, 2008 and 2007
(Dollars in thousands, except per share data)
(unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Interest income:				
Interest and fees on loans	\$2,483	\$1,825	\$7,913	\$5,667
Interest and dividend income on federal funds sold and other interest-earning balances	147	464	363	1,666
Interest and dividends on investment securities	120	142	539	440
Total interest income	<u>2,750</u>	<u>2,431</u>	<u>8,815</u>	<u>7,773</u>
Interest expense:				
Demand - interest bearing	1	1	3	1
Money market and savings	129	391	500	1,033
Time less than \$100,000	94	194	269	922
Time over \$100,000	10	145	187	586
Other borrowed funds	-	14	-	21
	<u>234</u>	<u>745</u>	<u>959</u>	<u>2,563</u>
Net interest income	2,516	1,686	7,856	5,210
Provision for loan losses	<u>1,000</u>	<u>20</u>	<u>3,050</u>	<u>172</u>
Net interest income after provision for loan losses	<u>1,516</u>	<u>1,666</u>	<u>4,806</u>	<u>5,038</u>
Non-interest income:				
Loan advisory and servicing fees	8	10	61	80
Service fees on deposit accounts	94	120	350	338
Net gain on sales of loans held for sale	233	464	631	1,023
Consumer loan fee income	782	2,718	3,990	6,312
First Capital Exchange fee income	-	42	13	107
Card products	2,349	1,992	8,239	4,605
Other income	171	110	564	230
	<u>3,637</u>	<u>5,456</u>	<u>13,848</u>	<u>12,695</u>
Non-interest expenses:				
Salaries and employee benefits	1,885	2,024	6,138	5,961
Occupancy	158	205	441	459
Depreciation	105	84	316	188
Legal	89	151	268	444
Data processing and operational expenses	128	79	389	204
Delaware franchise tax	76	199	374	442
Professional fees	384	76	723	216
Regulatory Assessment (Civil monetary penalty)	304	-	304	-
Credit card program marketing expense	-	-	596	-
Credit card program processing expense	136	70	673	131
Other operating expenses	441	465	1,313	1,291
	<u>3,706</u>	<u>3,353</u>	<u>11,535</u>	<u>9,336</u>
Income before income taxes	1,447	3,769	7,119	8,397
Provision for income taxes	<u>522</u>	<u>1,343</u>	<u>2,556</u>	<u>2,941</u>
Net Income	<u>\$925</u>	<u>\$2,426</u>	<u>\$4,563</u>	<u>\$5,456</u>
Earnings per share:				
Basic	<u>\$0.08</u>	<u>\$0.21</u>	<u>\$0.40</u>	<u>\$0.47</u>
Diluted	<u>\$0.08</u>	<u>\$0.21</u>	<u>\$0.40</u>	<u>\$0.47</u>

(See notes to unaudited consolidated financial statements)

First Bank of Delaware
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2008 and 2007
(Dollars in thousands)
(unaudited)

	Nine months ended September 30,	
	2008	2007
Cash flows from operating activities:		
Net income	\$ 4,563	\$ 5,456
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	3,050	172
Loss on sale of other real estate	7	-
Stock compensation expense	57	42
Depreciation	316	188
Amortization of discount on investment securities	(2)	(7)
Net gain on sale of loans	(631)	(1,023)
Increase in value of bank owned life insurance	(47)	(47)
Increase in accrued interest receivable and other assets	(1,913)	(1,004)
Decrease in due to consumer loan servicers and purchasers	(84)	(329)
Increase in accrued interest payable, accrued expenses and other liabilities	1,315	1,943
Net cash provided by operating activities	<u>6,631</u>	<u>5,391</u>
Cash flows from investing activities:		
Purchase of securities:		
Available for sale	-	(322)
FHLB Stock purchase	(37)	-
Proceeds from principal receipts, calls and maturities of securities:		
Available for sale	9,330	684
FHLB Stock redemption	-	41
Gross loans originated for sale	(52,380)	(94,205)
Proceeds from sales of loans	52,560	95,172
Net decrease (increase) in loans	2,467	(2,583)
Net proceeds from sale of real estate owned	11	-
Premises and equipment expenditures	(245)	(2,577)
Net cash provided by (used in) investing activities	<u>11,706</u>	<u>(3,790)</u>
Cash flows from financing activities:		
Net proceeds from the exercise of stock options	34	24
Net increase in demand, money market and savings deposits	5,524	16,170
Net decrease in time deposits	(6,280)	(23,615)
Net cash used in financing activities	<u>(722)</u>	<u>(7,421)</u>
Increase (decrease) in cash and cash equivalents	17,615	(5,820)
Cash and cash equivalents, beginning of period	15,992	38,755
Cash and cash equivalents, end of period	<u>\$ 33,607</u>	<u>\$ 32,935</u>
Supplemental disclosure:		
Interest paid	\$ 1,224	\$ 3,071
Taxes paid	<u>\$ 2,600</u>	<u>\$ 2,700</u>
Non-monetary transfers into other real estate owned	\$ 293	\$ -

(See notes to unaudited consolidated financial statements)

FIRST BANK OF DELAWARE
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the nine months ended September 30, 2008 and 2007
(Dollars in thousands)
(Unaudited)

	Comprehensive Income	Common Stock	Additional Paid in Capital	Retained Earnings	Stock Held by Deferred Compensation Plan	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance January 1, 2008	\$	569	\$ 13,284	\$ 20,604	\$ (384)	\$ 87	\$ 34,160
Options exercised(24,200 shares)		1	33	-		-	34
Stock Based Compensation		-	57	-	-	-	57
Total other comprehensive loss, net of taxes of \$13	\$ (24)	-	-	-	-	(24)	(24)
Net income	4,563	-	-	4,563	-	-	4,563
Total comprehensive income.....	<u>\$ 4,539</u>	-	-	-	-	-	-
Balance September 30, 2008	<u>\$</u>	<u>570</u>	<u>\$ 13,374</u>	<u>\$ 25,167</u>	<u>\$ (384)</u>	<u>\$ 63</u>	<u>\$ 38,790</u>

	Comprehensive Income	Common Stock	Additional Paid in Capital	Retained Earnings	Stock Held by Deferred Compensation Plan	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance January 1, 2007	\$	568	\$ 13,201	\$ 12,420	\$ (384)	\$ 48	\$ 25,853
Options exercised(16,513 shares)		1	23	-		-	24
Stock Based Compensation		-	42	-	-	-	42
Total other comprehensive loss, net of taxes of \$22	\$ (43)	-	-	-	-	(43)	(43)
Net income	5,456	-	-	5,456	-	-	5,456
Total comprehensive income.....	<u>\$ 5,413</u>	-	-	-	-	-	-
Balance September 30, 2007	<u>\$</u>	<u>569</u>	<u>\$ 13,266</u>	<u>\$ 17,876</u>	<u>\$ (384)</u>	<u>\$ 5</u>	<u>\$ 31,332</u>

(See notes to unaudited consolidated financial statements)

FIRST BANK OF DELAWARE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1: Organization

First Bank of Delaware (“FBD” or the “Company” or the “Bank”)

FBD is a commercial bank chartered pursuant to the laws of the State of Delaware with its principal office located at Brandywine Commons II, Concord Pike, Wilmington, Delaware. As a Delaware chartered bank, it is subject to the regulations and examination of the Delaware State Banking Commissioner. As a state chartered bank which is not a member of the Federal Reserve System, it is also subject to examination and comprehensive regulation by the Federal Deposit Insurance Corporation (“FDIC”). Deposits are insured up to applicable limits by the Bank Insurance Fund of the FDIC. FBD presently conducts its principal business banking activities through two full service offices in Wilmington, and a loan office in Lewes, Delaware. FBD offers a variety of credit and depository banking services. Commercial loan services are primarily offered to individuals and businesses in the Delaware area through the three offices; however a substantial number of subprime consumer loans (120 days and over) are made in various states via the Internet. Subprime credit and prepaid card products are also offered nationally. The majority of loan balances resulting from these national products are sold in the secondary market on a non-recourse basis. FBD has two subsidiaries, BSC Services Corp. and FBD Capital Markets, Inc. (d/b/a “First Capital Exchange”). FBD also provides banking services to money transmitters. In third quarter 2008, BSC Services Corp., which had previously provided operations, accounting, compliance and human resources staffing to FBD, as well as former affiliates, discontinued its operations. Staff members previously employed through BSC are now employed directly by FBD. The action was taken to simplify corporate structures. First Capital Exchange, a subsidiary that provided mezzanine financing, is no longer operative effective July 1, 2008 as a result of market conditions.

Note 2: Summary of Significant Accounting Policies:

Basis of Presentation:

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine month period ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ended December 31, 2008.

Risks and Uncertainties and Certain Significant Estimates:

FBD's earnings include significant amounts of subprime consumer loan and subprime credit card product fee income. Also, FBD is dependent upon the level of net interest income, which is the difference between interest earned on its interest-earning assets, such as loans and investments, and the interest paid on its interest-bearing liabilities, such as deposits and borrowings. Accordingly, the results of operations of FBD are subject to risks and uncertainties surrounding their exposure to change in the interest rate environment.

Prepayments on fixed rate loans and mortgage-backed securities vary significantly and may cause significant fluctuations in interest margins.

One of the companies which no longer markets the Bank's subprime consumer loans and another which markets the Bank's subprime credit cards, each generated respective loans and credit card products which resulted in revenues greater than 10% of total revenues in certain periods as follows. In third quarter 2008 revenue resulting from the company marketing loans amounted to \$520,000 and revenues from the company that markets cards totaled \$933,000, which represented 8.1% and 14.6% respectively of total revenues of \$6.4 million. In third quarter 2007, those companies marketed loans and credit cards which respectively generated \$2.1 million (26.7%) and \$1.2 million (15.1%) of total revenues of \$7.9 million. Year to date 2008 revenue resulting from the company marketing loans amounted to \$3.3 million and revenues from the company that markets cards totaled \$4.0 million, which represented 14.6% and 17.5% respectively of total revenues of \$22.7 million. For year to date 2007, those companies marketed loans and credit cards which respectively generated \$4.4 million (21.6%) and \$2.8 million (13.5%) of total revenues of \$20.5 million. In third quarter 2008, we ceased marketing loans through the aforementioned company. This will result in a phased out reduction in related reserves as existing loans mature. (See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Recent Developments.")

At September 30, 2008, there were approximately \$5.6 million of subprime consumer loans and credit card receivables outstanding on the balance sheet, including \$1.6 million of subprime credit cards directly offered by FBD which were originated via the internet. The balance of the receivables were generated through outside marketers. These loans and receivables generally have principal amounts of \$10,000 or less. Legislation eliminating or limiting interest rates upon such loans has from time to time been proposed. Certain loans that FBD originates are classified as "Held For Sale" on the balance sheet.

FBD is an issuing bank for certain credit card programs. FBD originates subprime credit card receivables through various marketers and sells the majority of such receivables into the secondary market on a non-

recourse basis. FBD earns a monthly fee for each active account. FBD also offers certain subprime credit cards directly and retains these balances on its books. At September 30, 2008 and December 31, 2007, FBD had approximately \$1.8 million and \$200,000 of credit card related receivables on its books.

