

FEDERAL DEPOSIT INSURANCE CORPORATION

Washington, DC 20429

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2008

OR

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

For the transition period from _____ to _____
FDIC certificate number: 34929

FIRST BANK OF DELAWARE

(Exact name of registrant as specified in charter)

Delaware
(State or Other Jurisdiction of Incorporation or Organization)

51-0389698
(I.R.S. Employer Identification No.)

Brandywine Commons II, Rocky Run Parkway,
Wilmington, DE
(Address of Principal Executive offices)

19803
(Zip Code)

Issuer's telephone number, including area code: (302) 529-5984
Securities registered pursuant to Section 12(b) of the Act: None.
Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$0.05 par value
(Title of class)

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act:

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act:

Check whether the issuer (1) 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

Check if there is no disclosure of delinquent filers in respect to Item 405 of Regulation SK C229.405 contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K, or any amendment to this Form 10-K

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company: Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Check whether the issuer is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

State the aggregate market value of the voting common equity and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average of the bid and asked prices of such common equity, as of June 30, 2008. The aggregate market value of \$15,530,104 was based on the price at which the common equity was sold.

APPLICABLE ONLY TO CORPORATE REGISTRANTS

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

Common Stock \$0.05 Par Value
Title of Class

11,401,301
Number of Shares Outstanding as of 3/17/09

Documents incorporated by reference

Part III of this Form 10-K incorporates certain information by reference from the registrant's definitive proxy statement for its 2009 Annual Meeting of Shareholders scheduled for April 28, 2009, which proxy statement will be filed with the FDIC.

FIRST BANK OF DELAWARE

Form 10-K

INDEX

| | | <u>Page</u> |
|----------|--|-------------|
| PART I | | |
| Item 1 | Business..... | 3 |
| Item 2 | Properties..... | 11 |
| Item 3 | Legal Proceedings | 11 |
| Item 4 | Submission of Matters to a Vote of Security Holders | 13 |
| PART II | | |
| Item 5 | Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities | 14 |
| Item 7 | Management’s Discussion and Analysis of Financial Condition and Results of Operations..... | 16 |
| Item 8 | Financial Statements and Supplementary Data..... | 42 |
| Item 9 | Changes in and Disagreements with Accountants on Accounting and Financial Disclosure..... | 42 |
| Item 9A | Controls and Procedures..... | 42 |
| Item 9B | Other Information..... | 43 |
| PART III | | |
| Item 10 | Directors, Executive Officers and Corporate Governance..... | 44 |
| Item 11 | Executive Compensation | 44 |
| Item 12 | Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters... | 44 |
| Item 13 | Certain Relationships and Related Transactions, and Director Independence..... | 44 |
| Item 14 | Principal Accounting Fees and Services | 44 |
| PART IV | | |
| Item 15 | Exhibits, Financial Statements Schedules | 45 |

PART I

ITEM 1: BUSINESS

First Bank of Delaware

First Bank of Delaware, referred to as “we,” “FBD,” the “Bank” or the “Company,” is a commercial bank chartered pursuant to the laws of the State of Delaware, which commenced operations in June 1999. Our principal office is located at Brandywine Commons II, 1000 Rocky Run Parkway, Wilmington, Delaware, and our telephone number is (302) 529-5984. As a Delaware chartered bank, we are subject to the regulation and examination of the Office of the State Bank Commissioner of the State of Delaware. As a state chartered bank which is not a member of the Federal Reserve System, we are also subject to examination and comprehensive regulation by the Federal Deposit Insurance Corporation (“FDIC”). The deposits which are held by us are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. We operate a traditional community banking business, as well as a national consumer products division from which we derive a majority of our net income. We have also engaged in mezzanine financing, but discontinued those operations during 2008.

We presently conduct our principal business banking activities through our two offices in Wilmington, Delaware and a loan production office in Lewes, Delaware. We offer a variety of credit and depository banking services. Our commercial loan services are primarily offered to individuals and businesses in the Delaware area through two offices in New Castle County, Delaware.

Our national consumer products division is comprised of two business segments, subprime consumer loans and card products. The term “subprime” refers to the credit characteristics of individual borrowers. Subprime borrowers typically have weakened credit histories that include payment delinquencies and possibly more severe problems such as charge-offs, judgments, and bankruptcies. They may also display reduced repayment capacity as measured by credit scores, debt-to-income ratios, or other criteria that may encompass borrowers with incomplete credit histories. We make subprime consumer installment loans (with terms from 120 days to 2 years) nationally via the internet and telephone. Subprime credit and prepaid card products are similarly offered nationally. The majority of subprime loan balances and subprime credit card receivables resulting from these national products are sold or participated without recourse. Since we introduced our national consumer products, we have primarily relied on third parties to market and service these loans and cards. As a result of a consent order which we entered into with the FDIC in October 2008, we have begun to reduce our reliance on third parties and to make significant changes in our national consumer products division. We have terminated most of the third party relationships through which such loans and cards were marketed and serviced. Instead, we plan to offer these products directly with assistance from professional marketers.

As of December 31, 2008, we had total assets of approximately \$116.2 million, total shareholders’ equity of approximately \$39.5 million, total deposits of approximately \$72.3 million and net loans receivable of approximately \$71.3 million. Our net income for the year ended December 31, 2008 was \$5.1 million. Segment information about our community banking, subprime consumer loan, subprime card products, and mezzanine financing operations is set forth in Note 15 of the Notes to Consolidated Financial Statements included in this report.

Products and Services Offered

General

We offer many commercial and consumer banking services with an emphasis on serving the needs of individuals, small and medium-sized businesses, executives, professionals and professional organizations in our service area.

We attempt to offer a high level of personalized service to both small and medium-sized businesses and consumer customers. We offer both commercial and consumer deposit accounts, including checking accounts, interest-bearing demand accounts, money market accounts, certificates of deposit, savings accounts, sweep accounts, lockbox services, remote capture services and individual retirement accounts (and other traditional banking services). We actively solicit both non-interest and interest-bearing deposits from our borrowers.

We offer a broad range of loan and credit facilities to the businesses and residents of our service area, including secured and unsecured commercial loans and commercial real estate and construction loans. First Bank of Delaware has also made loans to finance insurance premiums, which have been immediately 100% participated to buyers without recourse. The buyers have maintained deposit balances at the Bank expressly for that purpose.

We also have the ability to offer automobile loans, home improvement loans, home equity and overdraft lines of credit, and other products. However, activity in these categories has been minimal, as we have emphasized commercial relationships. We also nationally offer installment loans with terms of up to 24 months, and credit and prepaid cards to the underbanked market. We manage credit risk through loan application evaluation and monitoring for adherence with credit policies. Since our inception, we have had a senior officer monitor compliance with our lending policies and procedures.

We also maintain an investment securities portfolio. Investment securities are purchased within the standards of our Investment Policies, which are approved annually by our Board of Directors. The Investment Policies address such issues as permissible investment categories, credit quality, maturities and concentrations. At December 31, 2008, substantially all of the aggregate dollar amount of the investment securities consisted of U.S. Government Agency issued mortgage-backed securities. Credit risk associated with these U.S. Government Agency securities is minimal, with risk-based capital weighting factors of 20%.

Banking Products and Services

We offer a range of competitively priced commercial and other banking services, including secured and unsecured commercial real estate loans, construction and land development and other commercial loans. We offer both commercial and consumer deposit accounts, including checking accounts, interest-bearing demand accounts, money market accounts, certificates of deposit, savings accounts, sweep accounts, lockbox services and individual retirement accounts (and other traditional banking services). Our commercial loans typically range between \$250,000 and \$2.0 million but customers may borrow significantly larger amounts up to our secured legal lending limit to one borrower of approximately \$10.5 million. Also, individual customers may have several loans often secured by different collateral, which are in total subject to that lending limit.

We attempt to offer a high level of personalized service to both our commercial and consumer customers. We are a member of the STAR™ and PLUS™ networks in order to provide customers with access to automated teller machines worldwide. We currently have two proprietary automated teller machines at branch locations and a proprietary machine at the Lewes loan production office.

Our lending activities generally are focused on small and medium-sized businesses within the professional community. Commercial and construction loans are the most significant category of our outstanding loans, representing 92.7% of total loans outstanding at December 31, 2008. Repayment of these loans is, in part, dependent on general economic conditions affecting the community and the various businesses within the community. Although our management continues to follow established underwriting policies and monitors loans through our loan review officer, credit risk is still inherent in the portfolio.

Although the majority of our loan portfolio is collateralized with real estate or other collateral, a portion of the commercial portfolio is unsecured, representing loans made to borrowers considered to be of sufficient financial strength to merit unsecured financing. We make both fixed and variable rate loans with fixed terms ranging generally from one to five years. Variable rate loans are generally tied to the national prime rate of interest.

Insurance Premium Finance Loans

FBD makes loans to finance insurance premiums which are 100% participated immediately upon origination to third party investors. These third party buyers are investors or investment groups familiar with the industry. These loans are participated on a non-recourse basis and the investors bear the risk of loss for any defaults on these loans. A total of \$68.4 million in insurance premium loans were originated and sold in 2008. This activity generated fee income of \$632,000. We ceased offering this loan product in January 2009, but we are looking for other programs to meet this consumer demand.

National Consumer Products

We offer a variety of products on national basis to the un-banked and under-banked segment of the population. These products include subprime loan products, credit cards, and prepaid cards. Since we introduced our national consumer products, we have primarily relied on third parties to market and service these loans and cards. As a result of a consent order which we entered into with the FDIC in October 2008, we have begun to reduce our reliance on third parties and to make significant changes in our national consumer products division. We have terminated most of the third party relationships through which such loans and cards were marketed and serviced. Instead, we plan to offer these products directly with assistance from professional marketers.

Card Products

Prepaid Cards

Through our membership with MasterCard International, 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. Cards are issued through the internet, 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. 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 the third and fourth quarters of 2008. The impact on revenue is expected to be minimal, as we plan to offer our own prepaid cards through selected processors in 2009.

Credit Card Products

We are an issuing bank for certain credit card programs marketed principally to the subprime consumer. FBD originates credit card receivables and sells or participates the majority of such receivables into the secondary market without recourse. We previously offered our card products through various third parties, but have terminated all third party credit card programs, with one exception, as a result of our consent order and discussions with the FDIC. FBD will continue to service cardholders in certain terminated programs until the cards expire. The credit card receivables are sold or participated on a non-recourse basis and the purchasers bear the risk of loss for any default on the receivables. Our results of operation can be significantly affected by the ability of our 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, we may have to reduce or cease originations. We earn a monthly fee for each active account, as well as a monthly management fee. In fourth quarter 2007, we began a trial offer of our own credit card products, which we retain on the balance sheet and for which we retain all income, pay all expenses and bear the risk of loss. We terminated this trial offer in 2008, but are planning to reoffer a direct credit card in 2009. At December 31, 2008 FBD had \$200,000 of credit card receivables and \$1.1 million of credit card balances on its books.

Consumer Installment Loans

Subprime installment loans are fully amortizing unsecured loans of \$2,500 or less with a term of up to 24 months and have anywhere between 4 and 48 scheduled repayments. These loans are offered via the internet and telephone. Customers must have an active checking account, valid identification and a regular source of income. These loans are subprime and a customer must meet additional credit underwriting criteria which may include minimum FICO credit scores and debt to income thresholds. Upon approval, a customer is then provided a loan agreement, which he or she signs, and the funds are then electronically deposited into the customer's account. Principal and interest payments are due at least monthly. Customers may repay their loans via ACH transactions from their bank account or by money order. These loans carry an annual interest rate of approximately 87% to 334%. Loans that were previously offered had terms of up to 120 months, but we no longer make those loans and none are on our balance sheet.

We derive our authority to charge these rates of interest on these loans from the Federal Deposit Insurance Act, which establishes the maximum interest charges that state-chartered banks may charge to their customers. As a Delaware state-chartered depository institution, the Bank is subject to the interest rate laws of the State of Delaware, which do not impose limits on the rate of interest Delaware banks may charge on these loans.

Subprime consumer installment loans were previously offered through unaffiliated third party marketers and servicers with whom we contracted and who own the internet sites at which the loans are marketed. We have terminated our arrangements with these servicers and now offer our products directly, and may utilize professional marketers to help us obtain customers. We will then perform underwriting, customer service and collection functions ourselves, or through directly contracted third parties. We have developed an infrastructure, including oversight, to support the products, as a result of our consent order and discussions with the FDIC.

We sell the majority of our subprime consumer loans or participations in these loans to third party investors and plan on continuing this practice. These third party buyers are investors or investment groups familiar with the industry. These loans are sold or participated 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. 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. We currently originate loans via the internet or by telephone, which are mostly sold or participated to third parties. At December 31, 2008, there were approximately \$33.7 million of such loans outstanding of which \$4.0 million was retained on the Bank's books. At December 31, 2008, there were no loans classified as "held for sale" that a buyer was committed to purchase.

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. These refunds have not been made, and were reflected on the December 31, 2008 balance sheet. For another program, a total of \$85,000 was paid to customers, of which \$37,000 was paid and expensed by the Bank. The balance was paid by a vendor. The \$304,000 was recognized as an expense in the third quarter of 2008. The Bank expects that the \$700,000 in refund payments will be reimbursed by a third party vendor under indemnification agreements. 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. We have hired a consultant to assist us in devising various plans which address concerns raised by the FDIC. These plans have been submitted to the FDIC for review. As a result of the discussions with the FDIC, all third party credit card relationships, with exception of one program, have been terminated. All third party installment loan relationships have also been terminated, and we are now offering our installment loan product independently of these prior relationships. 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. Related vendor non-interest-bearing deposits would also be reduced or eliminated. The Bank has or is in process of exiting certain products with specific vendors, which has reduced revenues. While the Bank is offering installment loans directly, termination of prior third party relationships has reduced volume significantly. There can be no assurance as to the level or timing of revenues from the Bank's efforts to offer these products directly.

Service Area/Market Overview

Our primary business banking service area consists of northern Delaware. We offer our national consumer products, including consumer loans and credit and prepaid cards, nationally via the internet and telephone.

Competition

There is substantial competition among financial institutions in our business banking service area. We compete with new and established local commercial banks, as well as numerous regionally based and super-regional commercial banks. In addition to competing with new and established commercial banking institutions for both deposits and loan customers, we compete directly with savings banks, savings and loan associations, finance companies, credit unions, factors, mortgage brokers, insurance companies, securities brokerage firms, mutual funds, money market funds, private lenders and other institutions for deposits, commercial loans, mortgages and consumer loans, as well as other services.

Competition among financial institutions is based upon a number of factors, including, but not limited to, the quality of services rendered, interest rates offered on deposit accounts, interest rates charged on loans and other credit services, service charges, the convenience of banking facilities, locations and hours of operation and, in the case of loans to larger commercial borrowers, relative lending limits. It is the view of our management that a combination of many factors, including the level of market interest rates, has increased competition for loans and deposits.

Many of the banks with which we compete have greater financial resources than we do and offer a wider range of deposit and lending instruments with higher legal lending limits. Our legal lending limit was approximately \$6.3 million for unsecured loans and \$10.5 million for adequately secured loans, at December 31, 2008. As a result, we sell participations in larger loans. We are subject to potential intensified competition from new branches of established banks in the area as well as new banks that could open in our market area. New banks with business strategies similar to those of FBD represent potentially additional competitor banks. There are banks and other financial institutions, which serve surrounding areas, and additional out-of-state financial institutions, which currently, or in the future, may compete in our market.

With regard to competition for the short term and other subprime consumer loans and subprime credit cards we offer nationally, there are only a limited number of banks and finance companies that currently compete for such business. However, we believe that competition for short term and other subprime consumer installment loans and subprime credit cards is likely to increase both in the number of competitors and related competing products. For instance, many banks offer a courtesy overdraft product, which may compete with shorter term installment loans. Several banks offer credit cards geared to the under-banked that compete with the Bank's offerings.

Operating Strategy for Business Banking

Our core business-banking objective is to become the primary alternative to the large banks that dominate the Delaware market. Those large competitors include Wilmington Trust, WSFS, Wachovia, PNC, TD Bank, and Citizens. Our management team has developed a business strategy consisting of the following key elements to achieve this objective:

Providing Attentive and Personalized Service

We believe that a very attractive niche exists serving small to medium-sized business customers not adequately served by our larger competitors. We believe this segment of the market responds very positively to our attentive and highly personalized service. We offer to individuals and small to medium-sized businesses a wide array of banking products, informed and professional service, extended operating hours, consistently applied credit policies, and local, timely decision making.

Attracting and Retaining Highly Experienced Personnel

Many of our officers and other personnel have substantial experience acquired at larger banks in the region. Additionally, we extensively screen and train our staff to instill a sales and service oriented culture and maximize cross-selling opportunities and business relationships. We offer meaningful sales-based incentives to certain customer contact employees.

Product Diversification

In addition to pursuing the above strategy for core business banking, we are following a strategy of diversifying the products we currently offer nationally to the underbanked. The underbanked include consumers who may not have access to the variety of banking products generally available, including short-term credit. In the case of consumer installment loans and credit cards, most related loans and receivables are considered subprime. We expect to add new geographic areas in which we may make such products available and may also add additional products.

Branch Expansion Plans

We have no plans to establish additional branches during 2009.

Supervision and Regulation

Various requirements and restrictions, currently in effect and adopted in the future, under the laws of the United States and the State of Delaware affect us.

General

We are subject to supervision and regulation by the FDIC and the Office of the State Bank Commissioner of the State of Delaware. Our activities are limited to the business of banking and activities closely related or incidental to banking. We are also subject to requirements and restrictions under federal and state law, including requirements to maintain reserves against deposits, restrictions on the types and amounts of loans that may be granted and the interest that may be charged thereon, and limitations on the types of investments that may be made and the types of services that may be offered. Various consumer laws and regulations also affect our operations. In addition to the impact of regulation, commercial banks are affected significantly by the actions of the Federal Reserve Board (the "FRB") in attempting to control the money supply and credit availability in order to influence interest rates and the economy.

Gramm-Leach-Bliley Act

On November 12, 1999, the Gramm-Leach-Bliley Act, or GLB Act, was passed into law. The GLB Act accomplished three fundamental objectives:

- (a) Repealed the key provisions of the Glass Steagall Act to permit commercial banks to affiliate with investment banks (securities firms).
- (b) Amended the BHCA to permit qualifying bank holding companies to engage in any type of financial activities that are not permitted for banks themselves.
- (c) Permitted subsidiaries of banks to engage in a broad range of financial activities that are not permitted for banks themselves.