FBD offers prepaid cards on a national basis. These cards are sold primarily via the internet. Customers may load their own funds onto the cards via the internet, merchants, or by direct deposit from their employer. Upon loading, customers may access their funds through ATMs or point of sale locations. FBD earns revenues on these cards through interchange, monthly fees and float on the card deposits.

Credit card incentives are earned from certain card networks based on several factors. The income treatment related to these incentives is as follows. In certain relationships we do not have the contractual rights to these payments; however, we may negotiate an agreement with another party for a portion of these payments. We record these payments as income upon receipt of the payment for those relationships. It is expected that this income will be primarily reflected in the fourth quarter of each year. In other instances we have the contractual right to a portion of the incentives. In those instances we accrue the amount of incentive income on a rolling quarterly basis, as we can reasonably estimate what those amounts will be.

FBD generates a substantial portion of its income by selling subprime loans and subprime card receivables to various purchasers. Should purchasers be unable to acquire funding, sales might be curtailed or eliminated with a material reduction in income.

On October 9, 2008, the Bank entered into a cease and desist stipulation and consent order with the Bank's primary federal regulator, the Federal Deposit Insurance Corporation ("FDIC"). The order required the Bank to exit certain programs, enhance its oversight of other programs, and develop business plans. The order also required the Bank to pay a \$304,000 civil money penalty and make refunds to customers of approximately \$700,000 and \$150,000 related to two different products. The \$304,000 was recognized as an expense in the third quarter of 2008. The Bank expects that the refund payments will be reimbursed by third party vendors under indemnification agreements, with expected recognition of the liability on the balance sheet in the fourth quarter. Discussions with the FDIC are continuing to address FDIC concerns with the Bank's directly offered subprime loan and credit card products. One of those concerns is the use and control over third party vendors which the Bank is taking additional steps to address. FBD's results of operation can be significantly affected by the ability of its third party purchasers to obtain financing to purchase loan receivables. Macroeconomic issues related to subprime markets, could exacerbate related funding availability and costs. To the extent that these purchasers cannot obtain financing, or financing is limited, FBD may have to reduce or cease originations. The termination of any of these products would result in the loss of related income streams, which could be material to operations. The Bank is in process of exiting certain products with specific vendors.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates are made by management in determining the allowance for loan losses, carrying values of other real estate owned, other than temporary impairment of investment securities and the realization of deferred tax assets. Consideration is given to a variety of factors in establishing these estimates. In estimating the allowance for loan losses, management considers current economic conditions, diversification of the loan portfolio, delinquency statistics, results of internal loan reviews, borrowers' perceived financial and managerial strengths, the adequacy of underlying collateral, if collateral dependent,

or present value of future cash flows and other relevant factors. Since these estimates are dependent, to a great extent, on the general economy and other conditions that may be beyond FBD's control, it is at least reasonably possible that the estimates could differ materially in the near term. In estimating other than temporary impairment of investment securities, securities are evaluated on at least a quarterly basis, and more frequently when market conditions warrant such an evaluation, to determine whether a decline in their value is other-than-temporary. To determine whether a loss in value is other-than-temporary, management utilizes criteria such as the reasons underlying the decline, the magnitude and duration of the decline and the intent and ability of the Company to retain its investment in the security for a period of time sufficient to allow for an anticipated recovery in the fair value. The term "other-than-temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of investment. Once a decline in value is determined to be other-than-temporary, the value of the security is reduced and a corresponding charge to earnings is recognized. In evaluating our ability to recover deferred tax assets, management considers all available positive and negative evidence, including our past operating results and our forecast of future taxable income. In determining future taxable income, management makes assumptions for the amount of taxable income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require us to make judgments about our future taxable income and are consistent with the plans and estimates we use to manage our business. Any reduction in estimated future taxable income may require us to record a valuation allowance against our deferred tax assets. An increase in the valuation allowance would result in additional income tax expense in the period and could have a significant impact on our future earnings.

FBD's results of operations will be significantly affected by the ability of borrowers to repay their loan and card obligations as many national consumer borrowers, including short term installment loan customers and subprime credit card borrowers, are considered to be high credit risks. Further, litigation in connection with such consumer loans and card receivables, if successful, and if not reimbursed by loan and card servicers obligated to indemnify FBD, could have an adverse impact on earnings and financial condition. There is no indemnification for litigation related to direct offerings including the subprime credit cards offered directly by FBD. FBD's results of operations can be significantly affected by the ability of its third party purchasers to obtain financing to purchase loan receivables. Macroeconomic issues related to subprime markets, could exacerbate related funding availability and costs. To the extent that these purchasers cannot obtain financing, or financing is limited, FBD may have to reduce or cease originations.

FBD is subject to federal and state regulations governing virtually all aspects of its activities, including, but not limited to, lines of business, liquidity, investments, the payment of dividends and others. Such regulations and the cost of adherence to such regulations can have a significant impact on earnings and financial conditions. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Recent Developments."

Stock Based Compensation:

At September 30, 2008, the Company maintains a Stock Option Plan (the “Plan”) under which the Company grants options to its employees and directors. Under terms of the plan, 1.5 million shares of common stock are reserved for such options. The Plan provides that the exercise price of each option granted equals the market price of the Company’s stock on the date of grant. Any options granted vest within one to five years and have a maximum term of 10 years.

A summary of the activity related to the Company’s stock options granted under the Stock Option Plan during the nine months ended September 30, 2008 is presented below:

	For the Nine Months Ended September 30,			
	2008		2007	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	1,029,988	\$ 2.49	892,071	\$ 2.49
Granted	59,000	2.76	167,000	3.10
Exercised	(24,200)	1.38	(16,513)	1.46
Forfeited	(236,686)	2.66	-	-
Outstanding, end of period	<u>828,102</u>	<u>2.64</u>	<u>1,042,558</u>	<u>2.62</u>
Options exercisable at period-end	<u>632,102</u>	<u>2.54</u>	<u>864,558</u>	<u>2.51</u>
Weighted average fair value of options granted during the period		<u>\$ 0.94</u>		<u>\$ 1.21</u>

	For the Nine Months Ended September 30,	
	2008	2007
Number of options exercised	24,200	16,513
Cash received	\$ 33,495	\$ 24,031
Intrinsic value	20,928	25,371
Tax benefit	7,325	8,880

The following table summarizes information about options outstanding under the Stock Option Plan as of September 30, 2008.

Range of Exercise Prices	Options outstanding			Options exercisable	
	Shares	Weighted Average remaining contractual life (years)	Weighted Average exercise price	Shares	Weighted Average Exercise Price
\$0.78 to \$1.00	17,600	2.3	\$ 0.78	17,600	\$ 0.78
\$1.01 to \$1.50	7,150	3.4	1.20	7,150	1.20
\$1.51 to \$1.99	8,200	1.8	1.69	8,200	1.69
\$2.00 to \$2.69	266,052	5.7	2.51	266,052	2.51
\$2.70 to \$2.92	529,100	7.2	2.81	333,100	2.71
	<u>828,102</u>		<u>\$ 2.64</u>	<u>632,102</u>	<u>\$ 2.54</u>

During the three months ended September 30, 2008, \$16,000 was recognized in compensation expense, with a 35% assumed tax benefit, for the Stock Option Plan. During the nine months ended September 30, 2008, \$57,000 was recognized in compensation expense, with a 35% assumed tax benefit, for the Stock Option Plan. During the three months ended September 30, 2007, \$14,000 was recognized in compensation expense, with a 35% assumed tax benefit, for the Stock Option Plan. During the nine months ended September 30, 2007, \$42,000 was recognized in compensation expense, with a 35% assumed tax benefit, for the Stock Option Plan. The fair value of each option granted in 2008 is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for those grants: dividend yield of 0%; expected volatility of 24.98%; risk-free interest rate of 3.01% and an expected life of 7.0 years. At September 30, 2008, there were 196,000 unvested options with a fair value of \$217,000 with \$118,000 of that amount remaining to be recognized as expense. At that date, the intrinsic value of the 828,102 options outstanding was \$22,000 while the intrinsic value of the 632,102 exercisable (vested) options was \$22,000. During the nine months ended September 30, 2008, 236,686 options were forfeited with a weighted average grant fair value of \$286,390.

Note 3: Reclassifications

Certain items in the consolidated financial statements and accompanying notes have been reclassified to conform to the current year's presentation format. There was no effect on net income for the periods presented herein as a result of reclassifications.

Note 4: Recent Accounting Pronouncements

In October 2008, the FASB issued FSP SFAS No. 157-3, "Determining the Fair Value of a Financial Asset When The Market for That Asset Is Not Active" (FSP 157-3), to clarify the application of the provisions of SFAS 157 in an inactive market and how an entity would determine fair value in an inactive market. FSP 157-3 is effective immediately and applies to our September 30, 2008 financial statements. The application of the provisions of FSP 157-3 did not materially affect our results of operations or financial condition as of and for the periods ended September 30, 2008.

In September 2008, the FASB issued FSP 133-1 and FIN 45-4, "Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161" (FSP 133-1 and FIN 45-4). FSP 133-1 and FIN 45-4 amends and enhances disclosure requirements for sellers of credit derivatives and financial guarantees. It also clarifies that the disclosure requirements of SFAS No. 161 are effective for quarterly periods beginning after November 15, 2008, and fiscal years that include those periods. FSP 133-1 and FIN 45-4 is effective for reporting periods (annual or interim) ending after November 15, 2008. The implementation of this standard will not have a material impact on our consolidated financial position and results of operations.

In September 2008, the FASB ratified EITF Issue No. 08-5, "Issuer's Accounting for Liabilities Measured at Fair Value With a Third-Party Credit Enhancement" (EITF 08-5). EITF 08-5 provides guidance for measuring liabilities issued with an attached third-party credit enhancement (such as a guarantee). It clarifies that the issuer of a liability with a third-party credit enhancement should not include the effect of

the credit enhancement in the fair value measurement of the liability. EITF 08-5 is effective for the first reporting period beginning after December 15, 2008. The Company is currently assessing the impact of EITF 08-5 on its consolidated financial position and results of operations.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." This Statement identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements. This Statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." The Bank is currently evaluating the potential impact the new pronouncement will have on its consolidated financial statements.

In June 2008, the FASB issued FASB Staff Position (FSP) EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities." This FSP clarifies that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders. Awards of this nature are considered participating securities and the two-class method of computing basic and diluted earnings per share must be applied. This FSP is effective for fiscal years beginning after December 15, 2008. The Bank is currently evaluating the potential impact the new pronouncement will have on its consolidated financial statements.

FASB statement No. 141 (R) "Business Combinations" was issued in December of 2007. This Statement establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The Statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The guidance will become effective as of the beginning of a company's fiscal year beginning after December 15, 2008. This new pronouncement will impact accounting for business combinations completed beginning January 1, 2009.

Staff Accounting Bulletin No. 109 (SAB 109), "Written Loan Commitments Recorded at Fair Value Through Earnings" expresses the views of the staff regarding written loan commitments that are accounted for at fair value through earnings under generally accepted accounting principles. To make the staff's views consistent with current authoritative accounting guidance, the SAB revises and rescinds portions of SAB No. 105, "Application of Accounting Principles to Loan Commitments." Specifically, the SAB revises the SEC staff's views on incorporating expected net future cash flows related to loan servicing activities in the fair value measurement of a written loan commitment. The SAB retains the staff's views on incorporating expected net future cash flows related to internally-developed intangible assets in the fair value measurement of a written loan commitment. The staff expects registrants to apply the views in Question 1 of SAB 109 on a prospective basis to derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. SAB 109 was adopted on January 1, 2008 and the impact was not material to the Bank's financial position or results of operation.

Note 5: Legal Proceedings

See “Part II Other information Item 1: Legal Proceedings”. Additionally, FBD is from time to time party (plaintiff or defendant) to lawsuits in the normal course of business. While any litigation involves an element of uncertainty, management, after reviewing pending actions with legal counsel, is of the opinion that the liabilities of FBD, if any, resulting from such actions will not have a material effect on financial condition or results of operations.

Note 6: Segment Reporting

FBD's reportable segments represent strategic businesses that offer different products and services. The segments are managed separately because each segment has unique operating characteristics, management requirements and marketing strategies. FBD has four reportable segments: one community banking segment; mezzanine financing for loans made by First Capital Exchange; consumer installment loans; and card products. The community banking segment is primarily comprised of the results of operations and financial condition of commercial loan and deposit operations. The mezzanine financing loans made by First Capital Exchange are primarily for real estate projects with higher loan to value ratios and higher interest rates than loans usually made by the bank and with relatively shorter terms (generally less than two years). At September 30, 2008, there were no loans outstanding in this First Capital Exchange subsidiary. As a result of market conditions, mezzanine loans are no longer made, effective July 1, 2008. FBD additionally offers national consumer products to the underbanked consumer including consumer installment loans. Consumer installment loans are subprime loans with principal amounts of \$10,000 or less and terms of 120 days and greater. These loans typically are made via the internet and by phone in states that are outside of Delaware through a small number of marketers with rates and fees significantly different from other loan products offered. A majority of these loans are sold into the secondary market without recourse. FBD also offers subprime card products, which consist of prepaid and credit cards, on a national basis. A majority of the credit card receivables are sold into the secondary market without recourse.

FBD evaluates the performance of the community banking segment based upon net income, return on equity and return on average assets. Mezzanine financing, consumer installment loans, and card products are evaluated based upon net income.

Segment information for the three and nine months ended September 30, 2008 and 2007, is as follows:

As of and for the three months ended September 30, 2008

(dollars in thousands)

	Community Banking	Mezzanine Financing	Card Products	Consumer loans	Total
Net interest income	\$ 973	\$ -	\$ 100	\$ 1,443	\$ 2,516
Provision for loan losses	100	-	670	230	1,000
Non-interest income	273	-	2,349	1,015	3,637
Non-interest expenses	841	-	1,825	1,040	3,706
Provision for income taxes	110	-	(16)	428	522
Net income (loss)	<u>\$ 195</u>	<u>\$ -</u>	<u>\$ (30)</u>	<u>\$ 760</u>	<u>\$ 925</u>

As of and for the nine months ended September 30, 2008

(dollars in thousands)

	Community Banking	Mezzanine Financing	Card Products	Consumer loans	Total
Net interest income	\$ 2,966	\$ 254	\$ 250	\$ 4,386	\$ 7,856
Provision for loan losses	244	-	1,569	1,237	3,050
Non-interest income	976	13	8,238	4,621	13,848
Non-interest expenses	2,478	162	5,587	3,308	11,535
Provision for income taxes	439	38	480	1,599	2,556
Net income	<u>\$ 781</u>	<u>\$ 67</u>	<u>\$ 852</u>	<u>\$ 2,863</u>	<u>\$ 4,563</u>

Selected Balance Sheet Accounts at September 30, 2008:

Total assets	\$ 82,412	\$ -	\$ 35,850	\$ 6,204	\$ 124,466
Total loans	68,048	-	960	2,537	71,545
Total deposits	45,454	-	32,160	2,433	80,047

As of and for the three months ended September 30, 2007

(dollars in thousands)

	Community Banking	Mezzanine Financing	Card Products	Consumer loans	Total
Net interest income	\$ 904	\$ 184	\$ 212	\$ 386	\$ 1,686
Provision for loan losses	-	-	-	20	20
Non-interest income	252	30	1,992	3,182	5,456
Non-interest expenses	775	123	1,033	1,422	3,353
Provision for income taxes	136	32	417	758	1,343
Net income	<u>\$ 245</u>	<u>\$ 59</u>	<u>\$ 754</u>	<u>\$ 1,368</u>	<u>\$ 2,426</u>

As of and for the nine months ended September 30, 2007

(dollars in thousands)

	Community Banking	Mezzanine Financing	Card Products	Consumer loans	Total
Net interest income	\$ 2,720	\$ 485	\$ 627	\$ 1,378	\$ 5,210
Provision for loan losses	52	-	-	120	172
Non-interest income	660	95	4,605	7,335	12,695
Non-interest expenses	2,232	387	2,943	3,774	9,336
Provision for income taxes	380	68	805	1,688	2,941
Net income	<u>\$ 716</u>	<u>\$ 125</u>	<u>\$ 1,484</u>	<u>\$ 3,131</u>	<u>\$ 5,456</u>

Selected Balance Sheet Accounts at December 31, 2007:

Total assets	\$ 86,746	\$ 5,168	\$ 19,432	\$ 8,015	\$ 119,361
Total loans	68,560	4,232	200	3,912	76,904
Total deposits	59,266	-	18,788	2,749	80,803

Note 7: Earnings Per Share:

Earnings per share (“EPS”) consists of two separate components: basic EPS and diluted EPS. Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding for each period presented. Diluted EPS is calculated by dividing net income by the weighted average number of common shares outstanding plus dilutive common stock equivalents (“CSEs”). CSEs consist of dilutive stock options granted through FBD’s stock option plan. The following table is a reconciliation of the numerator and denominator used in calculating basic and diluted EPS. CSEs which are anti-dilutive are not included in the following calculation. At September 30, 2008 there were 795,152 options which were antidilutive and therefore excluded from the calculation. At September 30, 2007, there were 611,400 options which were antidilutive because the option exercise price being greater than the average market price for the period.

The following table is a comparison of EPS for the three and nine months ended September 30, 2008, and 2007.

	Three months ended			
	<u>2008</u>		<u>2007</u>	
Net Income	\$925,000		\$2,426,000	
	<u>Shares</u>	<u>Per Share</u>	<u>Shares</u>	<u>Per Share</u>
Weighted average shares				
For period	11,393,577		11,375,530	
Basic EPS		\$0.08		\$0.21
Add common stock equivalents representing dilutive stock options	<u>13,233</u>		<u>62,364</u>	
Effect on basic EPS of dilutive CSE		=		=
Equals total weighted average shares and CSE (diluted)	<u>11,406,810</u>		<u>11,437,894</u>	
Diluted EPS		<u>\$0.08</u>		<u>\$0.21</u>

	Nine months ended			
	<u>2008</u>		<u>2007</u>	
Net Income	\$4,563,000		\$5,456,000	
	<u>Shares</u>	<u>Per Share</u>	<u>Shares</u>	<u>Per Share</u>
Weighted average shares				
For period	11,387,543		11,367,828	
Basic EPS		\$0.40		\$0.47
Add common stock equivalents representing dilutive stock options	<u>27,516</u>		<u>173,153</u>	
Effect on basic EPS of dilutive CSE		=		=
Equals total weighted average shares and CSE (diluted)	<u>11,415,059</u>		<u>11,540,981</u>	
Diluted EPS		<u>\$0.40</u>		<u>\$0.47</u>

Note 8: Comprehensive Income

The following table displays net income and the components of other comprehensive income to arrive at total comprehensive income. The only component of other comprehensive income is that related to the unrealized gains (losses) on available for sale investment securities.

(dollar amounts in thousands)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Net income	\$ 925	\$ 2,426	\$ 4,563	\$ 5,456
Other comprehensive gain (loss), net of tax:				
Unrealized gains(losses) on securities:				
Unrealized holding gains (losses) during the period	18	113	(37)	(65)
Tax effect	(6)	(39)	13	22
Comprehensive income	<u>\$ 937</u>	<u>\$ 2,500</u>	<u>\$ 4,539</u>	<u>\$ 5,413</u>

Note 9: Fair Value of Financial Instruments:

SFAS No.157 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). The three levels of the fair value hierarchy under FAS No.157 are described below:

Basis of Fair Value Measurement:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 – Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and observable (i.e., supported by little or no market activity).

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 Bank's cash instruments are generally classified within level 1 or level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency.

The types of instruments valued based on quoted market prices in active markets include all of the Bank's U.S. government and agency securities, which comprise the whole portfolio. Such instruments are generally classified within level 1 of the fair value hierarchy. As required by SFAS No. 157, the Bank does not adjust the quoted price for such instruments.

The types of instruments valued based on quoted prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of transparency for securities which the Bank might own could include investment-grade bonds and mortgage products. Such instruments are generally classified within level 2 of the fair value hierarchy. The Bank does not have any such securities at present.

Level 3 is for positions that are not traded in active markets or are subject to transfer restrictions, with valuations adjusted to reflect illiquidity and/or non-transferability, based on available market evidence. In the absence of such evidence, management's best estimate is used. Subsequent to inception, management only changes level 3 inputs and assumptions when corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt markets, and changes in financial ratios or cash flows. The Bank does not have any such securities at present.

All of the Bank's securities at September 30, 2008 were Level 1 with a fair value of \$7.8 million.

The Company's other real estate owned was accounted for at fair value as of September 30, 2008 as follows: Significant Unobservable Inputs (Level 3) \$293,000. As required by SFAS No. 157, financial assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management's discussion and analysis of significant changes in FBD's results of operations, financial condition and capital resources presented in the accompanying consolidated financial statements. This discussion should be read in conjunction with the accompanying notes to the consolidated financial statements.

Certain statements in this document may be considered to be "forward-looking statements" as that term is defined in the U.S. Private Securities Litigation Reform Act of 1995, such as statements that include the words "may," "believes," "expect," "estimate," "project," "anticipate," "should," "intend," "probability," "risk," "target," "objective" and similar expressions or variations on such expressions. The forward-looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. For example, risks and uncertainties can arise with changes in: general economic conditions, including their impact on capital expenditures; new service and product offerings by competitors and price pressures; and similar items. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. FBD undertakes no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances that arise after the date hereof, except as may be required by applicable law or regulation. Readers should carefully review the risk factors described in other documents FBD files from time to time with the FDIC, including FBD's Annual Report on Form 10-K for the year ended December 31, 2007, Quarterly Reports on Form 10-Q, filed by the Company in 2008 and 2007, and any Current Reports on Form 8-K, as well as other filings.