The result is that banking companies will generally be able to offer a wider range of financial products and services and will be more readily able to combine with other types of financial companies, such as securities firms and insurance companies.

The GLB Act created a new kind of bank holding company called a “financial holding company” (an “FHC”). An FHC is authorized to engage in any activity that is “financial in nature or incidental to financial activities” and any activity that the FRB determines is “complementary to financial activities” and does not pose undue risks to the financial system. Among other things, “financial in nature” activities include securities underwriting and dealing, insurance underwriting and sales, and certain merchant banking activities.

In addition, the GLB Act also provided significant new protections for the privacy of customer information that are applicable to us. Accordingly, we must (1) adopt and disclose a privacy policy; (2) give customers the right to prevent us from making disclosures of non-public financial information, subject to specified exceptions; and (3) follow regulatory standards to protect the security and confidentiality of customer information.

Although the long-range effects of the GLB Act cannot be predicted with reasonable certainty, most probably it will further narrow the differences and intensify competition between and among commercial banks, investment banks, insurance firms and other financial service companies.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 comprehensively revised the laws affecting corporate governance, auditing and accounting, executive compensation and corporate reporting for entities, such as the Company, with equity or debt securities registered under the Securities Exchange Act of 1934. Among other things, Sarbanes-Oxley and its implementing regulations have established new membership requirements and additional responsibilities for our audit committee, imposed restrictions on the relationship between the Company and its outside auditors (including restrictions on the types of non-audit services our auditors may provide to us), imposed additional responsibilities for our external financial statements on our chief executive officer and chief financial officer, and expanded the disclosure requirements for our corporate insiders. The requirements are intended to allow stockholders to more easily and efficiently monitor the performance of companies and directors.

Emergency Economic Stabilization Act of 2008

The U.S. Congress adopted, and on October 3, 2008, President George W. Bush signed, the Emergency Economic Stabilization Act of 2008 (“EESA”) which authorizes the United States Department of the Treasury, to purchase from financial institutions and their holding companies up to \$700 billion in mortgage loans, mortgage-related securities and certain other financial instruments, including debt and equity securities issued by financial institutions and their holding companies in a troubled asset relief program. The purpose of the troubled asset relief program is to restore confidence and stability to the U.S. banking system and to encourage financial institutions to increase their lending to customers and to each other. The troubled asset relief program is also expected to include direct purchases or guarantees of troubled assets of financial institutions. The Treasury Department has allocated \$250 billion towards a capital purchase program. Under the capital purchase program, the Treasury Department will purchase debt or equity securities from participating institutions. We have elected not to participate in the capital purchase program.

The Federal Deposit Insurance Corporation increased deposit insurance on most accounts from \$100,000 to \$250,000, until the end of 2009. In addition, pursuant to Section 13(c)(4)(G) of the Federal Deposit Insurance Act, the Federal Deposit Insurance Corporation has implemented two temporary programs to provide deposit insurance for the full amount of most non-interest bearing transaction deposit accounts through the end of 2009 and to guarantee certain unsecured debt of financial institutions and their holding companies through June 2012. For non-interest bearing transaction deposit accounts, including accounts swept from a non-interest bearing transaction account into a non-interest bearing savings

deposit account, a 10 basis point annual rate surcharge will be applied to deposit amounts in excess of \$250,000. Financial institutions could opt out of these two programs by December 5, 2008. We did not opt out of the temporary liquidity guarantee program. However, we do not expect that the assessment surcharge will have a material impact on our results of operations.

Regulatory Restrictions on Dividends

Dividend payments are limited by the FDIC and the Office of the State Banking Commissioner of the State of Delaware. Under the Federal Deposit Insurance Act, an insured bank may pay no dividends if the bank is in arrears in the payment of any insurance assessment due to the FDIC. Under current banking laws, we would be limited to \$25.7 million of dividends, plus an additional amount equal to our net profit for 2009, up to the date of any such dividend declaration. However, dividends would be further limited in order to maintain capital ratios since state and federal regulatory authorities have adopted standards for the maintenance of adequate levels of capital by banks. State and Federal regulatory authorities have additional standards for the maintenance of capital levels. Adherence to such standards further limits our ability to pay dividends.

Dividend Policy

We have not paid any cash dividends but may consider dividend payments in 2009.

FDIC Insurance Assessments

The deposits of FBD are insured up to applicable limits per insured depositor by the FDIC. As an FDIC-insured bank, FBD is also subject to FDIC insurance assessments. Beginning in 2007, the FDIC adopted a revised risk-based assessment system to determine the assessment rates to be paid by insured institutions. Under a final rulemaking announced by the FDIC on March 4, 2009, and depending on the institution's risk category, assessment rates will range from 12 to 45 basis points. Institutions in the lowest risk category will be charged a rate between 12 and 16 basis points; these rates increase to 22, 32 and 45 basis points, respectively, for the remaining three risk categories. These rates may be offset in the future by any dividends declared by the FDIC if the deposit reserve ratio increases above a certain amount. Given the state of current economic environment, it is unlikely that the FDIC will lower these assessment rates, and such rates may in fact increase. Because FDIC deposit insurance premiums are "risk-based," higher premiums would be charged to banks that have lower capital ratios or higher risk profiles. Consequently, a decrease in FBD's capital ratios, or a negative evaluation by the FDIC, as FBD's primary federal banking regulator, may also increase FBD's net funding costs and reduce its net income.

Additionally, the FDIC recently adopted an interim rule that imposes a 20 basis point emergency special assessment on all insured depository institutions on June 30, 2009. The special assessment will be collected September 30, 2009, at the same time that the risk-based assessments for the second quarter of 2009 are collected. The interim rule also permits the FDIC to impose an emergency special assessment of up to 10 basis points on all insured depository institutions whenever, after June 30, 2009, the FDIC estimates that the fund reserve ratio will fall to a level that the FDIC believes would adversely affect public confidence or to a level close to zero or negative at the end of a calendar quarter. Comments received during the public comment period may affect the content of the final rule on this issue.

All FDIC-insured depository institutions must also pay an annual assessment to provide funds for the repayment of debt obligations (commonly referred to as FICO bonds) issued by the Financing Corporation, a federal corporation, in connection with the disposition of failed thrift institutions by the Resolution Trust Corporation. The assessment rate for the first quarter of 2009 is set at approximately 1.14 cents per \$100 of assessable deposits, and for second quarter of 2009 at 1.04 cents per \$100 of assessable deposits. The FDIC has implemented a risk-related premium schedule for all insured depository institutions that results in the assessment of premiums based on capital and supervisory measures.

The FDIC has implemented a risk-related premium schedule for all insured depository institutions that results in the assessment of premiums based on capital and supervisory measures.

Under the risk-related premium schedule, the FDIC, on a semi-annual basis, assigns each institution to one of three capital groups (well capitalized, adequately capitalized or undercapitalized). The FDIC further assigns such institution to one of three subgroups within a capital group corresponding to the FDIC's judgment of the institution's strength based on supervisory evaluations, including examination reports, statistical analysis and other information relevant to gauging the risk posed by the institution.

Only institutions with a total capital to risk-adjusted assets ratio of 10.00% or greater, a Tier 1 capital to risk-adjusted assets ratio of 6.00% or greater and a Tier 1 leverage ratio of 5.00% or greater, are assigned to the well capitalized group.

Capital Adequacy

The FDIC has adopted risk-based capital guidelines for banks, such as us. The required minimum ratio of total capital to risk-weighted assets (including off-balance sheet items, such as standby letters of credit) is 8.0%. At least half of the total qualifying capital is required to be Tier 1 capital, consisting principally of common shareholders' equity, non-cumulative perpetual preferred stock and minority interests in the equity accounts of consolidated subsidiaries, less goodwill. The remainder, Tier 2 capital, may consist of a limited amount of subordinated debt and intermediate-term preferred stock, certain hybrid capital instruments and other debt securities, perpetual preferred stock, and a limited amount of the general loan loss allowance.

In addition to the risk-based capital guidelines, the FDIC has established minimum leverage ratio (Tier 1 capital to average total assets) guidelines for banks under its supervision. These guidelines provide for a minimum leverage ratio of 3% for those banks that have the highest regulatory examination ratings and are not contemplating or experiencing significant growth or expansion. All other banks are required to maintain a leverage ratio of at least 1% to 2% above the 3% stated minimum. We are in compliance with these guidelines.

The risk-based capital standards are required to take adequate account of interest rate risk, concentration of credit risk, and the risks of non-traditional activities.

Interstate Banking

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1995 (the "Interstate Banking Law") amended various federal banking laws to provide for nationwide interstate banking, interstate bank mergers, and interstate branching. The interstate banking provisions allow for the acquisition by a bank holding company of a bank located in another state.

Interstate bank mergers and branch purchase and assumption transactions were allowed effective September 1, 1998; however, states may "opt-out" of the merger and purchase and assumption provisions by enacting a law that specifically prohibits such interstate transactions. States could, in the alternative, enact legislation to allow interstate merger and purchase and assumption transactions prior to September 1, 1999. States could also enact legislation to allow for de novo interstate branching by out of state banks but such branching is not allowed absent express state authorization. Pennsylvania allows de novo interstate branching on a reciprocal basis and Delaware does not allow de novo interstate branching.

Profitability, Monetary Policy and Economic Conditions

In addition to being affected by general economic conditions, our earnings and growth will be affected by the policies of regulatory authorities, including the Office of the State Bank Commissioner of the State of Delaware, the FRB and the FDIC. An important function of the FRB is to regulate the supply of money and other credit conditions in order to manage interest rates. The monetary policies and regulations of the FRB have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. The effects of such policies upon our future business, earnings, and growth cannot be determined.

Other Legislative Initiatives

Proposals may be introduced in the United States Congress and in the Delaware State Legislature and before federal and/or state bank regulatory authorities which would alter the powers of, and restrictions on, different types of banking organizations and which could restructure part or all of the existing regulatory framework for banks, bank holding companies and other providers of financial services. Moreover, other bills may be introduced in Congress which could further regulate, deregulate or restructure the financial services industry. It is not possible to predict whether these or any other proposals will be enacted into law or, even if enacted, the effect which they may have on the Bank's business and earnings.

Employees

As of March 16, 2009, we had approximately 69 total full-time employees and no part-time employees.

Available Information

We file annual, quarterly and special reports, proxy statements and other information with the FDIC. You may inspect any reports, statements or other information that we file with the FDIC at the FDIC, Accounting and Securities Disclosure Section, Division of Supervision and Consumer Protection, 550 17th Street, N.W., Washington, DC. We also make available, free of charge, copies of reports, proxy and information statements we file with the FDIC under "Investor Relations" at our website, www.fbdel.com, as soon as practicable after they are filed with the FDIC.

ITEM 2: PROPERTIES

We presently conduct our principal business banking activities through our two offices in Wilmington, Delaware and a loan production office in Lewes, Delaware. In addition, we maintain an operations center in Philadelphia, Pennsylvania.

Our headquarters and one of our branches is located on approximately 2,000 square feet of leased land at Concord Pike and Rocky Run Parkway, Brandywine Commons II, Wilmington, Delaware. This location opened on June 1, 1999. The initial ten-year term of our lease has been extended through December 2013, and we have one additional five-year option to renew the lease. The minimum annual rent for this location for 2009 is \$91,660, payable in monthly installments.

We have another branch, along with a loan production office and administrative offices, in approximately 2,850 square feet of leased premises on the first floor of the Stoney Batter Office Complex located at 5301 Limestone Road, Suite 106, Wilmington, Delaware. This location opened on September 27, 2004. The lease is for an initial seven-year term with options to renew for three additional five-year terms. The minimum annual rent for 2009 for this location is \$81,662, payable in monthly installments.

We also have a loan production office and administrative offices in approximately 1,376 square feet in the Shoppes at Sandbar Village located at 19413 Jingle Shell Way, Lewes, Delaware. This location opened on February 1, 2008. The lease is for an initial five year and two month term with options to renew for three additional five-year terms. The minimum annual rent for 2009 for this location is \$41,823, payable in monthly installments.

In June, 2007, FBD became liable for the proportionate amount of space it utilizes, of a total 53,275 square feet on two floors of Two Liberty Place, 1601 Chestnut St., Philadelphia, Pennsylvania, as its operations center. The remainder of the space will be utilized by the holding company which had previously spun it off, and which will assume its allocated costs. The initial thirteen year, seven month lease term contains two five year renewal options and the initial lease term will expire on December 31, 2020. Annual rent expense commenced at \$395,211 less the following abatement periods: (1) the first twenty-eight months for 5,815 square feet of space and (2) the following periods for the remaining rentable area: (a) the first six months of the first lease year, (b) the first four months of the second lease year, and (c) the first four months of the third lease year, and other rental allowances.

ITEM 3: LEGAL PROCEEDINGS

FDIC Order

As previously reported, on October 3, 2008, we agreed to a Stipulation and Consent to the Issuance of an Order to Cease and Desist, Order for Restitution, and Order to Pay, referred to in this report as the "Consent Agreement," with the FDIC, pursuant to which we, among other things, in the interest of compromise and settlement, consented and agreed to the issuance by the FDIC of an Order to Cease and Desist, Order for Restitution and Order to Pay, referred to in this report as the "FDIC Order" or simply the "Order." The Order became effective October 9, 2008. The Consent Agreement and Order represent a resolution of the FDIC's charges relating to certain of our consumer lending programs set forth in a June 2008 notice of charges, as well as related litigation which had been pending in the United States District Court for the District of Delaware.

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 our national consumer products division, including lending programs offered, marketed, administered, processed and/or serviced by third-parties. The Consent Agreement and Order do not constitute an admission on our part of the alleged practices and violations.

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. The penalty was recognized as an expense in the third quarter of 2008. More specifically, the Consent Agreement and Order has required us, with input from a third party consultant acceptable to FDIC, to develop strategic and operating plans for the national consumer products division; analyze, assess and respond to our management and staffing needs within the national consumer products division; establish policies and procedures to periodically analyze and assess the performance of management and staff; and develop a written capital plan. We have hired a consultant acceptable to FDIC and have submitted the plans the consultant assisted us in devising to the FDIC for review. We have agreed to review and update our plans under the supervision of the FDIC on a periodic basis; to take actions necessary to eliminate or correct any violations or deficiencies noted by the FDIC; to ensure future compliance with laws and regulations; and to enhance our disclosures in connection with credit card solicitations.

Under the terms of the Consent Agreement and Order, we are required to establish two separate accounts to ensure the availability of restitution to certain consumers. One account in the amount of \$700,000 will be available to categories of consumers specified by the FDIC who activated certain credit card accounts. The other account totaled \$85,000 and was refunded to customers prior to December 31, 2008. Of that amount, FBD paid \$37,000, which was expensed in 2008. We expect to be indemnified by third parties with respect to the \$700,000, which was reflected on our balance sheet as of December 31, 2008.

The Consent Agreement and Order also provides that our board of directors will establish a compliance committee of independent directors for overseeing the affirmative actions required by the Order and that we will make periodic reports to the FDIC, furnish the terms of the Order to our shareholders, and notify the FDIC with respect to changes in our board of directors and senior management. We may not acquire any portfolios of consumer credit card accounts without prior compliance with certain of the requirements under the Consent Agreement and Order. We have agreed to use reasonable good faith efforts to cooperate with the FDIC in connection with its ongoing pursuit of related claims against third parties.

Pursuant to the Consent Agreement and Order, the FDIC has agreed to release and not to commence any action against us with respect to certain specified claims. The FDIC does, however, have the right to seek enforcement of the Consent Agreement and Order.

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.

Illinois Action

On January 15, 2009, the Illinois Department of Financial & Professional Regulation, Division of Financial Institutions (the "Division"), without any prior contact from the Division to FBD, issued a cease and desist order against FBD demanding that FBD cease acting as a lender in Illinois. The conduct that gave rise to the Division's enforcement action, FBD's use of a third party in the marketing of FBD's product, was discontinued on November 30, 2008, before the Division issued its order. FBD has been advised by counsel that the Illinois law that served as the basis of the Division's action is likely inapplicable to FBD, and that the Division appears to have recently changed its position with regard to the application of the underlying state law to out-of-state state-chartered banks. FBD believes that the Division's action is without merit and is vigorously contesting the action, including possibly filing a complaint for declaratory and injunctive relief against the Division with respect to the application of the state law to FBD.

Check 'N Go Litigation

On April 26, 2007, the San Francisco City Attorney filed a complaint in the name of the People of the State of California in the Superior Court of the State of California, County of San Francisco, against First Bank of Delaware, Monetary Management of California, Inc. and Money Mart Express, Inc., and Check 'N Go of California, Inc. and its affiliated companies.

The Complaint alleges that the defendants engaged in unlawful, unfair and deceptive business practices in violation of California Business and Professions Code section 17200. Specifically, the complaint alleges that the Check 'N Go and Money Mart defendants engaged in such unlawful and deceptive business practices by either themselves making installment loans under the guise of marketing and servicing for FBD or by brokering installment loans made by FBD in California in violation of the prohibition on usury contained in the California Constitution and the California Finance Lenders Law, as well as other violations of the California Finance Lenders Law and the California Deferred Deposit Transaction Law. The complaint alleges that FBD aided and abetted these claimed violations. The complaint seeks broad injunctive relief as well as

civil penalties. Defendants have denied the allegations of the complaint. Discovery is proceeding and no trial date has been set.

On January 5, 2009, the San Francisco City Attorney filed a First Amended Complaint, which, among other things, added a claim that short-term deferred deposit loans made by FBD that were marketed and serviced by the Money Mart defendants, violated the California Deferred Deposit Transaction law and that FBD aided and abetted this violation. Both FBD and the Money Mart Defendants filed a Motion to Dismiss this claim. The Court denied both Motions to Dismiss on February 25, 2009. FBD will answer the Complaint by April 3, 2009.

At this time, it is too early to determine the likelihood of an unfavorable outcome or the ultimate liability, if any, resulting from this case. Our defense costs are being paid by other defendants pursuant to contractual indemnification agreements, and we expect that any liability resulting from this case will be paid by the other defendants pursuant to the same indemnification agreements.

Other Legal Proceedings

From time to time we may be party to lawsuits that occur in the ordinary course of business. While any litigation involves an element of uncertainty, our management is of the opinion that our liability, if any, resulting from any of these pending actions will not have a material effect on our financial condition or results of operations. However, should we be successfully sued, our results of operations and financial condition could be adversely affected.

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

Not applicable.

PART II

ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is quoted on the OTC Bulletin Board under the symbol "FBOD." The table below presents the range of high and low bid information for our common stock quoted on the OTC Bulletin Board for the periods indicated. Market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

Shares of the Common Stock are quoted on NASDAQ OTC under the symbol "FBOD.OB." The table below presents the range of high and low trade prices reported for the Common Stock on NASDAQ OTC for the periods indicated. Market quotations reflect inter-dealer prices, without retail mark-up, markdown, or commission, and may not necessarily reflect actual transactions.

| <u>Year</u> | <u>Quarter</u> | <u>High</u> | <u>Low</u> |
|-------------|-----------------|-------------|------------|
| 2008..... | 4 th | \$1.90 | \$1.12 |
| | 3 rd | \$2.00 | \$1.78 |
| | 2 nd | \$2.85 | \$1.75 |
| | 1 st | \$3.15 | \$2.26 |

| <u>Year</u> | <u>Quarter</u> | <u>High</u> | <u>Low</u> |
|-------------|-----------------|-------------|------------|
| 2007..... | 4 th | \$3.30 | \$2.55 |
| | 3 rd | 3.15 | 2.25 |
| | 2 nd | 3.70 | 2.60 |
| | 1 st | 4.00 | 3.10 |

Holders

As of March 16, 2009, there were approximately 1,070 holders of our common stock, based upon the number of record holders and an estimate of individual participants in security position listings.

Dividend Policy

We have not paid any cash dividends on our common stock. We may consider paying dividends in 2009; however, the payment of dividends in the future will depend upon earnings, capital levels, cash requirements, our financial condition, applicable government regulations and policies and other factors deemed relevant by our board of directors. See "Description of our Business—Supervision and Regulation—Regulatory Restrictions on Dividends."

Securities Authorized For Issuance Under Equity Compensation Plans

Our Board of Directors has adopted, and our stockholders have approved, the Stock Option Plan and Restricted Stock Plan of First Bank of Delaware. The plan became effective on January 1, 2005. 1,540,000 shares of our common stock were authorized for grant under the plan. The following table shows the number of remaining options available for grant under equity compensation plans as of December 31, 2008.

| Plan category | (a) Number of securities to be issued upon exercise of outstanding options, warrants and rights | (b) Weighted-average exercise price of outstanding options, warrants and rights | (c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|--|--|--|--|
| Equity compensation plans approved by security holders | 905,251 | \$2.54 | 141,839 |
| Equity compensation plans not approved by security holders | - | - | - |
| Total | <u>905,251</u> | <u>\$2.54</u> | <u>141,839</u> |

ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

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," "could," "will," "likely," "believes," "expect," "estimate," "project," "anticipate," "should," "would," "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; business conditions in the financial services industry; the regulatory and litigation environment, including additional restrictions on short term consumer loans and other products and evolving banking industry standards; rapidly changing technology and competition with community, regional and national financial institutions; new service and product offerings by competitors, 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. We undertake no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances that arise after the date hereof.

Critical Accounting Policies, Judgments and Estimates

In reviewing and understanding financial information for FBD, you are encouraged to read and understand the significant accounting policies used in preparing our consolidated financial statements. These policies are described in Note 2 of our audited consolidated financial statements. The accounting and financial reporting policies of FBD conform to our accounting principles generally accepted in the United States of America and to general practices within the banking industry. The preparation of FBD's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Management evaluates these estimates and assumptions on an ongoing basis including those related to the allowance for loan losses and deferred income taxes. Securities are evaluated quarterly to determine whether declines in value are other than temporary. Such declines would be recorded as loss. Fees earned on installment loans that are not sold are recorded as interest income and are accrued over the life of the loan. Management bases its estimates on historical experience and various other factors and assumptions that are believed to be reasonable under the circumstances. These form the basis for making judgments on the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Allowance for Loan Losses— The allowance for loan losses is increased by charges to income through the provision for loan losses and decreased by charge-offs (net of recoveries). The allowance is maintained at a level that management considers adequate to absorb losses inherent in the loan portfolio. Management's periodic evaluation of the adequacy of the allowance is based on the FBD's past loan loss experience, the volume and composition of lending conducted by FBD, adverse situations that may affect a borrower's ability to repay, the estimated value of any underlying collateral, current economic conditions and other factors affecting the known and inherent risk in the portfolio. This evaluation is inherently subjective as it requires material estimates including, among others, the amount and timing of expected future cash flows on impacted loans, exposure at default, value of collateral, and estimated losses on our commercial and residential loan portfolios. All of these estimates may be susceptible to significant change.

The allowance consists of specific allowances for both impaired loans and all classified loans which are not impaired and a general allowance on the remainder of the portfolio. Although we determine the amount of each element of the allowance separately, the entire allowance for loan losses is available for the entire portfolio.

We establish an allowance on certain impaired loans for the amount by which the discounted cash flows, observable market price or fair value of collateral, if the loan is collateral dependent, is lower than the carrying value of the loan. A loan is considered to be impaired when, based upon current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan. An insignificant delay or insignificant shortfall in amount of payments does not necessarily result in the loan being identified as impaired.

We also establish a specific valuation allowance on classified loans which are not impaired. We segregate these loans by category and assign allowances to each loan based on inherent losses associated with each type of lending and consideration that these loans, in the aggregate, represent an above-average credit risk and that more of these loans will prove to be uncollectible compared to loans in the general portfolio. Classification of a loan is based on identified weaknesses that increase the credit risk of the loan.

We establish a general allowance on non-classified loans to recognize the inherent losses associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem loans. This general valuation allowance is determined by segregating the loans by loan category and assigning allowance percentages based on our historical loss experience, delinquency trends, and management's evaluation of the collectibility of the loan portfolio.

The allowance is adjusted for significant factors that, in management's judgment, affect the collectibility of the portfolio as of the evaluation date. These significant factors may include changes in lending policies and procedures, changes in existing general economic and business conditions affecting our primary lending areas, credit quality trends, collateral value, loan volumes and concentrations, seasoning of the loan portfolio, loss experience in particular segments of the portfolio, duration of the current business cycle, and bank regulatory examination results. The applied loss factors are reevaluated each reporting period to ensure their relevance in the current economic environment.

While management uses what it believes to be the best information available to it at the time in order to evaluate the allowance for loan losses, additional provisions to add to the allowance may be necessary based on changes in economic and other conditions, changes in the composition of the loan portfolio or changes in accounting guidance. In times of economic slowdown, either regional or national, the risk inherent in the loan portfolio could increase resulting in the need for additional provisions to the allowance for loan losses in future periods. An increase could also be necessitated by an increase in the size of the loan portfolio or in any of its components even though the credit quality of the overall portfolio may be improving. Historically, our estimates of the allowance for loan loss have approximated actual losses incurred. In addition, the Office of

the State Bank Commissioner of the State of Delaware and the FDIC, as an integral part of their examination processes, periodically review our allowance for loan losses. The Office of the State Bank Commissioner of the State of Delaware or the FDIC may require the recognition of adjustment to the allowance for loan losses based on their judgment of information available to them at the time of their examinations. To the extent that actual outcomes differ from management's estimates, additional provisions to the allowance for loan losses may be required that would adversely impact earnings in future periods.

Revenue Recognition—Fees earned on subprime consumer installment loans that are not sold or participated are recorded as interest income. While the majority of such loans are sold or participated, interest on loans retained is recognized on the cash basis, due to the special risks of such loans. Among other factors, performance can vary widely resulting in overstatement of income should income be accrued. Payments are made monthly and income is accordingly recognized monthly. At December 31, 2008 and 2007, there were approximately \$4.0 million and \$6.1 million of such loans outstanding respectively.

The majority of subprime consumer loans are sold or participated to third parties. We record fees on sold or participated loans as non-interest income. We had total subprime consumer loan participations sold of \$29.7 million at December 31, 2008. We evaluated these sales and determined that they qualified as such under SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities".

Other-Than-Temporary Impairment of 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 FBD 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 the 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.

Income Taxes—Management makes estimates and judgments to calculate some of our tax liabilities and determine the recoverability of some of our deferred tax assets, which arise from temporary differences between the tax and financial statement recognition of revenues and expenses. Management also estimates a reserve for deferred tax assets if, based on the available evidence, it is more likely than not that some portion or all of the recorded deferred tax assets will not be realized in future periods. These estimates and judgments are inherently subjective. Historically, our estimates and judgments to calculate our deferred tax accounts have not required significant revision from management's initial estimates.

Recent Accounting Pronouncements—In September 2006, the FASB issued FASB Statement No. 157, "Fair Value Measurements", which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about assets and liabilities measured at fair value. FASB Statement No. 157 does not change existing guidance as to whether or not an asset or liability is carried at fair value. The new standard provides a consistent definition of fair value which focuses on exit price and prioritizes, within a measurement of fair value, the use of market-based inputs over entity-specific inputs. The standard also establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The standard eliminates large position discounts for financial instruments quoted in active markets, requires costs related to acquiring financial instruments carried at fair value to be included in earnings as incurred and requires that an issuer's credit standing be considered when measuring liabilities at fair value. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, with early adoption permitted. The implementation of this standard did not have a material impact on our consolidated financial statements or results of operations.

In December 2007, the FASB issued SFAS No. 141 (R), Business Combinations. 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 the Bank's accounting for business combinations completed after January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51. This statement establishes accounting and reporting standards for the

noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The guidance will become effective as of the beginning of a company's fiscal year beginning after December 15, 2008. The implementation of this standard will not have a material impact on the Bank's consolidated financial position and results of operations.

In May 2008, the FASB issued FASB Staff Position (FSP) APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" which clarifies the accounting for convertible debt instruments that may be settled in cash (including partial cash settlement) upon conversion. The FSP requires issuers to account separately for the liability and equity components of certain convertible debt instruments in a manner that reflects the issuer's nonconvertible debt borrowing rate when interest cost is recognized. The FSP requires bifurcation of a component of the debt, classification of that component in equity and the accretion of the resulting discount on the debt to be recognized as part of interest expense. The FSP requires retrospective application to the terms of instruments as they existed for all periods presented. The FSP is effective for fiscal years beginning after December 15, 2008, and interim periods within those years. Early adoption is not permitted. FBD 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 implementation of this standard will not have a material impact on FBD's consolidated financial position and results of operations.

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 did not have a material impact on our consolidated financial position and results of operations.

In December 2008, the FASB issued FSP SFAS 140-4 and FASB Interpretation (FIN) 46(R)-8, "Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities" (FSP SFAS 140-4 and FIN 46(R)-8). FSP SFAS 140-4 and FIN 46(R)-8 amends FASB SFAS 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", to require public entities to provide additional disclosures about transfers of financial assets. It also amends FIN 46(R), "Consolidation of Variable Interest Entities", to require public enterprises, including sponsors that have a variable interest in a variable interest entity, to provide additional disclosures about their involvement with variable interest entities. Additionally, this FSP requires certain disclosures to be provided by a public enterprise that is (a) a sponsor of a qualifying special purpose entity (SPE) that holds a variable interest in the qualifying SPE but was not the transferor of financial assets to the qualifying SPE and (b) a servicer of a qualifying SPE that holds a significant variable interest in the qualifying SPE but was not the transferor of financial assets to the qualifying SPE. The disclosures required by FSP SFAS 140-4 and FIN 46(R)-8 are intended to provide greater transparency to financial statement users about a transferor's continuing involvement with transferred financial assets and an enterprise's involvement with variable interest entities and qualifying SPEs. FSP SFAS 140-4 and FIN 46(R) is effective for reporting periods (annual or interim) ending after December 15, 2008. The implementation of this standard did not have an impact on FBD's consolidated financial position and results of operations.

In December 2008, the FASB issued FSP FAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets". This FSP amends SFAS 132(R), "Employers' Disclosures about Pensions and Other Postretirement Benefits", to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The disclosures about plan assets required by this FSP shall be provided for fiscal years ending after December 15, 2009. FBD is currently reviewing the effect this new pronouncement will have on its consolidated financial statements.

Results of Operations for the Years Ended December 31, 2008 and 2007

Overview

Our net income decreased \$3.1 million, or 38.2%, to \$5.1 million for the year ended December 31, 2008, compared to \$8.2 million for the prior year. Diluted earnings per share were \$0.44 versus \$0.71 for the prior year period. Return on average assets decreased to 4.14% in 2008 from 6.13% in the prior year. Return on average equity also declined to 13.47% in 2008 from 27.55% in 2007.

In October 2008, we entered into a Consent Order with the FDIC regarding certain aspects of our national consumer products division. As a result of the FDIC Order, all third party credit card relationships, with exception of one program, have been terminated. All third party installment loan relationships have also been terminated, and we are now offering our installment loan product independently of these prior relationships. We are now in discussions with the FDIC in a continuing effort to address certain FDIC concerns with our directly offered subprime loan and credit card products, including our use and control over third party vendors. See “Legal Proceedings—FDIC Order” in Item 3 of this report for additional information.

As a result of the termination of third party credit card and consumer installment loan marketer and servicer relationships, related reserves and non-interest-bearing deposits will decrease.

The decrease in net income reflected a \$4.0 million increase in non-interest expenses, resulting primarily from increased salaries and employee benefits, and other non-interest expenses of our national consumer products division, including costs associated with the new loan and card products now being created and offered directly. Increases in legal and professional expenses relating to the FDIC Order also contributed to the increase in non-interest expenses. Non-interest income decreased \$700,000 or 3.85% to \$17.5 million for the year ended December 31, 2008 from \$18.2 million in the prior year. This decrease primarily reflected lower fees earned on consumer loans due to the termination of certain programs, offset primarily by an increase in non-interest income on card products. As a result of the termination of third party relationships in our national consumer products division, we expect that related revenues will continue to decrease further. Net interest income increased \$2.9 million reflecting higher average balances of subprime consumer loans retained on our balance sheet, the impact of which was more than offset by the provision for loan losses which increased \$3.0 million reflecting higher provision expenses related primarily to subprime consumer installment loans and secondarily to our directly offered credit card. While the Bank has begun offering its own subprime installment loan and card products, related volume has been reduced significantly. We ceased making loans through our mezzanine subsidiary as a result of market conditions.

Analysis of Net Interest Income

While we derive a majority of our income from fees related to our national consumer products, our income also depends significantly upon our net interest income, which is the difference between interest earned on our interest-earning assets, such as loans and investments, and the interest paid on interest-bearing liabilities. Net interest income is affected by changes in the mix of the volume and rates of interest-earning assets and interest-bearing liabilities, such as deposits and borrowings. The following table provides an analysis of net interest income on an annualized basis, setting forth for the periods (i) average assets, liabilities, and shareholders' equity, (ii) interest income earned on interest-earning assets and interest expense on interest-bearing liabilities, (iii) average yields earned on interest-earning assets and average rates on interest-bearing liabilities, and (iv) our net interest margin (net interest income as a percentage of average total interest-earning assets). Averages are computed based on daily balances. Non-accrual loans are included in average loans receivable. Yields are not adjusted for tax equivalency, as we had no tax-exempt income during the reported periods, but we may have such income in the future.

Analysis of Net Interest Income

| | <u>Average</u> | <u>Interest</u> | <u>Yield/</u> | <u>Average</u> | <u>Interest</u> | <u>Yield/</u> |
|-------------------------------------|--------------------------|-----------------|-----------------|--------------------------|-----------------|-----------------|
| | <u>Balance</u> | <u>Expense</u> | <u>Rate (1)</u> | <u>Balance</u> | <u>Expense</u> | <u>Rate (1)</u> |
| | <u>For the Year</u> | | | <u>For the Year</u> | | |
| | <u>Ended</u> | | | <u>Ended</u> | | |
| (Dollars in thousands) | <u>December 31, 2008</u> | | | <u>December 31, 2007</u> | | |
| Interest-earning assets: | | | | | | |
| Federal funds sold and other | | | | | | |
| interest-earning assets | \$19,896 | \$400 | 2.01% | \$38,444 | \$1,994 | 5.19% |
| Investment securities | 14,781 | 735 | 4.97% | 10,142 | 598 | 5.90% |
| Loans receivable | 77,004 | 10,414 | 13.52% | 73,260 | 8,057 | 11.00% |
| Total interest-earning assets | 111,681 | 11,549 | 10.34% | 121,846 | 10,649 | 8.74% |
| Other assets | 10,510 | | | 11,677 | | |
| Total assets | <u>\$122,191</u> | | | <u>\$133,523</u> | | |
| Interest-bearing liabilities: | | | | | | |
| Demand – non-interest | | | | | | |
| Bearing | \$39,633 | - | - | \$34,119 | - | - |
| Demand – interest-bearing | 329 | 3 | 0.91% | 235 | 2 | 0.85% |
| Money market & savings | 26,135 | 620 | 2.37% | 30,058 | 1,379 | 4.59% |
| Time deposits | 13,549 | 567 | 4.18% | 33,335 | 1,760 | 5.28% |
| Total deposits | 79,646 | 1,190 | 1.49% | 97,747 | 3,141 | 3.21% |
| Total interest- | | | | | | |
| bearing deposits | 40,013 | 1,190 | 2.97% | 63,628 | 3,141 | 4.94% |
| Other borrowings | 41 | - | 0.63% | 259 | 21 | 8.10% |
| Total interest-bearing | | | | | | |
| liabilities | 40,054 | 1,190 | 2.97% | 63,887 | 3,162 | 4.95% |
| Total deposits and | | | | | | |
| other borrowings | 79,687 | 1,190 | 1.49% | 98,006 | 3,162 | 3.23% |
| Non-interest-bearing | | | | | | |
| Other liabilities | 4,970 | | | 5,807 | | |
| Shareholders' equity | 37,534 | | | 29,710 | | |
| Total liabilities and | | | | | | |
| Shareholders' equity | <u>\$122,191</u> | | | <u>\$133,523</u> | | |
| Net interest income | | <u>\$10,359</u> | | | <u>\$7,487</u> | |
| Net interest spread | | | <u>7.37%</u> | | | <u>3.79%</u> |
| Net interest margin (2) | | | <u>9.28%</u> | | | <u>6.14%</u> |

- (1) Yields on investments are calculated based on amortized cost.
(2) The net interest margin is calculated by dividing net interest income by average total interest earning assets.