Recent Developments:

On October 9, 2008, the Bank entered into a cease and desist stipulation and consent order with the Bank's primary federal regulator, the Federal Deposit Insurance Corporation ("FDIC"). The order required the Bank to exit certain programs, enhance its oversight of other programs, and develop business plans. The order also required the Bank to pay a \$304,000 civil money penalty and make refunds to customers of approximately \$700,000 and \$150,000 related to two different products. The \$304,000 was recognized as an expense in the third quarter of 2008. The Bank expects that the refund payments will be reimbursed by third party vendors under indemnification agreements, with expected recognition of the liability on the balance sheet in the fourth quarter. Discussions with the FDIC are continuing to address FDIC concerns with the Bank's directly offered subprime loan and credit card products. One of those concerns is the use and control over third party vendors which the Bank is taking additional steps to address. FBD's results of operation can be significantly affected by the ability of its third party purchasers to obtain financing to purchase loan receivables. Macroeconomic issues related to subprime markets, could exacerbate related funding availability and costs. To the extent that these purchasers cannot obtain financing, or financing is limited, FBD may have to reduce or cease originations. The termination of any of these products would result in the loss of related income streams, which could be material to operations. The Bank is in process of exiting certain products with specific vendors.

In accordance with a decision by our board of directors to phase out all current marketing and servicing agreements for subprime consumer installment loans through third parties, we ceased our marketing and servicing agreement for subprime consumer installment loans through a company for which year to date revenues amounted to \$3.3 million. These actions are being taken as a result of ongoing discussions with the FDIC. This will result in a phased out reduction of related revenues as existing loans pay off. We will also cease marketing with other consumer loan and certain prepaid card marketers with additional reductions in revenues as required by the cease and desist stipulation and consent order stated above. Elimination of these

revenues will have a material impact on operations. While First Bank of Delaware has begun to offer subprime credit cards and subprime consumer loans directly to consumers, there can be no assurance as to the amount of revenue or net income which will be realized.

Consumer Installment Loans

In 2007, FBD ceased offering loans in the stores of its marketers. Subprime consumer loans are now offered via the internet through unaffiliated third party marketers and servicers, with whom we contract and who own the internet sites where the loans are marketed. These marketers and servicers process applications and also provide customer service. However, we make all credit decisions prior to our making any loans. We contract with these marketers and servicers after we perform our due diligence with respect to them. We ceased marketing loans through one of our marketers/servicers in third quarter 2008. This marketer represented \$520,000 or 8.1% of revenue in third quarter 2008 and \$3.3 million or 14.6% for year to date 2008.

We sell the majority of our subprime consumer loans or interests therein to third party investors. These third party buyers are investors or investment groups familiar with the industry. These loans are sold on a non-recourse basis and the investors bear the risk of loss for any defaults on these loans. We retain a portion of the income on these sold loans, which is recorded as non-interest income. FBD's results of operation can be significantly affected by the ability of its third party purchasers to obtain financing to purchase loan receivables. Macroeconomic issues related to subprime markets, could exacerbate related funding availability and costs. To the extent that these purchasers cannot obtain financing, or financing is limited, FBD may have to reduce or cease originations. We also retain some of the loans we originate. Income on these retained loans is recorded as interest income. Per our internal guidelines, we hold up to 25% of our capital in these loans at any one time. At September 30, 2008, there were approximately \$66.5 million of such loans outstanding of which \$3.8 million was retained by the Bank. At September 30, 2008, there were \$590,000 of loans accounted for as "held for sale," which a buyer was committed to purchase.

Card Products

Prepaid Cards

Through our memberships with MasterCard International and Visa, we have become an issuing bank for prepaid cards. In third quarter 2005, we began offering prepaid cards primarily to the un-banked and under-banked customer on a national basis. Prepaid cards are cards that store information electronically on a magnetic stripe or computer chip and can be used to purchase goods or services. Funds are loaded onto cards which can be used in a manner similar to some debit/ATM cards and in some instances are similar to a MasterCard® or Visa® card. Prepaid cards are a substitute for cash, gift certificates and check payments. Cards can be either personalized with a customer name, non-personalized, reloadable or non-reloadable based on the type of card. All cards will be issued through internet sites, retail storefronts, corporations or directly to the consumer. We have contracted with several card processors to provide front-end software platform functionality, cardholder support and card fulfillment to retail environments. The bank earns revenues on these cards through interchange, monthly fees and float on the card deposits. We ceased marketing cards through several processors in third quarter 2008. The impact on revenue will be minimal.

Credit Card Products

In 2005, we became an issuing bank for certain credit card programs targeted principally to the subprime market. FBD originates subprime credit card receivables and sells the majority of such receivables into the secondary market without recourse. FBD has partnered with unaffiliated third party marketers and servicers who perform customer service, marketing, processing services and collections related to the accounts. The receivables are sold on a non-recourse basis and the purchasers bear the risk of loss for any defaults on the receivables. FBD's results of operation can be significantly affected by the ability of its third party purchasers to obtain financing to purchase loan receivables. Macroeconomic issues related to subprime markets, could exacerbate related funding availability and costs. To the extent that these purchasers cannot obtain financing, or financing is limited, FBD may have to reduce or cease originations. FBD earns a monthly fee for each active account, as well as a monthly management fee. FBD also offers its own credit card products, which it retains on the balance sheet and for which it retains all income, pays all expenses and bears the risk of loss. At September 30, 2008, FBD had \$1.8 million of subprime credit card receivables on its books.

Financial Condition:

September 30, 2008, Compared to December 31, 2007

Total assets increased \$5.1 million to \$124.5 million at September 30, 2008, versus \$119.4 million at December 31, 2007. This increase reflected an \$16.8 million increase in fed funds sold which was offset in part by decreases in investments of \$9.4 million, and in loan receivables of \$5.8 million, between those respective dates.

Loans:

The loan portfolio represents FBD's largest asset, and is its most significant source of interest income. Net loans, excluding loans held for sale, decreased \$5.8 million, or 7.6%, to \$71.0 million at September 30, 2008, versus \$76.8 million at December 31, 2007. The majority of the decrease was the result of a sale of FBD's First Capital Exchange loan portfolio of \$4.3 million at par in June of 2008. As a result of changes in market conditions First Capital Exchange was no longer operative effective July 1, 2008. The loan portfolio consists of commercial real estate, construction and other commercial loans, as well as short term subprime consumer loans and credit card balances. Commercial real estate loans comprise the majority of the loan portfolio. Commercial real estate loans amounted to \$35.1 million at September 30, 2008 compared to \$44.1 million at December 31, 2007. The decrease reflected the sale of the mezzanine loan portfolio described previously in the paragraph. Construction and land development loans amounted to \$27.7 million and \$21.2 million respectively, at those dates. At September 30, 2008, there were \$5.6 million in subprime consumer loans and credit card receivables outstanding versus \$6.3 million at December 31, 2007.

Investment Securities:

Investment securities available-for-sale are investments that may be sold in response to changing market and interest rate conditions and for liquidity and other purposes. The investment securities available-for-sale consist primarily of U.S. Government agency issued mortgage backed securities. Available-for-sale securities totaled \$7.8 million at September 30, 2008, a decrease of \$9.4 million or 54.5%, from year-end 2007. This decrease resulted primarily from a redemption of one security for \$8.0 million and pay downs of mortgage-backed securities. At September 30, 2008, and December 31, 2007, the portfolio had net unrealized gains of \$97,000 and \$135,000, respectively.

Cash and Cash Equivalents:

Cash and due from banks, interest-bearing deposits and federal funds sold comprise this category, which consists of FBD's most liquid assets. The aggregate amount in these three categories increased by \$17.6 million to \$33.6 million at September 30, 2008 from \$16.0 million at December 31, 2007. Federal funds sold increased by \$16.8 million between those respective dates, to \$30.8 million at September 30, 2008.

Fixed Assets:

Bank premises and equipment, net of accumulated depreciation was \$3.5 million at September 30, 2008 and \$3.6 million at December 31, 2007, respectively. The flat level reflected minimal additions to fixed assets.

Bank Owned Life Insurance:

The income earned on these policies is reflected in non-interest income. Bank owned life insurance amounted to \$1.8 million at September 30, 2008 and December 31, 2007.

Other Assets:

Other assets increased \$2.1 million to \$5.4 million at September 30, 2008, versus \$3.3 million at December 31, 2007. This increase reflected an increase in credit card related receivables which are expected to be collected in fourth quarter 2008.

Deposits:

Deposits, which include non-interest and interest-bearing demand deposits, money market, savings and time deposits and may include some brokered deposits, represent the major sources of funding. Deposits are generally solicited from the Delaware market area through a variety of products to attract and retain customers, with a primary focus on multi-product relationships. We also obtain deposits, including significant non-interest bearing demand deposits, from our card product customers and third party vendors. As third party vendor relationships are terminated (see "Recent Developments"), related deposits will likely be eliminated.

Total deposits decreased by \$756,000 to \$80.0 million at September 30, 2008, from \$80.8 million at December 31, 2007. Average transaction accounts in the current quarter increased 2.7% or \$1.8 million over the comparable prior year quarter. Time deposits decreased \$6.3 million to \$13.0 million at September 30, 2008, versus \$19.3 million at December 31, 2007 as higher cost deposits matured and were not renewed.

Other Liabilities:

Other liabilities increased by \$1.0 million or 72.4% to \$2.3 million at September 30, 2008 from \$1.3 million at December 31, 2007. The increase was primarily due to accounts payable and insurance loan fees payable, which increased between the periods. Other liabilities at September 30, 2008 included \$304,000 accrued for a civil money penalty (see "Recent Developments").

Shareholders' Equity:

Total shareholders' equity increased \$4.6 million to \$38.8 million at September 30, 2008, versus \$34.2 million at December 31, 2007. This increase primarily reflected net income of \$4.6 million. Book value per share was \$3.40 at September 30, 2008 compared to \$3.00 at December 31, 2007.

Three Months Ended September 30, 2008 Compared to September 30, 2007

Results of Operations:

Overview

FBD's net income decreased to \$925,000 or \$0.08 per diluted share for the three months ended September 30, 2008, compared to \$2.4 million or \$0.21 per diluted share for the comparable prior year period. Non-interest income decreased \$1.8 million primarily due to decreases in subprime consumer loan fees of \$1.9 million. The decrease resulted primarily from reduced volumes of new loans as a result of market factors and reduced utilization of third parties as a result of discussions with the FDIC. The impact of higher average loan balances and higher yields thereon and lower funding costs led to an increase in net interest income of \$830,000 or 49.2%, which was more than offset by a \$980,000 increase in the loan loss provision in 2008. The primary component of the increased loss provision was the Bank's direct subprime credit card program originated in 2008, for which the Bank holds the related receivables, earns all revenues and bears risk of loss. Other operating expenses increased \$353,000 primarily reflecting increases in third quarter 2008 related to subprime credit card products and all associated expenses, including increased professional fees and the payment of a civil monetary penalty of \$304,000. These factors were reflected in a return on average assets and average equity of 2.97% and 9.53% respectively, in the second quarter of 2008 compared to 7.52% and 31.44% respectively for the same period in 2007.

Analysis of Net Interest Income

In addition to significant amounts of subprime consumer loan and subprime credit card fee income, FBD's earnings have depended significantly upon net interest income, which is the difference between interest earned on interest-earning assets and interest paid on interest-bearing liabilities. Net interest income is impacted by changes in the mix of the volume and rates of interest-earning assets and interest-bearing liabilities.