Rate/Volume Analysis of Changes in Net Interest Income

Net interest income may also be analyzed by segregating the volume and rate components of interest income and interest expense. The following table sets forth an analysis of volume and rate changes in net interest income for the periods indicated. For purposes of this table, changes in interest income and expense are allocated to volume and rate categories based upon the respective changes in average balances and average rates.

| (Dollars in thousands) | Year ended December 31, 2008 vs. 2007 | | | Year ended December 31, 2007 vs. 2006 | | |
|----------------------------------|--|-----------------|-----------------|--|-----------------|-----------------|
| | Change due to | | | Change due to | | |
| | Average Volume | Average Rate | Total | Average Volume | Average Rate | Total |
| Interest earned on: | | | | | | |
| Federal funds sold and other | | | | | | |
| Interest-earning assets | \$ (373) | \$ (1,221) | \$ (1,594) | \$ 380 | \$ 52 | \$ 432 |
| Securities | 231 | (94) | 137 | 424 | 1 | 425 |
| Loans | 506 | 1,851 | 2,357 | 1,394 | (278) | 1,116 |
| Total interest earning assets | <u>\$ 364</u> | <u>\$ 536</u> | <u>\$ 900</u> | <u>\$ 2,198</u> | <u>\$ (225)</u> | <u>\$ 1,973</u> |
| Interest expense of | | | | | | |
| Deposits | | | | | | |
| Interest-bearing demand deposits | \$ (1) | \$ - | \$ (1) | \$ (1) | \$ - | \$ (1) |
| Money market and savings | 94 | 665 | 759 | (368) | (279) | (647) |
| Time deposits | 827 | 366 | 1,193 | (79) | (162) | (241) |
| Total deposit interest expense | <u>920</u> | <u>1,031</u> | <u>1,951</u> | <u>(448)</u> | <u>(441)</u> | <u>(889)</u> |
| Other borrowings | <u>1</u> | <u>20</u> | <u>21</u> | <u>(21)</u> | <u>-</u> | <u>(21)</u> |
| Total interest expense | <u>921</u> | <u>1,051</u> | <u>1,972</u> | <u>(469)</u> | <u>(441)</u> | <u>(910)</u> |
| Net interest income | <u>\$ 1,285</u> | <u>\$ 1,587</u> | <u>\$ 2,872</u> | <u>\$ 1,729</u> | <u>\$ (666)</u> | <u>\$ 1,063</u> |

Net Interest Income

Our net interest margin increased from 6.14% in 2007 to 9.28% for 2008. The increase reflected increased balances of higher yielding subprime consumer loans and decreased rates paid on deposits. In 2008, short-term and other subprime consumer loans contributed approximately 5.23% of the total 9.28% net interest margin, compared to 1.93% of the 6.14% net interest margin in 2007. Accordingly, margins excluding short-term loans were 4.05% in 2008 and 4.21% in 2007. That margin decrease reflected the impact of lower yields earned on commercial loans, reflecting lower rates on loans tied to prime. Such rates decreased with short term market rates.

Our total interest income increased \$900,000, or 8.50%, to \$11.5 million for the year ended December 31, 2008, from \$10.6 million for the prior year. As shown in the Rate/Volume table above, the increase in net interest income reflected the \$1.9 million positive effect of increased loan yields primarily due to our increased holdings of higher yield subprime consumer loans. The effect of increased volume in commercial loans was more than offset by the declining rate environment which led to lower yields on such loans in 2008. Interest on loans increased \$2.4 million or 29.3% to \$10.4 million in 2008 from \$8.1 million in 2007. The \$2.4 million increase reflected an increase in subprime consumer loan interest of \$3.7 million to \$5.6 million in 2008 from \$1.9 million in 2007, which was partially offset by the impact of lower commercial loan yields. Interest on loans in our mezzanine finance segment decreased to \$249,000 in 2008 from \$638,000 in 2007, as we discontinued our mezzanine finance business in 2008 due to market conditions. Average loans increased to \$77.0 million in 2008 from \$73.3 million in 2007. The \$3.7 million increase in subprime consumer loan interest reflected an increase in subprime consumer loans of \$1.6 million and credit card receivables of \$1.0 million. Average commercial loans outstanding increased to \$67.5 million in 2008 from \$63.8 million in 2007, excluding the loans in our mezzanine finance segment, which decreased by \$2.4 million to zero, as a result of our discontinuation of that business segment. Yields on commercial loans in 2008 decreased due to the declining rate environment year especially for loans tied to prime.

Interest and dividend income on investment securities increased \$137,000, or 22.9%, to \$735,000 for 2008, from \$598,000 for the prior year. The increase was due principally to the \$4.7 million, or 45.8%, increase in average investment securities outstanding to \$14.8 million in 2008 from \$10.1 million in 2007.

Interest income on federal funds sold and other interest-earning assets decreased \$1.6 million, or 79.9%, to \$400,000 as average federal funds sold outstanding decreased 48.2% or \$18.5 million in 2008 to \$19.9 million. In addition, the average rate earned on these balances decreased 318 basis points to 2.01% from 5.19% in 2007.

Our total interest expense decreased \$2.0 million or 62.4%, to \$1.2 million for the year ended December 31, 2008, from \$3.2 million for the prior year. The decrease reflected a \$23.6 million or 37.1% decline in 2008 of average interest bearing deposits. It also reflected the lower rate environment as a result of which the average rate on interest bearing deposits decreased to 2.97% from 4.94%. Interest-bearing liabilities averaged \$40.1 million for the year ended December 31, 2008,

versus \$63.9 million for the prior year. Interest expense was further reduced by the increase in non interest bearing demand deposits. Such balances fluctuate significantly and may not be retained. Further, third party relationships, which are being exited, will reduce or eliminate related demand deposits.

Interest expense on time deposits (certificates of deposit) decreased \$1.2 million or 67.8%, to \$567,000 for 2008, from \$1.8 million for the prior year. This decrease primarily reflected the \$19.8 million or 59.4% reduction in average balances. It also reflected the lower yields in 2008, as the average rate on certificates of deposit decreased 110 basis points to 4.18% in 2008 from 5.28% in 2007.

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 is adequate to absorb the losses inherent in the loan portfolio. The provision for loan losses increased \$3.1 million to \$4.2 million for the year ended December 31, 2008, from \$1.1 million for the prior year. The majority of this increase resulted primarily from subprime consumer installment loans and secondarily to our directly offered subprime credit cards. Net charge-offs of subprime consumer loans increased \$1.7 million, while directly offered subprime credit card charge-offs increased \$1.5 million. Related revenues from consumer installment loans and credit cards partially offset this increase.

Non-Interest Income

Total non-interest income decreased \$700,000, or 3.9%, to \$17.5 million for the year ended December 31, 2008, versus \$18.2 million for the prior year, reflecting a decrease of \$4.0 million, or 47.4% in subprime consumer loan fee related income. Fees on subprime consumer loans represent income on loans sold or previously sold or participated to third party purchasers without recourse. 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 the FDIC Order. One of these companies that marketed our consumer loans generated loans which resulted in revenues of \$3.5 million or 11.9% of total 2008 revenue. We ceased doing business with that company in third quarter 2008. Loan advisory and servicing fees decreased \$296,000 or 74.0% to \$104,000 in 2008 versus \$400,000 in 2007. The decrease was the result of the discontinuance of our mezzanine finance business. Subprime card product revenue increased by \$3.8 million, or 51.3%, in 2008 to \$11.1 million. The majority of the increase was the result of revenues from our directly offered subprime credit card. We retain the balances of such directly offered card receivables on our books which contributed \$2.1 million in revenue for 2008. Incentive revenue, another component of credit card fee income is earned on new card issuances. Of the \$3.8 million increase, we recorded increased revenue related to subprime card issuances of \$1.6 million or 218.1% to \$2.4 million in 2008 versus \$750,000 in 2007. This source of revenue will be largely eliminated in 2009 due to our exit from certain lines of business, the termination of relationships with certain third parties as a result of the FDIC Order, and lower originations. Revenue on card products is earned primarily on active accounts, the number of which increased substantially in 2008. One company that markets FBD credit cards generated \$6.2 million in revenue or 21.2% of total 2008 revenue. The Bank will continue to work with this marketer in 2009. Before 2008, FBD generally sold or participated all subprime consumer installment loans upon origination. In 2007, FBD began holding certain loans for brief periods. Interest earned on these loans while held on the balance sheet is recorded as interest income. Amounts received in excess of principal are recorded as gain on sale of loans. In 2008, such gain amounted to \$687,000 versus \$1.1 million for the prior year, reflecting the termination of third party relationships previously mentioned.

Non-Interest Expenses

Total non-interest expenses increased \$4.0 million, or 33.7%, to \$16.0 million for the year ended December 31, 2008, from \$12.0 million for the prior year. Salaries and employee benefits increased \$931,000, or 12.5%, to \$8.4 million for the year ended December 31, 2008, from \$7.5 million for the prior year. The increase reflected \$486,000 of expense resulting from the accelerated vesting of several participants' deferred compensation accounts. Without such acceleration, that expense would have been recognized over the next three years. The majority of the increase reflected increases related to staffing for our national consumer products division.

Occupancy expense decreased \$16,000 to \$617,000 in 2008 from \$633,000 in 2007, a decrease of 2.5%, reflecting decreased expenses related to our operations center move in 2007.

Depreciation expense increased \$143,000, or 51.4% to \$421,000 for the year ended December 31, 2008, versus \$278,000 for the prior year. The increase reflected purchases of new equipment and leasehold improvements to support our operations.

Legal fees increased \$376,000, or 68.5% to \$925,000 for the year ended December 31, 2008, from \$549,000 for the prior year. Higher expenses in 2008 related to the FDIC Order and product diversification.

Advertising expense decreased \$38,000 or 59.4% to \$26,000 in 2008, from \$64,000 for the prior year reflecting a reduction in advertising expense for deposit promotions as management chose not to pursue higher priced deposits.

Data processing and operational expense increased \$180,000, or 59.2%, in 2008, to \$484,000 from \$304,000 in the prior year. The increase reflected system upgrades for the data and operations center to support more diversified products offered directly by the Bank.

Credit card marketing and processing expenses increased \$1.1 million or 519.5%, in 2008, to \$1.3 million from \$215,000 in the prior year. The increase reflected the operating expenses of our directly offered credit card product.

Professional expenses increased \$1.2 million or 275.9% in 2008, to \$1.6 million from \$424,000 in the prior year reflecting significant consulting fees related to the FDIC Order and to product planning. We have hired an experienced consulting firm to assist in our strategic planning, and developing certain operating, strategic and capital plans.

Delaware franchise tax decreased \$260,000, or 39.2%, in 2008, to \$403,000 from \$663,000 in the prior year primarily as a result of decreased taxable income.

Miscellaneous expenses increased \$289,000 to \$310,000 in 2008 from \$21,000 in 2007 primarily as a result of the \$304,000 civil money penalty.

Other operating expenses increased \$149,000, or 10.9% to \$1.5 million for the year ended December 31, 2008, from \$1.3 million for the prior year. That increase reflected a \$56,000 increase in directors fees, a \$37,000 increase in FDIC insurance assessments, a \$25,000 increase in printing expense and a \$24,000 increase in other real estate owned expense.

Provision for Income Taxes

The provision for income taxes decreased \$1.8 million to \$2.6 million for the year ended December 31, 2008, from \$4.4 million for the prior year. This decrease was primarily the result of the decrease in pre-tax income. The effective tax rates approximated the statutory rate of 34% and 35% in those respective years.

Financial Condition

December 31, 2008 Compared to December 31, 2007

Total assets decreased \$3.2 million to \$116.2 million at December 31, 2008, versus \$119.4 million at December 31, 2007. The majority of total assets were comprised of net loans receivable, which decreased \$5.4 million to \$71.3 million, investment securities available for sale, which grew \$5.4 million to \$22.6 million, and federal funds sold, which decreased \$10.0 million to \$3.9 million from respective prior year end balances.

Assets

Loans

Our loan portfolio, which represents our largest asset, is our most significant source of interest income. Our commercial lending strategy in our community banking segment is to focus on small and medium sized businesses and professionals that seek highly personalized banking services. We also offer subprime consumer installment loans and subprime credit cards and sell or participate most of those loans to third party investors, and all are sold or participated without recourse. Gross loans decreased \$5.1 million or 6.4%, to \$74.2 million at December 31, 2008, versus \$79.3 million at December 31, 2007. The loan portfolio consists primarily of commercial real estate, construction and other commercial loans as well as subprime consumer installment loans and subprime credit card balances. Commercial real estate and construction loans comprise the majority of our loan portfolio. Commercial real estate loans amounted to \$42.2 million at December 31, 2008 compared to \$51.8 million at the prior year-end. Construction and land development loans amounted to \$26.7 million and \$21.2 million respectively, at those dates. This included loans in our mezzanine finance segment, which ceased operating effective July 1, 2008 and the loans in this segment decreased to \$0.0 million on December 31, 2008 from \$4.3 million at the prior year end. At December 31, 2008, we had \$4.0 million in subprime consumer loans outstanding

versus \$6.1 million at December 31, 2007. Also at December 31, 2008 there were \$1.3 million in credit card balances outstanding versus \$200,000 at the prior year end.

Investment Securities

Investment securities available-for-sale are investments, which may be sold in response to changing market and interest rate conditions and for liquidity and other purposes. Our investment securities available-for-sale consist of Federal Home Loan bank discount notes and U.S. Government agency issued mortgage backed securities. Available-for-sale securities totaled \$22.6 million at December 31, 2008, an increase of \$5.4 million from year-end 2007. This increase resulted from purchases of Federal Home Loan bank discount notes, which were made primarily to reduce exposure to lower rate environments expected in 2009. At December 31, 2008, and December 31, 2007, our portfolio had net unrealized gains of \$426,000 and \$135,000, respectively.

Cash and Due From Banks

Cash and due from banks, interest bearing deposits and federal funds sold comprise this category, which consists of our most liquid assets. The aggregate amount in these three categories decreased by \$6.4 million, to \$9.6 million at December 31, 2008, from \$16.0 million at December 31, 2007. Federal funds sold decreased by \$10.0 million to \$4.0 million at year-end 2008. The decrease reflected security purchases and a reduction in higher cost certificates of deposit.

Fixed Assets

Bank premises and equipment, net of accumulated depreciation was \$3.4 million and \$3.6 million at December 31, 2008 and 2007, respectively. The decrease reflects depreciation expense in excess of new equipment acquisitions.

Bank Owned Life Insurance

Bank owned life insurance amounted to \$1.8 million and \$1.8 million at December 31, 2008 and 2007, respectively. The income earned on these policies is reflected in non-interest income. Such income was \$60,000 and \$64,000 for the years ending December 31, 2008 and 2007, respectively.

Other Assets

Other assets increased by \$3.5 million at December 31, 2008, compared to the prior year end due to increased receivables from third party vendors. Of that balance, \$2.4 million has been collected and the remaining balance is from vendors deemed to be credit worthy. An additional \$700,000 of the remaining balance reflected a receivable related to refunds to be paid to customers from a creditworthy vendor. FBD has no intangible assets.

Liabilities

Deposits

Deposits, comprised of noninterest bearing and interest bearing demand deposits, money market, savings and time deposits, which could include brokered deposits, represent our major source of funding. Deposits are generally solicited from our market area through the offering of a variety of products to attract and retain customers, with a primary focus on multi-product relationships. Additionally, certificate of deposit promotions are utilized. We also obtain deposits, including significant non-interest bearing demand deposits, from our card products and third party vendors. As third party relationships are terminated, related deposits will likely be reduced or eliminated. Total deposits decreased by \$8.5 million to \$72.3 million at December 31, 2008, from \$80.8 million at December 31, 2007. Transaction account deposits between these dates decreased 2.6% or \$1.6 million to \$59.9 million at December 31, 2008. The changes in our national consumer products division, namely moving from offering our products primarily through third party relationships to offering them directly, has had an effect on our deposit structure, and the lower cost deposits previously associated with our third party relationships will likely decline as the third party relationships are wound up. Time deposits decreased \$6.9 million, or 35.6% to \$12.4 million at December 31, 2008, versus \$19.3 million at the prior year-end.

Due to Consumer Loan Servicers and Purchasers

Due to short term consumer loan servicers and purchasers decreased \$84,000 to \$0 at December 31, 2008.

Shareholders' Equity

Total shareholders' equity increased \$5.3 million to \$39.5 million at December 31, 2008, versus \$34.2 million at December 31, 2007. This increase was primarily the result of 2008 net income of \$5.1 million.

Risks and Uncertainties

Our earnings include significant amounts of subprime consumer loan and subprime credit card product fee income. Also, we are dependent upon the level of net interest income, which is the difference between interest earned on our interest-earning assets, such as loans and investments, and the interest paid on its interest-bearing liabilities, such as deposits and borrowings. Accordingly, our operations are subject to interest rate risk.

Our results of operations will be significantly affected by the ability of borrowers to repay their loans and many national consumer borrowers, including subprime consumer installment loan customers and subprime credit card customers, are considered to be high credit risks. Further, litigation in connection with such consumer loans and card products, if successful, and if not reimbursed by loan servicers and card marketers obligated to indemnify FBD, could have an adverse impact on earnings and financial condition. See "Legal Proceedings" in Item 3 of this report.

Short term subprime consumer loans offered from 2001 until July 2007 primarily consisted of payday loans. Since 2007 the Bank has offered subprime consumer installment loans via the internet and telephone. At December 31, 2008, there were approximately \$4.0 million in subprime consumer installment loans outstanding on the balance sheet, most of which represented shorter term installment loans. We also originate loans in various states via the telephone and internet, which are sold or participated to third parties. The short term loan participations sold and outstanding at December 31, 2008 were \$29.7 million.

The Bank offers various subprime credit card products. Certain legislative and regulatory proposals seek to further regulate credit card markets and fees. If certain of these proposals are enacted, earnings could be materially affected, or make the subprime line of business unprofitable.

Legislation eliminating or limiting interest rates upon subprime and other consumer loans (especially short term consumer loans) has from time to time been proposed primarily as a result of high fee levels. If adopted, such legislation can impair or eliminate our ability to make or profitably make such loans. If such proposals are not adopted and cease to be pursued, a large number of competitors may begin offering these products, and increasing competition could result in lower fees. Further, we use a small number of marketers under contracts, which can be terminated upon short notice, under various circumstances. In addition to generating the vast majority of loan and credit card volume, related deposit balances are significant. The impact of the legislation or negative conditions influencing the above factors, if any, is not possible to predict but could have a material adverse effect on our operations and financial results.