Interest-earning assets: (Dollars in thousands)	For the three months ended September 30, 2008			For the three months ended September 30, 2007		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
Federal funds sold and other interest- earning assets	\$ 30,233	\$ 147	1.92%	\$ 34,183	\$ 464	5.39%
Securities	8,062	120	5.95%	9,418	142	6.03%
Loans receivable	75,055	2,483	13.13%	71,916	1,825	10.06%
Total interest-earning assets	113,350	2,750	9.63%	115,517	2,431	8.35%
Other assets	10,152			12,478		
Total assets	<u>\$ 123,502</u>			<u>\$ 127,995</u>		
Interest-bearing liabilities:						
Demand-non interest bearing	\$ 43,292			\$ 33,209		
Demand interest-bearing	344	\$ 1	1.15%	175	\$ 1	1.13%
Money market & savings	24,153	129	2.12%	32,651	391	4.75%
Time deposits	12,186	104	3.39%	26,394	339	5.10%
Total deposits	79,975	234	1.16%	92,429	731	3.14%
Total interest-bearing deposits	36,683	234	2.53%	59,220	731	4.90%
Other borrowings	-	-	-	634	14	8.76%
Total interest-bearing liabilities	<u>\$ 36,683</u>	<u>\$ 234</u>	<u>2.53%</u>	<u>\$ 59,854</u>	<u>\$ 745</u>	<u>4.94%</u>
Total deposits and other borrowings	79,975	234	1.16%	93,063	745	3.18%
Non interest-bearing liabilities	5,035			4,316		
Shareholders' equity	38,492			30,616		
Total liabilities and shareholders' equity	<u>\$ 123,502</u>			<u>\$ 127,995</u>		
Net interest income		<u>\$ 2,516</u>		<u>\$ 1,686</u>		
Net interest spread			<u>7.09%</u>			<u>3.41%</u>
Net interest margin			<u>8.81%</u>			<u>5.79%</u>

The rate volume table below presents an analysis of the impact on interest income and expense resulting from changes in average volumes and rates during the period. Changes due to rate and volume variances have been allocated to rate.

Rate/Volume Table

	<u>Volume</u>	<u>Due to change in:</u> <u>Rate</u>	<u>Total</u>
Interest earned on:			
Federal funds sold	\$ (19)	\$ (298)	\$ (317)
Securities	(20)	(2)	(22)
Loans	104	554	658
Total interest-earning assets	65	254	319
Interest expense of deposits:			
Interest-bearing demand deposits	-	-	-
Money market and savings	46	216	262
Time deposits	121	114	235
Total deposit interest expense	167	330	497
Other borrowings	-	14	14
Total interest expense	167	344	511
Net interest income	\$ 232	\$ 598	\$ 830

FBD's net interest margin increased 302 basis points to 8.81% for the three months ended September 30, 2008, versus the prior year comparable period. The increase reflected an increase in higher yielding average subprime consumer loan balances and significantly lower funding costs. The average yield on interest-earning assets increased 128 basis points to 9.63% for the three months ended September 30, 2008, from 8.35% for the prior year comparable period, reflecting the impact of the higher yielding subprime consumer loan balances. Without the consumer loans, net interest margins would have been approximately 3.81% in third quarter 2008 and 4.48% in third quarter 2007. The lower 2008 margin reflected a decrease in commercial loan yields, reflecting the sale of higher yielding (but higher risk) mezzanine loans and reductions in the prime rate, partially offset by lower rates paid on deposit accounts. The average rate paid on interest-bearing liabilities decreased 241 basis points to 2.53% for the three months ended September 30, 2008, from 4.94% in the prior year comparable period. The decrease reflected a decision not to renew higher priced fixed rate time deposits as FBD anticipated declines in interest rates and lower market interest rates. Rates paid on total deposits decreased 198 basis points, to 1.16% in third quarter 2008 from 3.14% in third quarter 2007, primarily for those reasons.

FBD's net interest income increased \$830,000, or 49.2%, to \$2.5 million for the three months ended September 30, 2008, from \$1.7 million for the prior year comparable period. The increase reflected \$658,000 of growth in interest income resulting from higher average balances and yields on loans, primarily for subprime loans, and a \$511,000 decrease in interest expense, reflecting lower rates and balances.

Total interest income increased \$319,000, or 13.1%, to \$2.8 million for the three months ended September 30, 2008, from \$2.4 million for the prior year comparable period. Interest and fees on loans increased \$658,000, or 36.1% to \$2.5 million for the three months ended September 30, 2008, from \$1.8 million for the prior year comparable period. The increases reflected those factors noted in the preceding paragraphs which discussed net interest margin and net interest income. Interest and dividends on investment securities decreased \$22,000, or 15.5% to \$120,000 for the three months ended September 30, 2008, from \$142,000 for the prior year comparable period primarily reflecting decreased average balances. Excess liquidity was generally invested in overnight federal funds sold. Federal funds sold income decreased \$317,000, or 68.3%, to \$147,000 in third quarter 2008, compared to \$464,000 in third quarter 2007. The decrease reflected lower average short-term interest rates which decreased the yield to 1.92% from 5.39% between those respective periods, and lower average balances. In third quarter 2008, average federal funds sold decreased \$4.0 million, or 11.6%, to \$30.2 million in third quarter 2008, from \$34.2 million in third quarter 2007.

Total interest expense decreased \$511,000, or 68.6%, to \$234,000 for the three months ended September 30, 2008, from \$745,000 for the prior year comparable period. That decrease primarily reflected the maturity and non renewal of higher cost certificates of deposit as well as lower rates on remaining certificates of deposit, and lower market interest rates. Rates paid on money market and savings deposits also declined as did related balances. Total interest-bearing liabilities decreased \$23.2 million, or 38.7%, to \$36.7 million in third quarter 2008, from \$59.9 million in third quarter 2007. A portion of that decline was offset by a \$10.1 million increase in non-interest bearing demand deposits.

Interest expense on money market and savings deposits decreased \$262,000, or 67.0% to \$129,000 for third quarter 2008 from \$391,000 for the prior year comparable period. The decrease reflected a decrease in balances of \$8.5 million to \$24.2 million from \$32.7 million and a decrease in yield to 2.12% from 4.75%, resulting from the declining rate environment.

Interest expense on time deposits (certificates of deposit) decreased \$235,000, or 69.3%, to \$104,000 for third quarter 2008, from \$339,000 for the prior year comparable period. Average certificates of deposit outstanding decreased \$14.2 million, or 53.8%, to \$12.2 million, for the quarter ended September 30, 2008, from \$26.4 million in the prior year comparable period. This decrease reflected the maturity and non renewal of higher rate certificates of deposit. The average rate decreased 171 basis points to 3.39% in third quarter 2008 from 5.10% in the prior year comparable period.

Provision for Loan Losses

The provision for loan losses is charged to operations in an amount necessary to bring the total allowance for loan losses to a level that reflects the known and estimated inherent losses in the portfolio. The provision for loan losses increased to \$1.0 million for the three months ended September 30, 2008, from \$20,000 for the prior year comparable period. The increase reflected an increase in the provision for loan losses required by FBD's allowance for loan loss methodology for subprime consumer installment loans and subprime credit card receivables, as more of these loans were held on the balance sheet. The FBD direct subprime credit card program accounted for the majority of the \$1.0 million increase as the Bank holds the receivables and is responsible for any losses.

Non-Interest Income

Total non-interest income decreased \$1.8 million or 33.3%, to \$3.6 million for the three months ended September 30, 2008, versus \$5.5 million for the prior year comparable period. Consumer loan fee income and net gain on sales of such loans decreased by \$2.2 million or 68.1% to \$1.0 million from \$3.2 million primarily due to the decreased volume of subprime consumer installment loans. The decrease resulted primarily from reduced volumes of new loans as a result of market factors and reduced utilization of third parties as a result of discussions with the FDIC. One company that markets the Bank's subprime consumer installment loans generated loans which resulted in revenues of \$520,000 or 8.1% of total revenue. The Bank ceased doing business with that marketer in third quarter 2008. (See "Recent Developments"). Total subprime card product income, which includes prepaid and credit cards increased by \$357,000 or 17.9% from \$2.0 million in the prior year comparable period to \$2.3 million for the three months ended September 30, 2008. The increase was primarily a result of increased revenue from retained balances of FBD's direct card program of \$673,000 and incremental card incentive revenue of \$75,000 which more than offset a \$391,000 decrease in our active card revenue for balances sold to third parties between the comparable periods. Active card revenue is earned primarily on the number of active accounts, which decreased substantially between the periods due to a lower volume of active cards, which reflected reduced marketing and other factors. Additionally, incentive revenues are earned based on new card issuance. One company that markets FBD credit cards, which generated \$933,000 in revenue or 14.6% of total revenue.

Non-Interest Expenses

Total non-interest expenses increased \$353,000, or 10.5% to \$3.7 million for the three months ended September 30, 2008, from \$3.4 million for the prior year comparable period reflecting expenses for the subprime credit card products. Salaries and employee benefits were comparable between the periods at \$1.9 million and \$2.0 million respectively.

Occupancy expense decreased \$47,000, or 22.9%, to \$158,000 for third quarter 2008, versus \$205,000 for third quarter 2007. The decline was due to decreased equipment maintenance charges of \$16,000, miscellaneous equipment charges of \$16,000 and decreased utility expense of \$10,000.

Depreciation expense increased \$21,000, or 25.0% to \$105,000 for the three months ended September 30, 2008, versus \$84,000 for the prior year comparable period. The increase reflected expenditures on equipment.

Legal fees decreased \$62,000, or 41.1%, to \$89,000 in third quarter 2008, compared to \$151,000 in third quarter 2007. The decrease reflected legal fees paid in 2007 related to new product development which included consumer installment loans, prepaid and credit cards and other loan products.

Data processing expense increased \$49,000, or 62.0%, to \$128,000 in third quarter 2008 from \$79,000 in third quarter 2007. The increase reflected higher data processing charges related to subprime credit card and subprime consumer loan products.

Delaware franchise tax decreased \$123,000, or 61.8%, to \$76,000 in third quarter 2008 from \$199,000 in third quarter 2007. The decrease resulted primarily from decreased taxable income.

Professional fees increased \$308,000, or 405.3% to \$384,000 in third quarter 2008, compared to \$76,000 in the comparable prior year period. The increase reflected consulting fees related to subprime credit cards and other subprime products.

A regulatory assessment (civil monetary penalty) of \$304,000 was accrued in third quarter 2008. The liability resulted from the resolution of an administrative action by the FDIC. (See “Recent Developments”).

Credit card program processing expense increased \$66,000, or 94.3% to \$136,000 in third quarter 2008, compared to \$70,000 in the comparable prior year period. The increase reflected the significant increase in processing and servicing expenses for the Bank’s directly offered credit card in the third quarter of 2008.

Other expenses decreased \$24,000, or 5.2% to \$441,000 for the three months ended September 30, 2008, from \$465,000 for the prior year comparable period. The decrease reflected a \$21,000 decrease in audit expenses and a \$16,000 decrease in telephone expense. These decreases were partially offset by increases in other areas.

Provision for Income Taxes

The provision for income taxes decreased \$821,000, or 61.1% to \$522,000 for the three months ended September 30, 2008, from \$1.3 million for the prior year comparable period. The decrease was primarily the result of the decrease in pre-tax income. The effective tax rate was 36.1% for the three month period ended September 30, 2008 compared to 35.6% in the prior year comparable period.

Nine Months Ended September 30, 2008 Compared to September 30, 2007

Results of Operations:

Overview

FBD's net income decreased to \$4.6 million or \$0.40 per diluted share for the nine months ended September 30, 2008, compared to \$5.5 million, or \$0.47 per diluted share for the comparable prior year period primarily reflecting a higher loan loss provision and increased non-interest expenses which more than offset a \$1.2 million increase in non-interest income. Subprime consumer loan fee income decreased by \$2.3 million from the prior year reflecting a lower amount of loan volume. The decrease resulted primarily from reduced volumes of new loans as a result of market factors and reduced utilization of third parties as a result of discussions with the FDIC. However, non-interest income increased primarily due to a \$3.6 million increase in card fee income reflecting increased card volumes. The loan loss provision increased by \$2.9 million to \$3.1 million in year to date 2008 from \$172,000 in the prior year comparable period. The primary component of the increased loss provision was the Bank's on balance sheet subprime consumer installment loans and direct credit card program originated in 2008 and for which the Bank held the related receivables, earns all revenues and bears risk of loss. Non-interest expenses increased \$2.2 million and reflected credit card related professional fees, card marketing and processing expenses for the Bank's directly offered credit card and all associated expenses and a civil monetary penalty. These factors were reflected in a return on average assets and average equity of 4.99% and 16.49% respectively, in the nine months ended 2008 compared to 5.34% and 25.60% respectively for the same period in 2007.

Analysis of Net Interest Income

In addition to significant amounts of subprime consumer loan and subprime credit card fee income, FBD's earnings have depended significantly upon net interest income, which is the difference between interest earned on interest-earning assets and interest paid on interest-bearing liabilities. Net interest income is impacted by changes in the mix of the volume and rates of interest-earning assets and interest-bearing liabilities.

Interest-earning assets: (Dollars in thousands)	For the nine months ended September 30, 2008			For the nine months ended September 30, 2007		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
Federal funds sold and other interest- earning assets	\$ 20,940	\$ 363	2.32%	\$ 42,022	\$ 1,666	5.30%
Securities	13,386	539	5.37%	9,827	440	5.97%
Loans receivable	77,785	7,913	13.60%	73,008	5,667	10.38%
Total interest-earning assets	112,111	8,815	10.51%	124,857	7,773	8.32%
Other assets	10,192			11,859		
Total assets	<u>\$ 122,303</u>			<u>\$ 136,716</u>		
Interest-bearing liabilities:						
Demand-non interest bearing	\$ 39,022			\$ 34,120		
Demand interest-bearing	377	\$ 3	1.06%	227	\$ 1	0.59%
Money market & savings	26,921	500	2.48%	29,722	1,033	4.65%
Time deposits	13,877	456	4.39%	37,836	1,508	5.33%
Total deposits	80,197	959	1.60%	101,905	2,542	3.35%
Total interest-bearing deposits	41,175	959	3.11%	67,785	2,542	5.01%
Other borrowings	-	-	0.00%	324	21	8.67%
Total interest-bearing liabilities	<u>\$ 41,175</u>	<u>\$ 959</u>	<u>3.11%</u>	<u>\$ 68,109</u>	<u>\$ 2,563</u>	<u>5.03%</u>
Total deposits and other borrowings	80,197	959	1.60%	102,229	2,563	3.35%
Non interest-bearing liabilites	5,101			5,990		
Shareholders' equity	37,005			28,497		
Total liabilities and shareholders' equity	<u>\$ 122,303</u>			<u>\$ 136,716</u>		
Net interest income		<u>\$ 7,856</u>			<u>\$ 5,210</u>	
Net interest spread			<u>7.40%</u>			<u>3.29%</u>
Net interest margin			<u>9.37%</u>			<u>5.58%</u>

The rate volume table below presents an analysis of the impact on interest income and expense resulting from changes in average volumes and rates during the period. Changes due to rate and volume variances have been allocated to rate.

Rate/Volume Table

Nine months ended September 30, 2008 versus September 2007 (dollars in thousands)			
Due to change in:			
	<u>Volume</u>	<u>Rate</u>	<u>Total</u>
Interest earned on:			
Federal funds sold	\$ (365)	\$ (938)	\$ (1,303)
Securities	143	(44)	99
Loans	486	1,760	2,246
Total interest-earning assets	264	778	1,042
Interest expense of			
deposits:			
Interest-bearing demand deposits	(1)	(1)	(2)
Money market and savings	53	480	533
Time deposits	787	265	1,052
Total deposit interest expense	839	744	1,583
Other borrowings	-	21	21
Total interest expense	839	765	1,604
Net interest income	\$ 1,103	\$ 1,543	\$ 2,646

FBD's net interest margin increased 379 basis points to 9.37% for the nine months ended September 30, 2008, versus the prior year comparable period. The majority of the increase reflected an increase in higher yielding average subprime consumer loans and significantly lower funding costs. Without the consumer loans, net interest margins would have been comparable at 4.15% for year to date 2008 and 4.11% for year to date 2007. The average rate paid on interest bearing liabilities decreased 192 basis points to 3.11% for the nine months ended September 30, 2008 from 5.03% in the prior year comparable period, as FBD chose not to renew higher priced fixed rate time deposits in anticipation of declines in interest rates. Reductions in rates in all deposit categories reflected lower market interest rates. Yields on total deposits also decreased 175 basis points, to 1.60% in the nine months ended September 30, 2008 from 3.35% in the prior year comparable period primarily as a result of the declining rate environment. While the yield on prime rate loans declined between periods, deposit rate decreases more than offset the impact of such declines.

FBD's net interest income increased \$2.6 million, or 50.8%, to \$7.8 million for the nine months ended September 30, 2008, from \$5.2 million for the prior year comparable period. The impact of higher average loan balances and yields, primarily for subprime loans, and lower funding costs more than offset lower investment balances and federal fund yields.

Total interest income increased \$1.0 million, or 13.4%, to \$8.8 million for the nine months ended September 30, 2008, from \$7.8 million for the prior year comparable period. Interest and fees on loans increased \$2.2 million, or 39.6%, to \$7.9 million for the nine months ended September 30, 2008, from \$5.7 million for the prior year comparable period. The increase reflected those factors noted in the preceding

paragraph. Interest and dividends on investment securities increased \$99,000, or 22.5%, to \$539,000 for the nine months ended September 30, 2008, from \$440,000 for the prior year comparable period. FBD purchased securities in 2007 which accounted for substantially all of the increase in income from the prior year period. Federal funds sold income decreased \$1.3 million, or 78.2%, to \$363,000 in year to date 2008, compared to \$1.7 million in year to date 2007. The decrease reflected lower average fed funds sold balances as FBD reduced balances of higher cost time deposits funding such balances. Lower short-term interest rates decreased the yield on federal funds sold to 2.32% from 5.30% between those respective periods. In year to date 2008, average federal funds sold decreased \$21.1 million, or 50.2%, to \$20.9 million from \$42.0 million in year to date 2007 reflecting securities purchases.

Total interest expense decreased \$1.6 million, or 62.6%, to \$959,000 for the nine months ended September 30, 2008, from \$2.6 million for the prior year comparable period. That decrease reflected the impact of reduced levels of higher cost time deposits and lower short-term interest rates on the yield on interest-bearing liabilities. The yield on total interest bearing liabilities decreased 192 basis points to 3.11% in year to date 2008 from 5.03% in year to date 2007. Total interest-bearing liabilities decreased \$26.9 million, or 39.5%, to \$41.2 million for year to date 2008, from \$68.1 million for year to date 2007.

Interest expense on money market and savings decreased \$533,000, or 51.6% to \$500,000 for year to date 2008 from \$1 million for the prior year comparable period. The decrease reflected a decrease in average balances of \$2.8 million to \$26.9 million from \$29.7 million and a decrease in yield to 2.48% from 4.65%, resulting from the declining rate environment.

Interest expense on time deposits (certificates of deposit) decreased \$1.1 million, or 69.8%, to \$456,000 for year to date 2008, from \$1.5 million for the prior year comparable period. This decrease primarily reflected the maturity and non-renewal of higher cost certificates of deposit. Average certificates of deposit outstanding decreased \$24.0 million, or 63.3%, to \$13.8 million, for the nine months ended September 30, 2008, from \$37.8 million in the prior year comparable period.

Provision for Loan Losses

The provision for loan losses is charged to operations in an amount necessary to bring the total allowance for loan losses to a level that reflects the known and estimated inherent losses in the portfolio. The provision for loan losses increased \$2.9 million to \$3.1 million for the nine months ended September 30, 2008, from \$172,000 for the prior year comparable period. The increase reflected additions to the provision for loan losses required by FBD's allowance for loan loss methodology for subprime consumer installment loans and subprime credit card receivables, as more of these loans were retained on the balance sheet .

Non-Interest Income

Total non-interest income increased \$1.2 million, or 9.1%, to \$13.9 million for the nine months ended September 30, 2008, versus \$12.7 million for the prior year comparable period. The \$1.2 million increase resulted primarily from fee income on subprime credit card products. Such total income increased by \$3.6 million or 78.9% from \$4.6 million in 2007 to \$8.2 million in 2008. Of that \$3.6 million increase, the largest single component was revenue on cards directly offered by FBD. The Bank retains such directly offered credit card receivables on its books, which income increased \$1.7 million in 2008. Incentive revenue, another component of credit card fee income is earned on new card issuance. The Bank recorded increases in incentive income related to such issuance of \$1.4 million for the nine months ended September 30, 2008. The Bank also showed an approximate \$551,000 increase in revenues on active cards for balances that are

sold to third parties. One company that markets FBD credit cards generated \$4.0 million in revenue or 17.5% of total revenue in 2008. Subprime consumer installment loan fee income and net gain on sales of loans decreased \$2.7 million to \$4.6 million in 2008 from \$7.3 million in the first nine months ended September 30, 2007 reflecting lower volumes of loans originated. The decrease resulted primarily from reduced volumes of new loans as a result of market factors and reduced utilization of third parties as a result of discussions with the FDIC. One company that markets the Bank's subprime consumer loans generated loans which resulted in revenues of \$3.3 million or 14.6% of total revenue. The Bank ceased its arrangement with that marketer in third quarter 2008. (See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Recent Developments")

Non-Interest Expenses

Total non-interest expenses increased \$2.2 million or 23.6% to \$11.5 million for the nine months ended September 30, 2008, from \$9.3 million for the prior year comparable period. Salaries and employee benefits increased \$177,000, or 3.0%, to \$6.1 million for the nine months ended September 30, 2008, from \$6.0 million for the prior year comparable period. The increase primarily reflected higher staffing costs for the subprime credit card product offered directly by FBD partially offset by lower incentive costs.

Occupancy expense decreased \$18,000, or 3.9%, to \$441,000 in year to date 2008, versus \$459,000 for year to date 2007.