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

Economic and market conditions in the United States and around the world have deteriorated significantly and may remain depressed for the foreseeable future. Conditions such as slowing or negative growth and the subprime debt devaluation crisis have resulted in a low level of liquidity in many financial markets, and extreme volatility in credit, equity and fixed income markets. These economic developments could have various effects on our business, including insolvency of major customers, an unwillingness of customers to borrow or to repay funds already borrowed and a negative impact on the investment income FBD is able to earn on its investment portfolio. The potential effects of the current global financial crisis are difficult to forecast and mitigate. Distress in the credit markets and issues relating to liquidity among financial institutions have resulted in the failure of some financial institutions around the world and others have been forced to seek acquisition partners. The United States and other governments have taken unprecedented steps in effort to stabilize the financial system, including investing in financial institutions. There can be no assurance that these efforts will succeed. Our business and our financial condition and results of operations could be adversely affected by continued or accelerated disruption and volatility in financial markets; continued capital and liquidity concerns regarding financial institutions; limitations resulting from further governmental action in an effort to stabilize or provide additional regulation of the financial system; or recessionary conditions that are deeper or longer lasting than currently anticipated.

FBD may not be able to compete effectively in its markets, which could adversely affect its results of operations. The banking and financial services industry in FBD's market area is highly competitive. The increasingly

competitive environment is a result of changes in regulation, changes in technology and product delivery systems, and the accelerated pace of consolidation among financial service providers. Such larger institutions have greater access to capital markets, with higher lending limits and a broader array of services. Competition may require increases in deposit rates and decreases in loan rates.

FBD's Articles of Incorporation and Bylaws contain certain anti-takeover provisions that may make it more difficult or expensive or may discourage a tender offer, change in control or takeover attempt that is opposed by its Board of Directors. In particular, the Articles of Incorporation and Bylaws: classify the Board of Directors into three groups, so that shareholders elect only one-third of the Board each year; permit shareholders to remove directors only for cause and only upon the vote of the holders of at least 75% of the voting shares; require shareholders to give the Company advance notice to nominate candidates for election to the Board of Directors or to make shareholder proposals at a shareholders' meeting; and require the vote of the holders of at least 60% of the Company's voting shares for shareholder amendments to the Company's Bylaws. These provisions of the Company's Articles of Incorporation and Bylaws could discourage potential acquisition proposals and could delay or prevent a change in control, even though a majority of the Company's shareholders may consider such proposals desirable. Such provisions could also make it more difficult for third parties to remove and replace the members of the Company's Board of Directors. Moreover, these provisions could diminish the opportunities for shareholders to participate in certain tender offers, including tender offers at prices above the then-current market value of the Company's common stock, and may also inhibit increases in the trading price of the Company's common stock that could result from takeover attempts or speculation.

In addition, in the event of certain hostile fundamental changes, all of our senior officers are entitled to receive payments equal to two times such officers' base annual salary in the event they determine not to continue their employment.

We are subject to federal and state regulations governing virtually all aspects of our 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 condition. In addition, we are subject to an FDIC Order. See "Business—Supervision and Regulation" in Item 1 of this report for additional information regarding the significant regulations to which we are subject and "Legal Proceedings—FDIC Order" in Item 3 of this report for additional information regarding the FDIC Order.

We may experience difficulties in managing our growth and our growth strategy involves risks that may negatively impact our net income. As part of our general growth strategy, we may expand into additional communities or attempt to strengthen our position in our current markets by opening new branches and acquiring existing branches of other financial institutions. To the extent that we undertake additional branch openings and acquisitions, we are likely to continue to experience the effects of higher operating expenses relative to operating income from the new operations, which may have an adverse effect on our levels of reported net income, return on average equity and return on average assets. Other effects of engaging in such growth strategies may include potential diversion of our management's time and attention and general disruption to our business.

Although we do not have any current plans to do so, we may also acquire banks and related businesses that we believe provide a strategic fit with our business we may also engage in de novo bank formations. To the extent that we grow through acquisitions and de novo bank formations, we cannot assure you that we will be able to adequately and profitably manage this growth. Acquiring other banks and businesses will involve similar risks to those commonly associated with branching, but may also involve additional risks, including:

- potential exposure to unknown or contingent liabilities of banks and businesses we acquire;
- exposure to potential asset quality issues of the acquired bank or related business;
- difficulty and expense of integrating the operations and personnel of banks and businesses we acquire; and
- the possible loss of key employees and customers of the banks and businesses we acquire.

Our growth may require us to raise additional capital in the future, but that capital may not be available when it is needed. We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. We anticipate that our existing capital resources will satisfy our capital requirements for the foreseeable future. However, we may at some point need to raise additional capital to support our continued growth. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside our control, and on our financial performance. Accordingly, we cannot assure you of our ability to raise additional capital, if needed, on terms acceptable to us. If we cannot raise additional capital when needed, our ability to further expand our operations through internal growth, branching, de novo bank formations and/or acquisitions could be materially impaired.

We have a continuing need for technological change and we may not have the resources to effectively implement new technology. The financial services industry is constantly undergoing rapid technological changes with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend in part upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in our operations as we continue to grow and expand in our market. Many of our larger competitors have substantially greater resources to invest in technological improvements. As a result, they may be able to offer additional or superior products to those that we will be able to offer, which would put us at a competitive disadvantage. Accordingly, we cannot provide you with assurance that we will be able to effectively implement new technology-driven products and services or be successful in marketing such products and services to our customers.

There is a limited trading market for our common shares, and you may not be able to resell your shares at or above the price shareholders paid for them. Although our common shares are quoted on the OTC Bulletin Board, the trading in our common shares has less liquidity than many other companies quoted on OTC Bulletin Board. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the market of willing buyers and sellers of our common shares at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. The volume of trading in our common shares may not increase and may decrease in the future.

System failure or breaches of our network security could subject us to increased operating costs as well as litigation and other liabilities. The computer systems and network infrastructure we use could be vulnerable to unforeseen problems. Our operations are dependent upon our ability to protect our computer equipment against damage from physical theft, fire, power loss, telecommunications failure or a similar catastrophic event, as well as from security breaches, denial of service attacks, viruses, worms and other disruptive problems caused by hackers. Any damage or failure that causes an interruption in our operations could have a material adverse effect on our financial condition and results of operations. Computer break-ins, phishing and other disruptions could also jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability to us and may cause existing and potential customers to refrain from doing business with us. Although we, with the help of third-party service providers, intend to continue to implement security technology and establish operational procedures to prevent such damage, there can be no assurance that these security measures will be successful. In addition, advances in computer capabilities, new discoveries in the field of cryptography or other developments could result in a compromise or breach of the algorithms we and our third-party service providers use to encrypt and protect customer transaction data. A failure of such security measures could have a material adverse effect on our financial condition and results of operations.

We are subject to certain operational risks, including, but not limited to, customer or employee fraud and data processing system failures and errors. Employee errors and misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. Misconduct by our employees could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of our customers or improper use of confidential information. It is not always possible to prevent employee errors and misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Employee errors could also subject us to financial claims for negligence.

We maintain a system of internal controls and insurance coverage to mitigate operational risks, including data processing system failures and errors and customer or employee fraud. Should our internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured or exceeds applicable insurance limits, it could have a material adverse effect on our business, financial condition and results of operations.

Off-Balance Sheet Arrangements

We are a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit and standby letters of credit. 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. We use the same underwriting standards and policies in making credit commitments as we do for on-balance-sheet instruments.

Financial instruments whose contract amounts represent potential credit risk are commitments to extend credit of approximately \$166.8 million and \$210.0 million and standby letters of credit of approximately \$131,000 and \$192,000 at December 31, 2008 and 2007, respectively. The commitments for 2008 and 2007 respectively include \$160.7 and \$197.1 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. The purchasers maintain deposit balances at FBD which provide support for daily card funding and we closely monitor the liquidity resources of each purchaser. The non-credit card commitments to extend credit at December 31, 2008, were substantially all variable rate commitments and may often expire without being drawn.

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. We evaluate 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 issued 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.

Contractual Obligations and Other Commitments

We have entered into non-cancelable lease agreements for two retail branches, one of which includes administrative offices, expiring in 2026, a loan production office expiring in 2027 and an operating center expiring in 2030. Those expiration dates reflect options to renew. The leases are accounted for as operating leases. The minimum annual rental payments required under these leases are \$13,121,000 through the year 2030, assuming that all options to renew are exercised.

From time to time we may be party to lawsuits that occur in the ordinary course of business. While any litigation involves an element of uncertainty, our management is of the opinion that our liability, if any, resulting from any of these pending actions will not have a material effect on our financial condition or results of operations. However, should we be successfully sued, our results of operations and financial condition could be adversely affected.

At December 31, 2008, we had no foreign loans and no loan concentrations exceeding 10% of total loans except for credits extended to real estate operators and lessors in the aggregate amount of \$28.4 million, which represented 38.3% of gross loans receivable at December 31, 2008. Various types of real estate are included in this category, including industrial, retail shopping centers, office space, residential multi-family, and others. Loan concentrations are considered to exist when there is amounts loaned to a multiple number of borrowers engaged in similar activities that Management believes would cause them to be similarly impacted by economic or other conditions.

Interest Rate Risk Management

Interest rate risk management involves managing the extent to which interest-sensitive assets and interest-sensitive liabilities are matched. We attempt to optimize net interest income while managing period-to-period fluctuations therein. We typically define interest-sensitive assets and interest-sensitive liabilities as those that reprice within one year or less.

GAP Analysis

The difference between interest-sensitive assets and interest-sensitive liabilities is known as the “interest-sensitivity gap” (“GAP”). A positive GAP occurs when interest-sensitive assets exceed interest-sensitive liabilities repricing in the same time periods, and a negative GAP occurs when interest-sensitive liabilities exceed interest-sensitive assets repricing in the same time periods. A negative GAP suggests that a financial institution may be better positioned to take advantage of declining interest rates rather than increasing interest rates, and a positive GAP suggests the converse.

Static GAP analysis describes interest rate sensitivity at a point in time. However, it alone does not accurately measure the magnitude of changes in net interest income since changes in interest rates do not impact all categories of assets and liabilities equally or simultaneously. Interest rate sensitivity analysis also requires assumptions about re-pricing certain categories of assets and liabilities. For purposes of interest rate sensitivity analysis, assets and liabilities are stated at either their contractual maturity, estimated likely call date, or earliest re-pricing opportunity.

Mortgage backed securities and amortizing loans are scheduled based on their anticipated cash flow, including prepayments based on historical data and current market trends. Savings, money market, and interest bearing demand accounts do not have a stated maturity or re-pricing term and can be withdrawn or re-priced at any time. Management estimates the re-pricing characteristics of these accounts based on historical performance and other deposit behavior assumptions. These deposits may re-price simultaneously, and accordingly, a portion of the deposits may be moved into time brackets exceeding one year. Management may choose not to re-price liabilities proportionally to changes in market interest rates, for competitive or other reasons.

Shortcomings, inherent in a simplified and static GAP analysis, may result in an institution with a negative GAP having interest rate behavior associated with an asset-sensitive balance sheet. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Furthermore, re-pricing characteristics of certain assets and liabilities may vary substantially within a given time period. In the event of a change in interest rates, prepayments and other cash flows could also deviate significantly from those assumed in calculating GAP in the manner presented in the table below.

We attempt to manage our assets and liabilities in a manner that optimizes net interest income in a range of interest rate environments. Management uses GAP analysis and simulation models to monitor behavior of our interest sensitive assets and liabilities. Adjustments to the mix of assets and liabilities are made periodically in an effort to provide steady growth in net interest income.

Management presently believes that the effect on us of any future fall in interest rates, reflected in lower yielding assets, would be detrimental since we do not have the immediate ability to commensurately decrease rates on our interest bearing liabilities, primarily time deposits, other borrowings and certain transaction accounts. An increase in interest rates could have a positive effect on us, due to repricing of certain assets, primarily adjustable rate loans and federal funds sold, and a possible lag in the repricing of core deposits not fully assumed in the model.

The following tables present a summary of our interest rate sensitivity GAP at December 31, 2008. For purposes of these tables, we used assumptions based on industry data and historical experience to calculate the expected maturity of loans because, statistically, certain categories of loans are prepaid before their maturity date, even without regard to interest rate fluctuations. Additionally, certain prepayment assumptions were made with regard to investment securities based upon the expected prepayment of the underlying collateral of the mortgage-backed securities.

**Interest Sensitivity Gap
at December 31, 2008
(Dollars in thousands)**

| | 0-90 Days | 91-180 Days | 181-365 Days | 1-2 Years | 2-3 Years | 3-4 Years | 4-5 Years | More than 5 Years | Financial Statement Total | Fair Value |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------------------|---------------------------------|---------------|
| Interest Sensitive Assets: | | | | | | | | | | |
| Investment securities and other interest-bearing balances | \$ 4,646 | \$ 5,000 | \$ 12,718 | \$ 1,666 | \$ 7,111 | \$ 467 | \$ 309 | \$ 1,736 | \$ 27,253 | \$ 27,698 |
| Average interest rate | 0.35% | 2.90% | 3.51% | 5.90% | 5.90% | 5.90% | 5.90% | 5.90% | - | - |
| Loans receivable..... | 39,681 | 3,017 | 6,023 | 6,823 | 7,555 | 5,038 | 3,403 | 2,702 | 74,242 | 74,082 |
| Average interest rate | 3.67% | 6.76% | 6.81% | 6.67% | 6.86% | 6.55% | 6.48% | 6.09% | - | - |
| Total..... | <u>44,327</u> | <u>8,017</u> | <u>18,741</u> | <u>8,489</u> | <u>8,266</u> | <u>5,505</u> | <u>3,712</u> | <u>4,438</u> | <u>101,495</u> | <u>99,954</u> |
| Cumulative Totals | <u>\$ 44,327</u> | <u>\$ 52,344</u> | <u>\$ 71,085</u> | <u>\$ 79,574</u> | <u>\$ 87,840</u> | <u>\$ 93,345</u> | <u>\$ 97,057</u> | <u>\$ 101,495</u> | | |
| Interest Sensitive Liabilities: | | | | | | | | | | |
| Demand Interest Bearing..... | \$ 90 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 90 | \$ 90 |
| Average interest rate | 1.00% | - | - | - | - | - | - | - | - | - |
| Money Market and Savings | 11,891 | - | - | 11,890 | - | - | - | - | 23,781 | 23,781 |
| Average interest rate | 1.25% | - | - | 1.25% | - | - | - | - | - | - |
| Time Deposits..... | 422 | 2,103 | 5,490 | 4,320 | 100 | - | - | - | 12,435 | 12,577 |
| Average interest rate | 3.05% | 2.86% | 3.40% | 3.88% | 4.52% | - | - | - | - | - |
| Total..... | <u>12,403</u> | <u>2,103</u> | <u>5,490</u> | <u>16,210</u> | <u>100</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>36,306</u> | <u>36,448</u> |
| Cumulative Totals | <u>\$ 12,403</u> | <u>\$ 14,506</u> | <u>\$ 19,996</u> | <u>\$ 36,206</u> | <u>\$ 36,306</u> | <u>\$ 36,306</u> | <u>\$ 36,306</u> | <u>\$ 36,306</u> | | |
| Interest Rate | | | | | | | | | | |
| Sensitivity GAP..... | 31,925 | 5,914 | 13,251 | (7,721) | 8,166 | 5,505 | 3,712 | 4,438 | | |
| Cumulative GAP | 31,925 | 37,839 | 51,090 | 43,369 | 51,535 | 57,040 | 60,752 | 65,190 | | |
| Interest Sensitive Assets/ Liabilities..... | | | | | | | | | | |
| Cumulative GAP/ Total Earning Assets | 31% | 37% | 50% | 43% | 51% | 56% | 60% | 64% | | |

Our management believes that the assumptions utilized in evaluating our estimated net interest income are reasonable; however, the interest rate sensitivity of our assets, liabilities and off-balance sheet financial instruments as well as the estimated effect of changes in interest rates on estimated net interest income could vary substantially if different assumptions are used or actual experience differs from the experience on which the assumptions were based. Periodically, management makes arbitrary and judgmental changes to assumptions. Prepayments on residential mortgage loans and mortgage-backed securities have increased over historical levels due to the lower interest rate environment, and may result in reductions in margins.

Net Portfolio Value and Net Interest Income Analysis

Our interest rate sensitivity also is monitored by management through the use of models which generate estimates of the change in its net portfolio value (“NPV”) and net interest income (“NII”) over a range of interest rate scenarios. NPV is the present value of expected cash flows from assets, liabilities, and off-balance sheet contracts. The NPV ratio, under any interest rate scenario, is defined as the NPV in that scenario divided by the market value of assets in the same scenario. The following table sets forth our NPV as of December 31, 2008 and reflects the changes to NPV as a result of immediate and sustained changes in interest rates as indicated.

| Change in Interest Rates In Basis Points (Rate Shock) | Net Portfolio Value | | | NPV as % of Portfolio Value of Assets | |
|---|------------------------|-----------|----------|---------------------------------------|--------|
| | Amount | \$ Change | % Change | NPV Ratio | Change |
| | (Dollars in Thousands) | | | | |
| 200 bp | \$47,095 | \$552 | 1.19% | 46.60% | 40 bp |
| 100 | 46,711 | 168 | 0.36 | 46.34 | 14 |
| Static | 46,543 | -- | -- | 46.20 | -- |
| (100) | 45,897 | (646) | (1.39) | 45.81 | (39) |
| (200) | 45,628 | (915) | (1.97) | 45.64 | (56) |

In addition to modeling changes in NPV, we also analyze potential changes to NII for a twelve-month period under rising and falling interest rate scenarios. The following table shows our NII model as of December 31, 2008.

| Change in Interest Rates in Basis Points (Rate Shock) | Net Interest Income | \$ Change | % Change |
|---|---------------------|-----------|----------|
| (Dollars in Thousands) | | | |
| 200 bp | \$3,479 | \$464 | 15.39% |
| 100 | 3,233 | 218 | 7.23 |
| Static | 3,015 | -- | -- |
| (100) | 2,830 | (185) | (6.14) |
| (200) | 2,804 | (211) | (7.01) |

The above table indicates that as of December 31, 2008, in the event of an immediate and sustained 200 basis point increase in interest rates, the Company's net interest income for the 12 months ending December 31, 2009 would be expected to increase by \$464,000 or 15.4% to \$3.5 million. However, a significant portion of such increase would result from non interest bearing demand deposits related balances which may decrease in higher rate environments and may fluctuate significantly for other reasons.