Depreciation expense increased \$128,000, or 68.1% to \$316,000 for year to date 2008, versus \$188,000 for the prior year comparable period. The increase reflected expenditures for equipment.

Legal fees decreased \$176,000, or 39.6%, to \$268,000 in year to date 2008, compared to \$444,000 in year to date 2007. The majority of the decrease reflected legal fees paid in 2007 related to new product development which included consumer installment loans, prepaid and credit cards and other loan products.

Data processing expense increased \$185,000, or 90.7%, to \$389,000 in year to date 2008 from \$204,000 in year to date 2007. The increase reflected higher data processing charges related to subprime credit card products and subprime consumer installment loans.

Delaware franchise tax decreased \$68,000, or 15.4%, to \$374,000 in year to date 2008 from \$442,000 in year to date 2007. The decrease resulted primarily from lower taxable income.

Professional fees increased \$507,000, or 234.7% to \$723,000 in year to date 2008, compared to \$216,000 in the prior year to date. The increase reflected consulting fees related to subprime credit cards and other subprime products.

A regulatory assessment (civil monetary penalty) of \$304,000 was accrued in third quarter 2008. The liability resulted from the resolution of an administrative action by the FDIC.(See "Recent Developments").

Credit card program marketing expense amounted to \$596,000 in year to date 2008. This expense represents charges for the Bank's directly offered subprime credit card, and there were no expenses in prior year to date.

Credit card program processing expense increased to \$673,000 in year to date 2008, compared to \$131,000 in the prior year to date. The increase reflected the significant increase in processing and servicing expenses for the Bank's directly offered credit card.

Other expenses increased \$36,000, or 2.8% to \$1.3 million in year to date September 30, 2008, from \$1.3 million for the prior year comparable period. Of that increase, FDIC assessments increased \$30,000, and other taxes increased \$20,000. These increases were partially offset by declines in other areas.

Provision for Income Taxes

The provision for income taxes decreased \$385,000, or 13.1%, to \$2.6 million for the nine months ended September 30, 2008, from \$2.9 million for the prior year comparable period. This decrease was primarily the result of the decrease in pre-tax income. The effective tax rate was approximately 35.9% in 2008 and 35.0% in 2007.

Commitments, Contingencies and Concentrations

FBD is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of their customers. These financial instruments include commitments to extend credit and standby letters of credit totaling \$190.1 million at September 30, 2008. These instruments involve to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the financial statements.

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

Financial instruments whose contract amounts represent potential credit risk were comprised of commitments to extend credit of approximately \$189.9 million and \$210.0 million and standby letters of credit of approximately \$141,000 and \$192,000 at September 30, 2008, and December 31, 2007, respectively. No liability is currently recorded for these commitments.

At September 30, 2008 unused credit card lines amounted to \$180.0 million for which the resulting outstanding balances are sold after funding. Therefore such amounts are not indicative of actual future liquidity requirements. FBD has the unilateral right to cancel the unused lines, in the unlikely event that that would become necessary or desirable. The Bank has written contingency plans that document the steps required to effectuate the termination of credit card lines. Also, the purchasers maintain deposit balances at FBD which provide support for daily card funding. FBD closely monitors the liquidity resources of each purchaser.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and many require the payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. FBD evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained upon extension of credit is based on management's credit evaluation of the customer. Collateral held varies but may include real estate, marketable securities, pledged deposits, equipment and accounts receivable.

Standby letters of credit are conditional commitments that guarantee the performance of a customer to a third party. The credit risk and collateral policy involved in issuing letters of credit is essentially the same as that involved in extending loan commitments. The amount of collateral obtained is based on management's

credit evaluation of the customer. Collateral held varies but may include real estate, marketable securities, pledged deposits, equipment and accounts receivable.

Regulatory Matters

The following table presents the FBD's capital regulatory ratios at September 30, 2008, and December 31, 2007:

	Actual		For Capital Adequacy Purposes		To be well capitalized under regulatory capital guidelines	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<i>(Dollars in thousands)</i>						
At September 30, 2008						
Total risk based capital.....	\$39,933	42.15%	\$7,579	8.00%	\$9,474	10.00%
Tier one risk based capital.....	38,727	40.88	3,789	4.00	5,684	6.00
Tier one leverage capital	38,727	31.37	6,173	5.00	6,173	5.00
At December 31, 2007						
Total risk based capital.....	\$35,268	37.44%	\$7,536	8.00%	\$9,419	10.00%
Tier one risk based capital.....	34,073	36.18	3,767	4.00	5,651	6.00
Tier one leverage capital	34,073	27.49	6,197	5.00	6,197	5.00

Dividend Policy

FBD has not paid any cash dividends on its common stock, but may consider dividend payments in the future.

Liquidity

Financial institutions must maintain liquidity to meet day-to-day requirements of depositors and borrowers, take advantage of market opportunities and provide a cushion against unforeseen needs. Liquidity needs can be met by utilizing cash and federal funds sold, converting assets to cash through security repurchase or sale various or drawing upon lines of credit cash generated by increasing deposits represents the primarily source of liquidity.

Regulatory authorities require FBD to maintain certain liquidity ratios and to maintain available funds, or the capability to obtain available funds at reasonable rates, in order to satisfy commitments to borrowers and the demands of depositors. In response to these requirements, FBD has formed an Asset/Liability Committee ("ALCO"), comprised of selected members of the FBD board of directors and senior management, which monitor such ratios. The purpose of the Committees is in part, to monitor FBD's liquidity and adherence to the ratios in addition to managing the relative interest rate risk. ALCO meets at least quarterly.

FBD's most liquid assets, consisting of cash and due from banks, interest bearing deposits with banks and federal funds sold, totaled \$33.6 million at September 30, 2008, compared to \$16.0 million at December 31, 2007, due primarily to an increase in federal funds sold. Loan maturities and repayments, if not reinvested in loans, also are immediately available for liquidity. Funding requirements have historically been satisfied primarily by generating core deposits and certificates of deposit with competitive rates. At

September 30, 2008, FBD had aggregate outstanding commitments (including unused lines of credit and letters of credit) of \$190.1 million. The commitments include \$180.1 million in credit card commitments for which the resulting balances are sold after funding. Therefore such amounts are not indicative of actual future liquidity requirements. The Bank has the unilateral right to cancel the unused lines, in the unlikely event that that would become necessary or desirable. The bank has written contingency plans that document the steps required to effectuate the termination of credit card lines. Also, the purchasers maintain deposit balances at FBD which provide support for daily card funding. FBD closely monitors the liquidity resources of each purchaser. Certificates of deposit scheduled to mature in one year totaled \$9.0 million at September 30, 2008. FBD anticipates that it will have sufficient funds available to meet its current commitments.

Target and actual liquidity levels are determined by comparisons of the estimated repayment and marketability of interest-earning assets and projected future outflows of deposits and other liabilities. FBD is a member of the Federal Home Loan Bank and has a credit line exceeding \$25 million, all of which is available. FBD has also established a line of credit from a correspondent bank to assist in managing the liquidity position. That line of credit totaled \$4.0 million and was unused at September 30, 2008. Securities also represent a primary source of liquidity for FBD. Accordingly, investment decisions generally reflect liquidity over other considerations.

FBD's primary short-term funding sources are certificates of deposit and its securities portfolio. The circumstances that are reasonably likely to affect those sources are as follows. FBD has historically been able to generate certificates of deposit by matching Philadelphia and Delaware market rates or paying a premium rate of 25 to 50 basis points over those market rates. It is anticipated that this source of liquidity will continue to be available; however, its incremental cost may vary depending on market conditions. The securities portfolio is also available for liquidity. Numerous investment companies would likely provide repurchase agreements up to the amount of the market value of the securities.

The ALCO is responsible for managing liquidity and interest sensitivity. Its primary objective is to maximize net interest income while configuring the interest-sensitive assets and liabilities to manage interest rate risk and provide adequate liquidity.

Investment Securities Portfolio

At September 30, 2008, FBD had identified certain investment securities that are being held for indefinite periods of time, including securities that will be used as part of FBD's asset/liability management strategy and that may be sold in response to changes in interest rates, prepayments and similar factors. These securities are classified as available for sale and are intended to increase the flexibility of FBD's asset/liability management. Available for sale securities consisted primarily of US Government Agency securities. The book and market values of investment securities available for sale were approximately \$7.8 million as of September 30, 2008. The net unrealized gain on investment securities available for sale as of that date was \$97,000.

Loan Portfolio

FBD's loan portfolio consists of secured and unsecured commercial loans including commercial real estate loans, loans secured by one-to-four family residential property, commercial construction and residential construction loans as well as residential mortgages, home equity loans, short-term consumer credit card loans and other consumer loans. Commercial loans are primarily term loans made to small to medium-sized businesses and professionals for working capital, asset acquisition and other purposes. Commercial loans are originated as either fixed or variable rate loans with typical terms of 1 to 5 years. FBD's commercial loans typically range between \$250,000 and \$1,000,000 but customers may borrow significantly larger amounts up to the secured legal lending limit of approximately \$10.4 million at

September 30, 2008. Individual customers may have several loans often secured by different collateral. Loans made to finance insurance premiums are sold without recourse.

Net loans decreased \$5.8 million, to \$71.0 million at September 30, 2008, from \$76.8 million at December 31, 2007 reflecting the approximately \$4.3 million of mezzanine financing loans sold during the second quarter.

The following table sets forth the gross loans by major categories for the periods indicated:

(dollars in thousands)	As of September 30, 2008		As of December 31, 2007	
	Balance	% of Total	Balance	% of Total
Commercial:				
Real estate secured	\$ 35,085	47.5	\$ 44,094	55.6
Construction and land development	27,660	37.4	21,182	26.7
Non real estate secured	4,545	6.2	6,772	8.5
Unsecured	990	1.3	950	1.2
	<u>68,280</u>	<u>92.4</u>	<u>72,998</u>	<u>92.0</u>
Consumer subprime	<u>5,593</u>	<u>7.6</u>	<u>6,348</u>	<u>8.0</u>
Total loans	<u>73,873</u>	<u>100.0%</u>	<u>79,346</u>	<u>100.0%</u>
Less: allowance for loan losses	<u>(2,918)</u>		<u>(2,581)</u>	
Net loans	<u>\$ 70,955</u>		<u>\$ 76,765</u>	

Credit Quality

FBD's written lending policies require specified underwriting, loan documentation and credit analysis standards to be met prior to funding, with independent credit department approval for the majority of new loan balances. A committee of the Board of Directors oversees the loan approval process to monitor that proper standards are maintained, while approving the majority of commercial loans.

Loans, including impaired loans, are generally classified as non-accrual if they are past due as to maturity or payment of interest or principal for a period of more than 90 days, unless such loans are well-secured and in the process of collection. Loans that are on a current payment status or past due less than 90 days may also be classified as non-accrual if repayment in full of principal and/or interest is in doubt.

Loans may be returned to accrual status when all principal and interest amounts contractually due are reasonably assured of repayment within an acceptable period of time, and there is a sustained period of repayment performance by the borrower, in accordance with the contractual terms.