As is the case with our GAP analysis, certain shortcomings are inherent in the methodology used in the above interest rate risk measurements. Modeling changes in NPV and NII require the making of certain assumptions which may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the models presented assume that the composition of our interest sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and also assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or repricing of specific assets and liabilities. Accordingly, although the NPV measurements and net interest income models provide an indication of interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on net interest income and will differ from actual results. The analysis excludes subprime commercial loans whose future pricing characteristics are not possible to predict.

Capital Resources

We are required to comply with certain "risk-based" capital adequacy guidelines issued by the FDIC. The risk-based capital guidelines assign varying risk weights to the individual assets held by a bank. The guidelines also assign weights to the "credit-equivalent" amounts of certain off-balance sheet items, such as letters of credit and interest rate and currency swap contracts. Under these guidelines, banks are expected to meet a minimum target ratio for "qualifying total capital" to weighted risk assets of 8%, at least one-half of which is to be in the form of "Tier 1 capital". Qualifying total capital is divided into two separate categories or "tiers". "Tier 1 capital" includes common stockholders' equity, certain qualifying perpetual preferred stock and minority interests in the equity accounts of consolidated subsidiaries, less goodwill, "Tier 2 capital" components (limited in the aggregate to one-half of total qualifying capital) include allowances for credit losses (within limits), certain excess levels of perpetual preferred stock and certain types of "hybrid" capital instruments, subordinated debt and other preferred stock. FBD did not have any goodwill at December 31, 2008 or December 31, 2007. Applying the federal guidelines, the ratio of qualifying total capital to weighted-risk assets, was 45.07% and 37.44% at December 31, 2008 and 2007, respectively, and as required by the guidelines, at least one-half of the qualifying total capital consisted of Tier 1 capital elements. Tier 1 risk-based capital ratios on December 31, 2008 and 2007 were 43.79% and 36.18%, respectively. At December 31, 2008 and 2007, we exceeded the requirements for risk-based capital adequacy under both federal and Delaware state guidelines, both of which may vary in the future.

Under FDIC regulations, a bank is deemed to be “well capitalized” when it has a “leverage ratio” (“Tier 1 capital to total assets”) of at least 5%, a Tier 1 capital to weighted-risk assets ratio of at least 6%, and a total capital to weighted-risk assets ratio of at least 10%. At December 31, 2008 and 2007, our leverage ratio was 32.21% and 27.49%, respectively. Accordingly, at December 31, 2008 and 2007, we were considered “well capitalized” under FDIC regulations.

Our shareholders’ equity as of December 31, 2008, totaled approximately \$39.5 million compared to approximately \$34.2 million as of December 31, 2007. This increase of \$5.3 million primarily reflected 2008 net income of \$5.1 million. That net income also increased the book value per share of our common stock, which increased from \$3.00 as of December 31, 2007, based upon 11,377,101 shares outstanding, to \$3.46 as of December 31, 2008, based upon 11,401,301 shares outstanding.

Regulatory Capital Requirements

Federal banking agencies impose three minimum capital requirements on our risk-based capital ratios based on total capital, Tier 1 capital, and a leverage capital ratio. The risk-based capital ratios measure the adequacy of a bank’s capital against the riskiness of its assets and off-balance sheet activities. Failure to maintain adequate capital is a basis for “prompt corrective action” or other regulatory enforcement action. In assessing a bank’s capital adequacy, regulators also consider other factors such as interest rate risk exposure; liquidity, funding and market risks; quality and level of earnings; concentrations of credit, quality of loans and investments; risks of any nontraditional activities such as subprime loans; effectiveness of bank policies; and management’s overall ability to monitor and control risks.

The following table presents our regulatory capital ratios at December 31, 2008 and 2007:

| (Dollars in thousands) | Actual | | For Capital Adequacy Purposes | | To be well capitalized under regulatory capital guidelines | |
|---------------------------|-----------|--------|-------------------------------|-------|--|--------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| At December 31, 2008 | | | | | | |
| Total risk based capital | \$ 40,358 | 45.07% | \$ 7,164 | 8.00% | \$ 8,955 | 10.00% |
| Tier 1 risk based capital | 39,216 | 43.79% | 3,582 | 4.00% | 5,373 | 6.00% |
| Tier 1 leverage capital | 39,216 | 32.21% | 6,088 | 5.00% | 6,088 | 5.00% |
| At December 31, 2007 | | | | | | |
| Total risk based capital | 35,268 | 37.44% | 7,536 | 8.00% | 9,419 | 10.00% |
| Tier 1 risk based capital | 34,073 | 36.18% | 3,767 | 4.00% | 5,651 | 6.00% |
| Tier 1 leverage capital | 34,073 | 27.49% | 6,197 | 5.00% | 6,197 | 5.00% |

We believe that we met, as of December 31, 2008 and 2007, all capital adequacy requirements to which we are subject. As of December 31, 2008, the FDIC categorized us as well capitalized under the regulatory framework for prompt corrective action provisions of the Federal Deposit Insurance Act. There are no calculations or events since that notification, which management believes would have changed our category.

Our ability to maintain the required levels of capital is substantially dependent upon the success of our capital and business plans, the impact of future economic events on our loan customers and our ability to manage our interest rate risk, growth and other operating expenses.

In addition to the above minimum capital requirements, the FDIC approved a rule, implementing a statutory requirement that federal banking regulators specified “prompt corrective action” when an insured institution’s capital level falls below certain levels. The rule defines five capital categories based on several of the above capital ratios. We currently exceed the levels required for a bank to be classified as “well capitalized”. However, the FDIC may consider other criteria

when determining such classifications, which criteria could result in a downgrading in such classifications. For instance, capital requirements are higher for subprime loans retained on the balance sheet.

Our equity to assets ratio increased from 28.6% as of December 31, 2007, to 34.0% as of December 31, 2008. The increase at year-end 2008 was primarily a result of increases in retained earnings. Our average return on equity for 2008, 2007 and 2006 was 13.47%, 27.55% and 16.58% respectively; and our average return on assets for these respective years, was 4.14%, 6.13% and 3.26% respectively.

Liquidity

Financial institutions must maintain liquidity to meet day-to-day requirements of depositors and borrowers, time investment purchases to market conditions and provide a cushion against unforeseen needs. Liquidity needs can be met by reducing assets or increasing liabilities; with the most liquid assets consisting of cash, amounts due from banks and federal funds sold.

Regulatory authorities require us to maintain certain liquidity ratios such that we maintain available funds, or can obtain available funds at reasonable rates, in order to satisfy commitments to borrowers and the demands of depositors. In response to these requirements, we have formed an Asset/Liability Committee (“ALCO”), comprised of certain members of our Board of Directors and senior management, which monitors such ratios. The purpose of the committee is, in part, to monitor our liquidity and adherence to the ratios in addition to managing interest rate risk. The ALCO meets at least quarterly.

Our most liquid assets comprised of cash and cash equivalents on the balance sheet, totaled \$9.6 million and \$16.0 million at December 31, 2008 and 2007, respectively. The decrease in this category at December 31, 2008 reflected the impact of a \$6.9 million reduction in higher cost time deposits. Loan maturities and repayments are another source of asset liquidity. Management estimates that in excess of \$5.0 million of loans will be repaid in the six month period ending June 30, 2009.

Funding requirements have historically been satisfied by generating core deposits, or certificates of deposit with competitive rates, or by buying federal funds.

Financial instruments whose contract amounts represent potential credit risk are commitments to extend credit of approximately \$166.8 million and \$210.0 million and standby letters of credit of approximately \$131,000 and \$192,000 at December 31, 2008 and 2007, respectively. The \$166.8 million in commitments for 2008 and \$210.0 million in 2007 include \$160.7 million and \$197.1 million respectively 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. Also, the purchasers maintain deposit balances at FBD which provide support for daily card funding, and we closely monitor the liquidity resources of each purchaser. The Bank has written contingency plans that document the steps required to effectuate the termination of credit card lines. The non-credit card commitments to extend credit at December 31, 2008, were substantially all variable rate commitments and may often expire without being drawn. Certificates of deposit scheduled to mature in one year totaled \$8.0 million at December 31, 2008. We anticipate that we will have sufficient funds available to meet our current commitments.

Our target and actual liquidity levels are determined by comparisons of the estimated repayment and marketability of our interest-earning assets with projected future outflows of deposits and other liabilities. We have a line of credit with the Federal Home Loan Bank with an approximate December 31, 2008 maximum borrowing capacity of \$27.3 million, which is rarely used. We have also established a rarely used contingency line of credit with a correspondent bank to assist in managing our liquidity position. That line of credit totaled \$4.0 million at December 31, 2008. As of December 31, 2008, we had no related outstanding balances for either accommodation. Investment decisions generally reflect liquidity over other considerations.

Operating cash flows are primarily derived from cash provided from net income during the year and are another source of liquidity.

Our primary short-term funding sources are certificates of deposit and our securities portfolio. The circumstances that are reasonably likely to affect those sources are as follows. We have been able to generate certificates of deposit by matching 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, the incremental cost may vary depending on market conditions. Our securities portfolio is also available for liquidity.

The ALCO is responsible for managing our liquidity position and interest sensitivity. That committee's primary objective is to maximize net interest income while configuring our interest-sensitive assets and liabilities to manage interest rate risk and provide adequate liquidity for projected needs.

Investment Securities Portfolio

Our investment securities portfolio is intended to provide liquidity and contribute to earnings while diversifying credit risk. We attempt to maximize earnings while managing our exposure to interest rate risk. The securities portfolio consists primarily of U.S. Government agency securities. Our ALCO monitors and approves all security purchases. The increase in securities in 2008 was a result of our strategy to reduce exposure to lower interest rates and increase the yield of our liquid assets. There were no investment securities held to maturity at December 31, 2008 and 2007.

A summary of investment securities available-for-sale at December 31, 2008 and 2007 are as follows.

| | <u>2008</u> | <u>2007</u> |
|--|------------------|------------------|
| Federal Home Loan Discount Notes | \$ 14,751 | \$ - |
| FHLMC bonds | - | 8,000 |
| Mortgage backed Securities..... | <u>7,453</u> | <u>9,060</u> |
| Total amortized cost of securities | <u>\$ 22,204</u> | <u>\$ 17,060</u> |
| Total fair value of investment securities..... | <u>\$ 22,631</u> | <u>\$ 17,195</u> |

The following table presents our contractual maturity distribution and weighted average yield of our securities portfolio at December 31, 2008 and 2007. Mortgage backed securities are presented without consideration of amortization or prepayments.

| | Investment Securities Available for Sale at December 31, 2008 | | | | | | | | | | |
|---|--|--------------|--------------------------|--------------|--------------------------|--------------|----------------------|--------------|-------------------|------------------|--------------|
| | Within One Year | | One to Five Years | | Five to Ten Years | | Past 10 Years | | Total | | |
| | Amount | Yield | Amount | Yield | Amount | Yield | Amount | Yield | Fair value | Cost | Yield |
| | (Dollars in thousands) | | | | | | | | | | |
| FHLB Discount Notes..... | \$ 14,751 | 2.91% | \$ - | - | \$ - | \$ - | \$ - | - | \$ 14,947 | \$ 14,751 | 2.91% |
| Mortgage backed securities | - | - | - | - | - | - | 7,453 | 5.90% | 7,684 | 7,453 | 5.90% |
| Total available for sale securities | <u>\$ 14,751</u> | <u>2.91%</u> | <u>\$ -</u> | <u>-</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 7,453</u> | <u>5.90%</u> | <u>\$ 22,631</u> | <u>\$ 22,204</u> | <u>3.91%</u> |

| | Investment Securities Available for Sale at December 31, 2007 | | | | | | | | | | |
|---|--|--------------|--------------------------|--------------|--------------------------|--------------|----------------------|--------------|-------------------|------------------|--------------|
| | Within One Year | | One to Five Years | | Five to Ten Years | | Past 10 Years | | Total | | |
| | Amount | Yield | Amount | Yield | Amount | Yield | Amount | Yield | Fair value | Cost | Yield |
| | (Dollars in thousands) | | | | | | | | | | |
| FHLMC bonds..... | \$ - | \$ - | \$ 8,000 | 4.44% | \$ - | \$ - | \$ - | - | \$ 7,998 | \$ 8,000 | 4.44% |
| Mortgage backed securities | - | - | - | - | - | - | 9,195 | 5.77% | 9,197 | 9,060 | 5.77% |
| Total available for sale securities | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 8,000</u> | <u>4.44%</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 9,195</u> | <u>5.77%</u> | <u>\$ 17,195</u> | <u>\$ 17,060</u> | <u>5.15%</u> |

Loan Portfolio

Our loan portfolio consists principally 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. Commercial loans are primarily secured 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 for fixed rate loans. The portfolio also includes subprime consumer installment loans and subprime credit card balances.

Our commercial loans typically range between \$250,000 and \$2.0 million but customers may borrow significantly larger amounts up to our secured legal lending limit of approximately \$10.5 million at December 31, 2008. Individual customers may have several loans often secured by different collateral. The majority of consumer installment and other

subprime consumer loans and credit card receivables are sold without recourse, as internal guidelines limit retention of such loans to 25% of capital. All loans made to finance insurance premiums were also sold without recourse.

Our total loans decreased \$5.1 million, or 6.43%, to \$74.2 million at December 31, 2008, from \$79.3 million at December 31, 2007. The decline reflects a reduction of \$4.3 million in loans in our mezzanine finance business, which we discontinued due to market conditions, and a \$2.3 million decrease in subprime consumer loans as we exited third party relationships as a result of the FDIC Order. The loan reductions were partially offset by the addition of \$1.3 million in credit card receivables in 2008 versus \$200,000 in 2007. At December 31, 2008, we had \$4.0 million of subprime consumer installment loans and \$1.3 million of subprime credit card balances outstanding.

The following table sets forth our gross loans by major categories, excluding net deferred fees, for the periods indicated:

| | At December 31, | | | | |
|--|-------------------------------|------------------|------------------|------------------|------------------|
| | (Dollars in thousands) | | | | |
| | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> |
| Commercial and commercial real estate..... | \$ 42,150 | \$ 51,816 | \$ 46,941 | \$ 36,273 | \$ 29,411 |
| Construction and land development..... | 26,726 | 21,182 | 18,066 | 13,590 | 9,926 |
| Total commercial..... | 68,876 | 72,998 | 65,007 | 49,863 | 39,337 |
| Consumer and other..... | 5,366 | 6,348 | 4,550 | 3,059 | 1,627 |
| Total loans, net of unearned income..... | <u>\$ 74,242</u> | <u>\$ 79,346</u> | <u>\$ 69,557</u> | <u>\$ 52,922</u> | <u>\$ 40,964</u> |

Loan Maturity and Interest Rate Sensitivity

The amount of loans outstanding by category as of the dates indicated, which are due in (i) one year or less, (ii) more than one year through five years and (iii) over five years, is shown in the following table. Loan balances are also categorized according to their sensitivity to changes in interest rates:

| | At December 31, 2008 | | | |
|----------------------------|---|--------------------------------------|--------------------|------------------|
| | (Dollars in thousands) | | | |
| | Commercial and Commercial Real Estate | Construction and Land Development | Consumer and Other | Total |
| Fixed Rate..... | | | | |
| 1 year or less..... | \$ 3,179 | \$ 2,146 | \$ 3,992 | \$ 9,317 |
| 1-5 years..... | 24,472 | 2,970 | 827 | 28,269 |
| After 5 years..... | 2,969 | 5,098 | 121 | 8,188 |
| Total fixed rate..... | <u>30,620</u> | <u>10,214</u> | <u>4,940</u> | <u>45,774</u> |
| Adjustable Rate..... | | | | |
| 1 year or less..... | 7,290 | 11,983 | - | 19,273 |
| 1-5 years..... | 2,222 | 2,215 | - | 4,437 |
| After 5 years..... | 2,018 | 2,314 | 426 | 4,758 |
| Total adjustable rate..... | <u>11,530</u> | <u>16,512</u> | <u>426</u> | <u>28,468</u> |
| Total..... | <u>\$ 42,150</u> | <u>\$ 26,726</u> | <u>\$ 5,366</u> | <u>\$ 74,242</u> |

In the ordinary course of business, loans maturing within one year may be renewed, in whole or in part, as to principal amount, at interest rates prevailing at the date of renewal.

At December 31, 2008, 61.7% of total loans were fixed rate compared to 61.4% at December 31, 2007.

Credit Quality

Our 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 credit facilities for community banking loans. A committee of our 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 collectability of the recorded loan balance is expected, interest income may be recognized on a cash basis.

For non-accrual loans, which have 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 non-performing assets at the dates indicated.

| | At December 31, | | | | |
|--|------------------------|---------------|--------------|---------------|---------------|
| | 2008 | 2007 | 2006 | 2005 | 2004 |
| | (Dollars in thousands) | | | | |
| Loans accruing, but past due 90 days or more..... | \$ - | \$ - | \$ - | \$ - | \$ - |
| Restructured loans | - | - | - | - | - |
| Non-accrual loans | 2,116 | 970 | 31 | 198 | 153 |
| Total non-performing loans | 2,116 | 970 | 31 | 198 | 153 |
| Other real estate owned..... | 293 | 18 | 31 | - | - |
| Total non-performing assets (1)..... | <u>\$ 2,409</u> | <u>\$ 988</u> | <u>\$ 62</u> | <u>\$ 198</u> | <u>\$ 153</u> |
| Non-performing loans as a percentage of total loans net of unearned income (1)..... | 2.85% | 1.22% | 0.04% | 0.37% | 0.37% |
| Non-performing assets as a percentage of total assets | 2.07% | 0.83% | 0.05% | 0.24% | 0.26% |

(1) Non-performing loans are comprised 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. Non-performing assets are composed of non-performing loans and other real estate owned.