While a loan is classified as non-accrual or as an impaired loan and the future collectibility of the recorded loan balance is doubtful, collections of interest and principal are generally applied as a reduction to principal outstanding. When the future collectibility of the recorded loan balance is expected, interest income may be recognized on a cash basis. In the case where a non-accrual loan had been partially charged off, recognition of interest on a cash basis is limited to that which would have been recognized on the recorded loan balance at the contractual interest rate. Cash interest receipts in excess of that amount are recorded as recoveries to the allowance for loan losses until prior charge-offs have been fully recovered.

The following summary shows information concerning loan delinquency and other non-performing assets at the dates indicated.

	September 30, 2008	December 31, 2007
(dollars in thousands)		
Loans accruing, but past due 90 days or more	\$ -	\$ -
Non-accrual loans	2,197	970
Total non-performing loans (1)	2,197	970
Other real estate owned	293	18
Total non-performing assets (2)	<u>\$ 2,490</u>	<u>\$ 988</u>
Non-performing loans as a percentage of total loans net of unearned income	2.97%	1.22%
Non-performing assets as a percentage of total assets	2.00%	0.83%

- (1) Non-performing loans are composed of (i) loans that are on a non-accrual basis; (ii) accruing loans that are 90 days or more past due and (iii) restructured loans.
- (2) Non-performing assets are composed of non-performing loans and other real estate owned (assets acquired in foreclosure).

Non accrual-loans of \$2.2 million at September 30, 2008 increased from the \$970,000 at December 31, 2006, primarily as a result of the transfer of two commercial loans totaling \$1.2 million and the transfer of \$608,000 of credit card loans to non-accrual during the period. The increase was offset, in part, by the transfer of two loans totaling \$293,000 to other real estate owned during the period. There were no loans accruing, but past due 90 days or more at September 30, 2008.

Problem loans consist of loans that are included in performing loans, but for which potential credit problems of the borrowers have caused management to have serious doubts as to the ability of such borrowers to continue to comply with present repayment terms. At September 30, 2008, all identified problem loans are included in the preceding table or are internally classified, with a specific reserve allocation in the allowance for loan losses (see "Allowance For Loan Losses"). Management believes that the appraisals and other estimates of the value of the collateral pledged against the non-accrual loans generally exceed the amount of its outstanding balances.

The recorded investment in loans which are impaired totaled \$2.2 million at September 30, 2008 and \$970,000 at December 31, 2007, and the amount of related valuation allowances was \$1.1 million and \$462,000 respectively of those dates. There were no commitments to extend credit to any borrowers with impaired loans as of the end of the periods presented herein.

At September 30, 2008, and December 31, 2007, internally classified accruing loans totaled approximately \$0 and \$0 respectively. There were \$311,000 of subprime consumer installment loans and

\$608,000 of subprime credit card loans classified as loss at September 30, 2008, the full amounts of which were reserved in the valuation allowance noted in the prior paragraph.

FBD had delinquent loans as follows: (i) 30 to 59 days past due, in the aggregate principal amount of \$448,000 at September 30, 2008 and \$469,000 at December 31, 2007; and (ii) 60 to 89 days past due, at September 30, 2008 and December 31, 2007, in the aggregate principal amount of \$415,000 and \$245,000, respectively.

At September 30, 2008, FBD had no foreign loans.

Other Real Estate Owned:

There was one property totaling \$293,000 added to other real estate owned in second quarter 2008 and which comprised the balance thereof at September 30, 2008. One property totaling \$18,000 reflecting the balance at December 31, 2007 was sold in March 2008 at a loss of \$7,000.

At September 30, 2008, FBD had no credit exposure to "highly leveraged transactions" as defined by the Federal Reserve Board of Governors.

Allowance for Loan Losses

An analysis of the allowance for loan losses for the nine months ended September 30, 2008 and 2007, and the twelve months ended December 31, 2007 is as follows:

(dollars in thousands)	For the nine months ended September 30, 2008	For the twelve months ended December 31, 2007	For the nine months ended September 30, 2007
Balance at beginning of period.....	\$ 2,581	\$1,860	\$ 1,860
Charge-offs:			
Commercial and construction.....	307	-	1
Subprime consumer loans.....	1,996	454	49
Subprime credit card loans.....	827	-	-
Consumer	-	4	-
Total charge-offs	<u>3,130</u>	<u>458</u>	<u>50</u>
Recoveries:			
Commercial and construction.....	38	-	2
Subprime consumer loans.....	376	35	35
Subprime credit card loans.....	3	-	-
Consumer.....	-	2	-
Total recoveries.....	<u>417</u>	<u>37</u>	<u>37</u>
Net charge-offs.....	<u>2,713</u>	<u>421</u>	<u>13</u>
Provision for loan losses.....	<u>3,050</u>	<u>1,142</u>	<u>172</u>
Balance at end of period.....	<u>\$2,918</u>	<u>\$2,581</u>	<u>\$2,019</u>
Average loans outstanding (1).....	<u>\$77,785</u>	<u>\$73,260</u>	<u>\$73,008</u>
As a percent of average loans (1):			
Net charge-offs (annualized)	4.65%	0.57%	0.07%
Provision for loan losses (annualized).....	5.22%	1.55%	0.31%
Allowance for loan losses.....	3.75%	3.52%	2.76%
Allowance for loan losses to:			
Total loans, net of unearned income at period end	3.92%	3.25%	2.80%
Total non-performing loans at period end.....	132.82%	266.08%	251.43%

(1) Includes non-accruing loans.

Management makes at least a quarterly determination as to an appropriate provision from earnings to maintain an allowance for loan losses that is management's best estimate of known and inherent losses. Our Board of Directors periodically reviews the status of all non-accrual and impaired loans and loans classified by regulators or internal loan review officer, who reviews both the loan portfolio and overall adequacy of the allowance for loan losses. Our board of directors also considers specific loans, pools of similar loans, historical charge-off activity, economic conditions and other relevant factors in reviewing the adequacy of the loan loss reserve. Any additions deemed necessary to the allowance for loan losses are charged to operating expenses.

FBD has an existing loan review program, which monitors the loan portfolio on an ongoing basis. Loan review is conducted by a loan review officer who reports quarterly, directly to our board of directors.

Estimating the appropriate level of the allowance for loan losses at any given date is difficult, particularly in a continually changing economy. In management's opinion, the allowance for loan losses was

appropriate at September 30, 2008. However, there can be no assurance that, if asset quality deteriorates in future periods, additions to the allowance for loan losses will not be required.

FBD management is unable to determine in which loan category future charge-offs and recoveries may occur. The entire allowance for loan losses is available to absorb loan losses in any loan category. The majority of the loan portfolio represents loans made for commercial purposes, while significant amounts of residential property may serve as collateral for such loans. FBD attempts to evaluate larger loans individually, on the basis of its loan review process, which scrutinizes loans on a selective basis and other available information. Even if all commercial purpose loans could be reviewed, there is no assurance that information on potential problems would be available. The portfolio of consumer loans is evaluated in groups. At September 30, 2008, loans made for commercial and construction, and consumer purposes, respectively, amounted to \$68.3 million and \$5.6 million (at that date there were \$590,000 of installment loans held for sale and \$6.9 million of installment loans and credit card receivables).

Effects of Inflation

The majority of assets and liabilities of a financial institution are monetary in nature. Therefore, a financial institution differs greatly from most commercial and industrial companies that have significant investments in fixed assets or inventories. Management believes that the most significant impact of inflation on financial results is the need and ability to react to changes in interest rates. As discussed previously, management attempts to maintain an essentially balanced position between rate sensitive assets and liabilities over a one year time horizon in order to protect net interest income from being affected by wide interest rate fluctuations.

ITEM 4T: CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

Our Chief Executive Officer and Chief Financial Officer, with the assistance of management, evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of the end of the period covered by this report (the "Evaluation Date"). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective to ensure that information required to be disclosed in our reports under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

(b) Changes in internal controls.

There has not been any change in our internal control over financial reporting during our quarter ended September 30, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

On October 9, 2008, the FDIC, the Bank's primary federal regulator, issued an order to cease and desist, order for restitution and order to pay, the "order," pursuant to a stipulation and consent to the issuance of the order, the "consent agreement," which was agreed to by the Bank on October 3, 2008. The consent agreement and order detail that the FDIC has reason to believe that we engaged in unsafe and unsound banking practices and violations of law and/or regulations in connection with the our national consumer products division, including lending programs offered, marketed, administered, processed and/or serviced by third-parties. They do not constitute an admission on our part of the alleged practices and violations. As previously reported, on June 10, 2008, we received a notice of charges from the FDIC. The consent agreement and order represent a resolution of those charges, as well as related litigation in the United States District Court for the District of Delaware.

The consent agreement and order require us to pay a civil money penalty in the amount of \$304,000, terminate certain third-party lending programs and relationships, and enhance our oversight and supervision, particularly with respect to our national consumer products division. We are required also to establish two separate accounts, in the amounts of \$700,000 and \$150,000, to ensure the availability of restitution to certain consumers. We expect to be indemnified by third parties with respect to these amounts. In order to comply with the consent agreement and order, it will be necessary for us to change our operations, particularly with respect to our national consumer products division. These changes, as well as the other direct and indirect costs of complying with the consent agreement and order, are likely to have a material adverse effect on our results of operations and may have a material adverse effect on our business or financial condition.

ITEM 2: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5: OTHER INFORMATION

None

ITEM 6: EXHIBITS

The following Exhibits are filed as part of this report. (Exhibit numbers correspond to the exhibits required by Item 601 of Regulation S-K)

Exhibit No.

- | | |
|------|--|
| 31.1 | Certification of the Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act |
| 31.2 | Certification of the Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act |
| 32.1 | Certification of the Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act |
| 32.2 | Certification of the Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act |

SIGNATURES

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

First Bank of Delaware

Alonzo J. Primus
President and Chief Executive Officer

Paul Frenkiel
Executive Vice President and Chief Financial Officer

Dated: November 12, 2008

CERTIFICATION

I, Alonzo J. Primus, certify that:

1. I have reviewed this quarterly report on Form 10-Q of First Bank of Delaware (the "company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) disclosed in this report any change in the company's internal control over financial reporting that occurred during the company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors :
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: November 12, 2008

Alonzo J. Primus
President and Chief Executive Officer

CERTIFICATION

I, Paul Frenkiel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of First Bank of Delaware (the "company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) disclosed in this report any change in the company's internal control over financial reporting that occurred during the company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors :
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: November 12, 2008

Paul Frenkiel
Executive Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q for the quarter ended September 30, 2008, as filed with the Federal Deposit Insurance Corporation by First Bank of Delaware ("FBD") on the date hereof (the "Report"), I, Alonzo J. Primus, Chief Executive Officer of FBD, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the FBD.

Date: November 12, 2008

By: _____
Alonzo J. Primus
President and Chief Executive Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q for the quarter ended September 30, 2008, as filed with the Federal Deposit Insurance Corporation by First Bank of Delaware ("FBD") on the date hereof (the "Report"), I, Paul Frenkiel, Chief Financial Officer of FBD, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of FBD.

Date: November 12, 2008

By: _____
Paul Frenkiel,
Executive Vice President and
Chief Financial Officer