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 December 31, 2008, all identified problem loans are included in the preceding table, or are classified, with a 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 related balances. The increase in non-performing assets to \$2.4 million in 2008 resulted primarily from two loans secured by real estate and \$839,000 in delinquent subprime consumer loans and credit card receivables.

The following summary shows the impact on interest income of non-accrual loans for the periods indicated:

| | For the Year Ended December 31, | | | | |
|---|--|-------------|-------------|-------------|-------------|
| | 2008 | 2007 | 2006 | 2005 | 2004 |
| Interest income that would have been recorded had the loans been in accordance with their original terms..... | \$49,000 | \$70,000 | \$ 3,000 | \$ 17,000 | \$ 8,000 |
| Interest income included in net income | - | - | - | - | - |

Allowance for Loan Losses

A detailed analysis of our allowance for loan losses for the years ended December 31, is as follows:

| | For the Year Ended December 31, | | | | |
|---|--|-----------------|-----------------|-----------------|-----------------|
| | 2008 | 2007 | 2006 | 2005 | 2004 |
| | (Dollars in thousands) | | | | |
| Balance at beginning of period | \$ 2,581 | \$ 1,860 | \$ 1,684 | \$ 1,050 | \$ 1,363 |
| Charge-offs: | | | | | |
| Commercial and commercial real estate | 170 | - | - | - | 376 |
| Consumer..... | 137 | - | - | - | - |
| Subprime credit cards | 1,450 | 4 | 88 | 18 | - |
| Subprime consumer loans..... | 2,508 | 454 | 804 | 1,619 | 1,404 |
| Total charge-offs..... | <u>4,265</u> | <u>458</u> | <u>892</u> | <u>1,637</u> | <u>1,780</u> |
| Recoveries: | | | | | |
| Commercial and commercial real estate | - | - | - | 10 | - |
| Consumer..... | 38 | 2 | 87 | 3 | 4 |
| Subprime credit cards | 4 | - | - | - | - |
| Subprime consumer loans..... | 392 | 35 | 33 | 400 | - |
| Total recoveries | <u>434</u> | <u>37</u> | <u>120</u> | <u>413</u> | <u>4</u> |
| Net charge-offs | <u>3,831</u> | <u>421</u> | <u>772</u> | <u>1,224</u> | <u>1,776</u> |
| Provision for loan losses..... | 4,185 | 1,142 | 948 | 1,858 | 1,463 |
| Balance at end of period | <u>\$ 2,935</u> | <u>\$ 2,581</u> | <u>\$ 1,860</u> | <u>\$ 1,684</u> | <u>\$ 1,050</u> |
| Average loans outstanding (1) | \$ 77,004 | \$ 73,260 | \$ 60,595 | \$ 47,916 | \$ 34,089 |
| As a percent of average loans (1): | | | | | |
| Net charge-offs | 4.98% | 0.57% | 1.27% | 2.56% | 5.21% |
| Provision for loan losses..... | 5.43 | 1.55 | 1.56 | 3.88 | 4.29 |
| Allowance for loan losses | 3.81 | 3.52 | 3.07 | 3.52 | 3.08 |
| Allowance for loan losses to: | | | | | |
| Total loans, net of unearned income | 3.95% | 3.25% | 2.67% | 3.18% | 2.56% |
| Total non-performing loans | 138.71% | 266.08% | 6000.00% | 850.50% | 686.27% |

(1) Includes non-accruing loans.

Charge-offs of subprime loans in 2008 increased \$2.1 million over the respective prior year period, as we held increased amounts of such loans on our balance sheet. Our directly offered subprime credit card resulted in \$1.5 million of increased charge-offs in that year. Management makes at least a quarterly determination as to an appropriate provision from earnings to maintain an allowance for loan losses that is adequate to absorb inherent losses in the loan portfolio. Our Board of Directors periodically reviews the status of all non-accrual and impaired loans and loans classified by our regulators or internal loan review officer, who reviews both the loan portfolio and overall adequacy of the allowance for loan losses. The 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.

We have an existing loan review program for our community banking segment, through which we monitor the loan portfolio on an ongoing basis. The loan reviews are conducted by a loan review officer who reports directly to our Board of Directors quarterly.

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 adequate at December 31, 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.

Management is unable to determine in which loan category future charge-offs and recoveries may occur. The following schedule sets forth the allocation of the allowance for loan losses among various categories. The allocation is accordingly based upon historical experience. The entire allowance for loan losses is available to absorb loan losses in any loan category:

| Allocation of the allowance for loan losses (1): | At December 31, | | | | | | | | | |
|---|------------------------|---------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|
| | (Dollars in thousands) | | | | | | | | | |
| | 2008 | | 2007 | | 2006 | | 2005 | | 2004 | |
| | Amount | % of Loans | Amount | % of Loans | Amount | % of Loans | Amount | % of Loans | Amount | % of Loans |
| Commercial and commercial real estate..... | \$ 656 | 56.8% | \$ 536 | 65.3% | \$ 494 | 72.5% | \$ 289 | 68.5% | \$ 309 | 71.8% |
| Construction and land development | 337 | 36.0% | 159 | 26.7% | 76 | 21.0% | 152 | 25.7% | 78 | 24.2% |
| Subprime loans and credit cards..... | 1,824 | 7.2% | 1,729 | 8.0% | 1,131 | 6.5% | 1,091 | 5.8% | 563 | 4.0% |
| Unallocated..... | 118 | - | 157 | - | 159 | - | 152 | - | 100 | - |
| Total..... | <u>\$ 2,935</u> | <u>100%</u> | <u>\$ 2,581</u> | <u>100%</u> | <u>\$ 1,860</u> | <u>100%</u> | <u>\$ 1,684</u> | <u>100%</u> | <u>\$ 1,050</u> | <u>100%</u> |

(1) Gross loans net of unearned income.

In 2008, we refined our loan loss methodology based upon an examination of the majority of our outstanding commercial and construction loans. We assigned allowance allocation percentages based upon multiple risk ratings which were assigned to each non classified loan. Classified loans were also considered individually, with allowance allocations also determined on a specific loan basis. Subprime loans and credit cards maintained on the balance sheet are aggregated by various groups, with an allocation percentage determined for each group which considers relevant factors, including charge offs, and delinquencies and industry experience which in some cases is greater than our experience. We will continue to evaluate allocation percentages and may adjust these estimates on the basis of charge-off history, economic conditions or other relevant factors. We also provide specific reserves for impaired loans to the extent the estimated realizable value of the underlying collateral is less than the loan balance, when the collateral is the only source of repayment.

Also, we may estimate and recognize reserve allocations above these reserve percentages based upon any factor that might impact the loss estimates. Those factors include but are not limited to the impact of economic conditions on the borrower and management's potential alternative strategies for loan or collateral disposition. We provide specific reserves for impaired loans to the extent the estimated realizable value of the underlying collateral is less than the loan balance, when the collateral is the only source for repayment. We also provide reserves on classified loans based upon any facts that might impact loss estimates. At year end 2008 compared to 2007, the unallocated component increased \$22,000 to \$179,000, while year end loans decreased \$5.2 million to \$74.2 million from \$79.4 million. The unallocated allowance is established for losses that have not been identified through the formulaic and other specific components of the allowance as described above. The unallocated portion is more subjective and requires a high degree of management judgment and experience. Management has identified several factors that impact credit losses that are not considered in either the formula or the specific allowance segments. These factors consist of macro and micro economic conditions, industry and geographic loan concentrations, changes in the composition of the loan portfolio, changes in underwriting processes and trends in problem loan and loss recovery rates. The impact of the above is considered in light of management's conclusions as to the overall adequacy of underlying collateral and other factors.

The majority of our loan portfolio represents loans made for commercial and commercial real estate purposes. We attempt to evaluate larger loans individually, on the basis of our 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. Different types of short-term consumer loans are evaluated separately. At December 31, 2008, commercial and construction loans totaled \$68.9 million and subprime consumer loans and subprime credit card receivables totaled \$5.3 million.

The recorded investment in loans that are impaired in accordance with SFAS No. 114 totaled \$2.1 million and \$970,000 at December 31, 2008 and 2007 respectively. The amounts of related valuation allowances were \$1 million and \$462,000, respectively, at those dates. For the years ended December 31, 2008 and 2007 the average recorded investment in impaired loans was approximately \$1.6 million and \$778,000 respectively. We did not recognize any interest income on

impaired loans during 2008 or 2007. There were no commitments to extend credit to any borrowers with impaired loans as of the end of the periods presented herein.

At December 31, 2008 and 2007, accruing classified loans totaled approximately \$0 and \$0 respectively. We do not classify short term consumer loans as substandard; however, they may be classified as such for regulatory purposes. We had delinquent loans as follows: (i) 30 to 59 days past due, at December 31, 2008 and 2007, in the aggregate principal amount of \$174,000 and \$469,000 respectively; and (ii) 60 to 89 days past due, at December 31, 2008 and 2007 in the aggregate principal amount of \$269,000 and \$245,000 respectively.

The following table is an analysis of the change in Other Real Estate Owned for the years ended December 31, 2008 and 2007.

| (Dollars in thousands) | <u>2008</u> | <u>2007</u> |
|-------------------------------|--------------|-------------|
| Balance at January 1, | \$18 | \$31 |
| Additions, net..... | 293 | - |
| Sales..... | (11) | (13) |
| Loss on sale..... | (7) | - |
| Balance at December 31, | <u>\$293</u> | <u>\$18</u> |

Deposit Structure

Of the total average deposits of approximately \$79.6 million held by us during the year ended December 31, 2008, approximately \$39.6 million, or 49.8%, represented non-interest bearing demand deposits, compared to approximately \$34.1 million, or 34.9%, of total daily average deposits during 2007. A significant amount of our deposits are generated by our card product customers and third party relationships. As we terminate third party relationships in connection with the changes in our national consumer products division, related deposits will likely be reduced or eliminated. Total deposits at December 31, 2008, consisted of \$36.0 million in non-interest-bearing demand deposits, \$90,000 in interest-bearing demand deposits, \$23.8 million in savings and money market accounts, \$11.6 million in time deposits under \$100,000 and \$808,000 in time deposits greater than \$100,000. In general, we pay higher interest rates on time deposits compared to other deposit categories. Our various deposit liabilities may fluctuate from period-to-period, reflecting customer behavior and our strategies to optimize net interest income.

The following table is a distribution of the average balances of our deposits and the average rates paid thereon, for the years ended December 31, 2008, 2007 and 2006:

| | For the Years Ended December 31, | | | | | |
|--|---|--------------|--------------------|--------------|--------------------|--------------|
| | (Dollars in thousands) | | | | | |
| | <u>2008</u> | | <u>2007</u> | | <u>2006</u> | |
| | Average Balance | Rate | Average Balance | Rate | Average Balance | Rate |
| Demand deposits, non-interest-bearing..... | \$39,633 | —% | \$34,120 | —% | \$23,890 | —% |
| Demand deposits, interest-bearing | 329 | 0.94% | 235 | 1.00% | 127 | 0.96% |
| Money market & savings deposits | 26,135 | 2.37% | 30,057 | 4.59% | 22,058 | 3.32% |
| Time deposits..... | 13,549 | 4.18% | 33,335 | 5.28% | 31,831 | 4.77% |
| Total deposits..... | <u>\$79,646</u> | <u>1.49%</u> | <u>\$97,747</u> | <u>3.21%</u> | <u>\$77,906</u> | <u>2.89%</u> |

The following is a breakdown by contractual maturity, of our time certificates of deposit issued in denominations of \$100,000 or more as of December 31, 2008

| Certificates of Deposit | |
|--|---------------|
| (Dollars in thousands) | |
| Maturing in: | |
| Three months or less..... | \$ - |
| Over three months through six months..... | 307 |
| Over six months through twelve months..... | 100 |
| Over twelve months..... | 401 |
| Total..... | <u>\$ 808</u> |

The following is a breakdown, by contractual maturities of our time certificates of deposit for the years 2009 through 2011 and beyond (dollars in thousands).

| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>Thereafter</u> | <u>Totals</u> |
|-----------------------------------|------------------------|-----------------|---------------|-------------|-------------|-------------------|------------------|
| | (Dollars in thousands) | | | | | | |
| Time certificates of deposit..... | <u>\$ 8,015</u> | <u>\$ 4,320</u> | <u>\$ 100</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 12,435</u> |

Return on Equity and Assets

The following table presents our return on assets, return on equity, equity to assets ratio, and certain regulatory capital ratios for the periods indicated.

| | At or for the Years Ended December 31, | |
|--|---|-------------|
| | <u>2008</u> | <u>2007</u> |
| Return on average assets | 4.14% | 6.13% |
| Return on average shareholders' equity | 13.47% | 27.55% |
| Average equity to average assets | 30.72% | 22.25% |
| Leverage Capital | 32.10% | 27.49% |
| Total Risk Based Capital | 44.89% | 37.44% |

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 our 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 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements of FBD begin on Page 49 and are incorporated by reference into this Item.

ITEM 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A: CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

An evaluation of the effectiveness of our “disclosure controls and procedures” (as such term is defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) was carried out by us under the supervision and with the participation of our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”). Based upon that evaluation, our CEO and CFO concluded that, as of the end of the period covered by this Annual Report, our disclosure controls and procedures were effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the FDIC.

Management's Annual Report on Internal Control Over Financial Reporting

Management of First Bank of Delaware is responsible for establishing and maintaining effective internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Under the supervision and with the participation of management, including the principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation under the framework in Internal Control – Integrated Framework, management of the Company has concluded the Company maintained effective internal control over financial reporting, as such term is defined in Securities Exchange Act of 1934 Rules 13a-15(f), as of December 31, 2008.

This Annual Report on Form 10-K does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this Annual Report on Form 10-K.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting can also be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Management is also responsible for the preparation and fair presentation of the consolidated financial statements and other financial information contained in this report. The accompanying consolidated financial statements were prepared in conformity with U.S. generally accepted accounting principles and include, as necessary, best estimates and judgments by management.

Date: March 18, 2009

By: /s/ Alonzo J. Primus

Alonzo J. Primus
President and Chief Executive Officer

Date: March 18, 2009

By: /s/ Paul Frenkiel

Paul Frenkiel,
Executive Vice President and
Chief Financial Officer

Changes in internal control over financial reporting

There has been no change in our internal control over financial reporting identified in connection with the evaluation that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B: OTHER INFORMATION

None.

PART III

ITEM 10: DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Code of Ethics

We have adopted a Code of Ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. Our Code of Ethics is designed to deter wrongdoing and promote: (i) honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships; (ii) full, fair, accurate, timely and understandable disclosure in reports and documents that we file with, or submit to, the FDIC and in other public communications made by us; (iii) compliance with applicable governmental laws, rules and regulations; (iv) the prompt internal reporting of violations of the code to an appropriate person or persons identified in the code; and (v) accountability for adherence to the code. A copy of our Code of Ethics is available on the Company's website at www.fbdel.com.

Other Information

The other information required by this Item is incorporated by reference from our definitive proxy statement for our 2009 Annual Meeting of Shareholders scheduled for April 28, 2009, which proxy statement will be filed with the FDIC.

ITEM 11: EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference from our definitive proxy statement for our 2009 Annual Meeting of Shareholders scheduled for April 28, 2009, which proxy statement will be filed with the FDIC.

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated by reference from our definitive proxy statement for our 2009 Annual Meeting of Shareholders scheduled for April 28, 2009, which proxy statement will be filed with the FDIC.

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated by reference from our definitive proxy statement for our 2009 Annual Meeting of Shareholders scheduled for April 28, 2009, which proxy statement will be filed with the FDIC.

ITEM 14: PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is incorporated by reference from our definitive proxy statement for our 2009 Annual Meeting of Shareholders scheduled for April 28, 2009, which proxy statement will be filed with the FDIC.

PART IV

ITEM 15: EXHIBITS, FINANCIAL STATEMENTS SCHEDULES

A. Financial Statements

- (1) Report of Independent Registered Public Accounting Firm
- (2) Consolidated Balance Sheets as of December 31, 2008 and 2007
- (3) Consolidated Statements of Income for the years ended December 31, 2008 and 2007
- (4) Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2008 and 2007
- (5) Consolidated Statements of Cash Flows for the years ended December 31, 2008 and 2007
- (6) Notes to Consolidated Financial Statements

B. 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 for an annual report on Form 10-K)

| <u>Exhibit Number</u> | <u>Description</u> | <u>Manner of Filing</u> |
|-----------------------|--|---|
| 3.1 | Amended Articles of Association | Incorporated by reference to Exhibit 3.1 to Form 8-K dated January 31, 2005 |
| 3.2 | By-Laws | Incorporated by reference to Exhibit 3.2 to Form 10 filed December 9, 2004 |
| 10.1 | Employment Agreement Between First Bank of Delaware and Harry D. Madonna* | Incorporated by reference to Exhibit 10.3 to Form 8-K dated March 2, 2007 |
| 10.2 | First Bank of Delaware Change of Control Policy* | Incorporated by reference to Exhibit A of Exhibit 10.3 to Form 8-K dated January 31, 2005 |
| 10.3 | BSC Services Corp. Deferred Compensation Plan | Incorporated by reference to Exhibit 10.3 to Form 10 filed January 11, 2005 |
| 10.4 | Stock Option Plan and Restricted Stock Plan of First Bank of Delaware* | Incorporated by reference to Exhibit 10.2 to Form 10 filed January 11, 2005 |
| 10.5 | Separation and Distribution Agreement between Republic First Bancorp, Inc. and First Bank of Delaware dated January 31, 2005 | Incorporated by reference to Exhibit 10.1 to Form 8-K dated January 31, 2005 |
| 10.6 | Tax Disaffiliation Agreement between Republic First Bancorp, Inc. and First Bank of Delaware dated January 31, 2005 | Incorporated by reference to Exhibit 10.2 to Form 8-K dated January 31, 2005 |
| 10.7 | Affinity Card agreement between First Bank of Delaware and CompuCredit Corporation. | Incorporated by reference to Exhibit 10.12 to Form 10-K filed March 31, 2007 |
| 10.8 | Amendment to Affinity Card agreement between First Bank of Delaware and CompuCredit Corporation | Incorporated by reference to Exhibit 10.1 to Form 8-K dated October 6, 2008 |

| | | |
|-------|---|---|
| 10.9 | Employment Agreement Between First Bank of Delaware and Alonzo J. Primus dated January 1, 2007* | Incorporated by reference to Exhibit 10.2 to Form 8-K dated March 2, 2007 |
| 10.10 | Order to Cease and Desist, Order for Restitution and Order to Pay | Filed Herewith |
| 21.1 | Subsidiaries of First Bank of Delaware | Filed Herewith |
| 31.1 | Rule 13a-14(a) Certification of President and Chief Executive Officer | Filed Herewith |
| 31.2 | Rule 13a-14(a) Certification of Executive Vice President and Chief Financial Officer | Filed Herewith |
| 32.1 | Section 1350 Certification of Alonzo J. Primus | Filed Herewith |
| 32.2 | Section 1350 Certification of Paul Frenkiel. | Filed Herewith |

* Constitutes a compensation agreement or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Philadelphia, Commonwealth of Pennsylvania.

FIRST BANK OF DELAWARE [registrant]

Date: March 18, 2009

By: /s/ Alonzo J. Primus
Alonzo J. Primus
President and Chief Executive Officer

Date: March 18, 2009

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Date: March 18, 2009

/s/ Harry D. Madonna
Harry D. Madonna, Director and
Chairman of the Board

/s/ Lyle Hall
Lyle Hall, Director

/s/ William Batoff
William Batoff, Director

/s/ Harris Wildstein
Harris Wildstein, Esq., Director

/s/ Alonzo J. Primus
Alonzo J. Primus, Director and
Chief Executive Officer First
Bank of Delaware

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
OF
FIRST BANK OF DELAWARE

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2008 and 2007

Consolidated Statements of Income for the years ended December 31, 2008 and 2007

Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2008 and 2007

Consolidated Statements of Cash Flows for the years ended December 31, 2008 and 2007

Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
First Bank of Delaware

We have audited the accompanying consolidated balance sheets of First Bank of Delaware and its subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2008. First Bank of Delaware's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor are we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, also assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Bank of Delaware as of December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

Beard Miller Company LLP
Malvern, Pennsylvania
March 18, 2009

FIRST BANK OF DELAWARE
CONSOLIDATED BALANCE SHEETS
December 31, 2008 and 2007
(Dollars in thousands, except share data)

| | 2008 | 2007 |
|--|-----------|-----------|
| ASSETS: | | |
| Cash and due from banks | \$5,070 | \$1,715 |
| Interest-bearing deposits with banks | 509 | 344 |
| Federal funds sold | 3,974 | 13,933 |
| Total cash and cash equivalents..... | 9,553 | 15,992 |
| Investment securities available for sale, at fair value..... | 22,631 | 17,195 |
| Federal Home Loan Bank stock, at cost..... | 139 | 124 |
| Loans held for sale | - | 139 |
| Loans receivable, (net of allowance for loan losses of \$2,935 and \$2,581 respectively)..... | 71,307 | 76,765 |
| Premises and equipment, net | 3,430 | 3,575 |
| Other real estate owned..... | 293 | 18 |
| Accrued interest receivable..... | 248 | 462 |
| Bank owned life insurance..... | 1,817 | 1,757 |
| Other assets | 6,784 | 3,334 |
| Total Assets..... | \$116,202 | \$119,361 |
| LIABILITIES AND SHAREHOLDERS' EQUITY: | | |
| Liabilities: | | |
| Deposits: | | |
| Demand — non-interest-bearing | \$35,984 | \$31,072 |
| Demand — interest-bearing | 90 | 319 |
| Money market and savings | 23,781 | 30,093 |
| Time less than \$100,000..... | 11,627 | 10,052 |
| Time over \$100,000 | 808 | 9,267 |
| Total Deposits..... | 72,290 | 80,803 |
| Accrued interest payable | 175 | 374 |
| Due to consumer loan servicers and purchasers | - | 84 |
| Accrued expenses..... | 2,620 | 2,625 |
| Other liabilities..... | 1,624 | 1,315 |
| Total Liabilities..... | 76,709 | 85,201 |
| Shareholders' Equity: | | |
| Common stock, par value \$.05 per share; 15,000,000 shares authorized issued and outstanding | | |
| 11,401,301 as of December 31, 2008 ; 11,377,101 as of December 31, 2007 | 570 | 569 |
| Additional paid in capital | 13,371 | 13,284 |
| Retained earnings | 25,659 | 20,604 |
| Stock held by deferred compensation plan..... | (384) | (384) |
| Accumulated other comprehensive income | 277 | 87 |
| Total Shareholders' Equity | 39,493 | 34,160 |
| Total Liabilities and Shareholders' Equity..... | \$116,202 | \$119,361 |

(See notes to consolidated financial statements)

FIRST BANK OF DELAWARE
CONSOLIDATED STATEMENTS OF INCOME
For the years ended December 31, 2008 and 2007
(Dollars in thousands, except share data)

| | 2008 | 2007 |
|--|----------|---------|
| Interest income: | | |
| Interest and fees on loans | \$10,414 | \$8,057 |
| Interest on federal funds sold and other interest-earning assets | 400 | 1,994 |
| Interest and dividends on investment securities | 735 | 598 |
| | 11,549 | 10,649 |
| Interest expense: | | |
| Demand – interest bearing | 3 | 2 |
| Money market and savings | 620 | 1,379 |
| Time less than \$100,000 | 372 | 1,052 |
| Time over \$100,000 | 195 | 708 |
| Other borrowed funds | - | 21 |
| | 1,190 | 3,162 |
| Net interest income | 10,359 | 7,487 |
| Provision for loan losses | 4,185 | 1,142 |
| Net interest income after provision for loan losses | 6,174 | 6,345 |
| Non-interest income: | | |
| Loan advisory and servicing fees | 104 | 400 |
| Service fees on deposit accounts | 469 | 482 |
| Subprime consumer loan fee income | 4,451 | 8,432 |
| Subprime credit and prepaid card products | 11,128 | 7,353 |
| Insurance premium fee income | 631 | 404 |
| Gain on sale of loans | 687 | 1,096 |
| Bank owned life insurance income | 60 | 64 |
| | 17,530 | 18,231 |
| Non-interest expenses: | | |
| Salaries and employee benefits | 8,405 | 7,474 |
| Occupancy | 617 | 633 |
| Depreciation | 421 | 278 |
| Legal | 925 | 549 |
| Advertising | 26 | 64 |
| Data processing and operational expense | 484 | 304 |
| Professional expenses | 1,594 | 424 |
| Credit card program processing expenses | 736 | 215 |
| Credit card program marketing expenses | 596 | - |
| Delaware franchise tax | 403 | 663 |
| Miscellaneous expenses | 310 | 21 |
| Other operating expenses | 1,516 | 1,367 |
| | 16,033 | 11,992 |
| Income before income taxes | 7,671 | 12,584 |
| Provision for income taxes | 2,616 | 4,400 |
| Net Income | \$5,055 | \$8,184 |
| Earnings per share: | | |
| Basic | \$0.44 | \$0.72 |
| Diluted | \$0.44 | \$0.71 |

(See notes to consolidated financial statements)

FIRST BANK OF DELAWARE
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 31, 2008 and 2007
(Dollars in thousands)

| | Shares Outstanding | Compre- hensive Income | Common Stock | Additional Paid in Capital | Retained Earnings | Stock Held by Deferred Compensation Plan | Accumulated Other Compre- hensive Income | Total Shareholders' Equity |
|--|-----------------------|------------------------------|-----------------|----------------------------------|----------------------|---|--|----------------------------------|
| Balance January 1, 2007 | 11,359,017 | | \$ 568 | \$ 13,201 | \$ 12,420 | \$ (384) | \$ 48 | \$ 25,853 |
| Options exercised | 18,084 | – | 1 | 27 | – | – | – | 28 |
| Stock compensation | – | – | – | 56 | – | – | – | 56 |
| Total other comprehensive gain, net of reclassification adjustments and taxes | | \$ 39 | – | – | – | – | 39 | \$ 39 |
| Net income for the year.... | | <u>8,184</u> | – | – | 8,184 | – | – | 8,184 |
| Total comprehensive income..... | | \$ 8,223 | | | – | | – | |
| Balance December 31, 2007 | 11,377,101 | | \$ 569 | \$ 13,284 | \$ 20,604 | \$ (384) | \$ 87 | \$ 34,160 |
| Options exercised | 24,200 | – | 1 | 33 | – | – | – | 34 |
| Stock compensation | – | – | – | 54 | – | – | – | 54 |
| Total other comprehensive gain, net of reclassification adjustments and taxes | | \$ 190 | – | – | – | – | 190 | 190 |
| Net income for the year... | | <u>5,055</u> | – | – | 5,055 | – | – | 5,055 |
| Total comprehensive income..... | | \$ 5,245 | | | – | | – | |
| Balance December 31, 2008 | 11,401,301 | | \$ 570 | \$ 13,371 | \$ 25,659 | \$ (384) | \$ 277 | \$ 39,493 |

(See notes to consolidated financial statements)

FIRST BANK OF DELAWARE
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2008 and 2007
(Dollars in thousands)

| | 2008 | 2007 |
|--|----------|----------|
| Cash flows from operating activities: | | |
| Net income..... | \$5,055 | \$8,184 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses..... | 4,185 | 1,142 |
| Stock compensation expense..... | 54 | 56 |
| Loss on sale of other real estate owned..... | 7 | - |
| Depreciation and amortization..... | 421 | 278 |
| Amortization of securities..... | - | (8) |
| Net gain on sale of loans..... | (687) | (1,096) |
| Increase in value of bank owned life insurance..... | (60) | (64) |
| Decrease (increase) in other assets..... | (3,338) | 894 |
| Decrease in due to consumer loan servicers and purchasers..... | (84) | (3,306) |
| Increase in accrued expenses and other liabilities..... | 105 | 2,280 |
| Net cash provided by operating activities..... | 5,658 | 8,360 |
| Cash flows from investing activities: | | |
| Purchase of securities: | | |
| Available for sale..... | (14,668) | (8,322) |
| FHLB Stock purchase..... | (15) | - |
| Principal collected on securities available for sale..... | 9,524 | 884 |
| FHLB stock redemption..... | - | 48 |
| Gross loans originated for sale..... | (54,972) | (97,938) |
| Proceeds from sales of loans..... | 55,798 | 98,896 |
| Net decrease (increase) in loans..... | 980 | (10,210) |
| Net proceeds from sale of real estate owned..... | 11 | - |
| Premises and equipment expenditures..... | (276) | (2,676) |
| Net cash used in investing activities..... | (3,618) | (19,318) |
| Cash flows from financing activities: | | |
| Net proceeds from exercise of stock options..... | 34 | 28 |
| Net (decrease) increase in demand, money market and savings deposits..... | (1,629) | 12,808 |
| Net decrease in time deposits..... | (6,884) | (24,641) |
| Net cash used in financing activities..... | (8,479) | (11,805) |
| Decrease in cash and cash equivalents..... | (6,439) | (22,763) |
| Cash and cash equivalents, beginning of year..... | 15,992 | 38,755 |
| Cash and cash equivalents, end of year..... | \$9,553 | \$15,992 |
| Supplemental disclosures: | | |
| Interest paid..... | \$1,389 | \$3,506 |
| Taxes paid..... | \$2,800 | \$4,400 |
| Non-monetary transfer from loans to other real estate owned..... | \$ 293 | \$ - |

(See notes to consolidated financial statements)

FIRST BANK OF DELAWARE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization:

First Bank of Delaware (“FBD” or “Bank”), a Delaware State chartered Bank, is located at Brandywine Commons II, Concord Pike and Rocky Run Parkway in Brandywine, New Castle County Delaware, with a loan production office on Jingle Shell Way in Sussex County, Delaware. FBD offers a variety of banking services and financial products in Delaware.

Both FBD and Republic First BanCorp, Inc., the holding company which spun off the Bank in 2005, shared data processing, accounting, human resources and compliance services through BSC Services Corp. (“BSC”), which is a wholly-owned subsidiary of FBD. BSC allocated its costs, on the basis of usage, and FBD classified such costs to the appropriate non-interest expense categories. In third quarter 2008, each employee of BSC Services Corp. was transferred to either FBD or Republic First. Staff members previously employed through BSC and who performed services for FBD are now employed directly by FBD. The action was taken in connection with the winding down of the Bank’s relationship with Republic First and, internally, to simplify corporate structure.

First Capital Exchange, a subsidiary of FBD, provided financing generally for short term real estate projects. Related loans may differ from other loans made by FBD in that they may have higher loan to value ratios. First Capital Exchange is no longer operative effective July 1, 2008 as a result of market conditions.

Our national consumer products division is comprised of two business segments, subprime consumer loans and card products. The term “subprime” refers to the credit characteristics of individual borrowers. Subprime borrowers typically have weakened credit histories that include payment delinquencies and possibly more severe problems such as charge-offs, judgments, and bankruptcies. They may also display reduced repayment capacity as measured by credit scores, debt-to-income ratios, or other criteria that may encompass borrowers with incomplete credit histories. We make subprime consumer installment loans (with terms from 120 days to 2 years) nationally via the Internet and telephone. Subprime credit and prepaid card products are similarly offered nationally. The majority of subprime loan balances and subprime credit card receivables resulting from these national products are sold without recourse. Since we introduced our national consumer products, we have primarily relied on third parties to market and service these loans and cards. As a result of a consent order which we entered into with the FDIC in October 2008, we have begun to reduce our reliance on third parties and to make significant changes in our national consumer products division. We have terminated most of the third party relationships through which such loans and cards were marketed and serviced. Instead, we plan to offer these products directly with assistance from professional marketers.

FBD encounters vigorous competition for market share from bank holding companies, national and regional banks and other community banks, thrift institutions and other non-bank financial organizations, such as mutual fund companies, insurance companies and brokerage companies.

FBD is subject to regulations of certain state and federal agencies. These regulatory agencies periodically examine FBD for adherence to laws and regulations. As a consequence, the cost of doing business may be affected.

2. Summary of Significant Accounting Policies:

Basis of Presentation:

The consolidated financial statements include the accounts of FBD, its wholly-owned subsidiary, BSC Services Corp. and, for the year ended December 31, 2007, First Capital Exchange. Such statements have been presented in accordance with accounting principles generally accepted in the United States of America or applicable to the banking industry. All significant inter-company accounts and transactions have been eliminated in the consolidated financial statements.

Significant Estimates:

Our earnings include significant amounts of subprime consumer loan and subprime credit card product fee income. Also, we are dependent upon the level of net interest income, which is the difference between interest earned on our interest-earning assets, such as loans and investments, and the interest paid on its interest-bearing liabilities, such as deposits and borrowings. Accordingly, our operations are subject to interest rate risk.

Our results of operations will be significantly affected by the ability of borrowers to repay their loans and many national consumer borrowers, including subprime consumer installment loan customers and subprime credit card customers, are considered to be high credit risks. Further, litigation in connection with such consumer loans and card products, if

successful, and if not reimbursed by loan servicers and card marketers obligated to indemnify FBD, could have an adverse impact on earnings and financial condition.

One of the companies which no longer markets our subprime consumer loans and another which markets the Bank's credit cards, generated respective loans and credit card products which resulted in revenues greater than 10% of total revenues. In 2008, revenues resulting from the company marketing loans amounted to \$3.5 million and revenues from the company that markets cards totaled \$6.2 million, which represented 11.9% and 21.2% respectively of total revenues of \$29.1 million. In 2007, those companies marketed loans and credit cards which respectively generated \$6.3 million (21.8%) and \$4.3 million (15.0%) of total revenues of \$28.9 million. In third quarter 2008 we ceased marketing loans with the aforementioned company.

Short term consumer loans are offered by FBD and through July 2007 primarily consisted of payday loans. At December 31, 2008, there were approximately \$4.0 million in subprime consumer installment loans on the balance sheet, originated via telephone and internet, but most loans are sold or participated to third parties. All loans are sold or participated without recourse. The participations sold at December 31, 2008 were \$29.7 million. We evaluated these sales and determined that they qualify as sales under SFAS No. 140. These loans generally have principal amounts of \$2,500 or less.

FBD is an issuing bank for certain subprime credit card programs. At December 31, 2008 we had \$1.1 million in credit card receivables directly offered by FBD which were originated via the internet. FBD originates credit card receivables and sells or participates the majority of such receivables into the secondary market without recourse. FBD earns a monthly fee for each active account. At December 31, 2008 and 2007 FBD had approximately \$200,000 of credit card receivables on its books. As a result of discussions with the FDIC, most third party relationships involved in generating these subprime loans and credit cards have been terminated, which materially has reduced and will continue to reduce revenues.

FBD offers prepaid cards primarily to the un-banked and under-banked customer on a national basis. These cards are sold via the internet and through certain retailers. 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. The Bank earns revenues on these cards through interchange, monthly fees and float on the card deposits.

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

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, assessment of other-than-temporary impairment of investment securities and restricted stock, carrying values of other real estate owned, and deferred taxes. 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 the allowance for loan losses and carrying value of real estate owned are dependent, to a great extent, on the general economy and other conditions that may be beyond our control, it is at least reasonably possible that the estimates of the allowance for loan losses and the carrying values of the real estate owned could differ materially in the near term.

Our results of operations will be significantly affected by the ability of borrowers to repay their loans and many national consumer borrowers, including short term consumer loan customers, are considered to be high credit risks. Further, litigation in connection with such consumer loans, if successful, and if not reimbursed by loan servicers obligated to indemnify FBD, could have an adverse impact on earnings and financial condition.

We are subject to federal and state regulations governing virtually all aspects of our 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 condition. See "Note 11."

Cash and Cash Equivalents:

For purposes of the statements of cash flows, FBD considers all cash and due from banks, interest-bearing deposits with an

original maturity of ninety days or less and federal funds sold to be cash and cash equivalents.

Restrictions on Cash:

FBD is required to maintain certain average reserve balances as established by the Federal Reserve Board. The amounts of those balances for the reserve computation periods that include December 31, 2008 and 2007 were \$779,000 and \$594,000 at each of those dates. These requirements were satisfied through the restriction of vault cash and a balance at the Federal Reserve Bank of Philadelphia.

Investment Securities:

Debt and equity investment securities are classified in one of three categories, as applicable, and accounted for as follows: debt securities which FBD has the positive intent and ability to hold to maturity are classified as “securities held to maturity” and are reported at amortized cost; debt and equity securities that are bought and sold in the near term are classified as “trading” and are reported at fair value with unrealized gains and losses included in earnings; and debt and equity securities not classified as either held to maturity or trading securities are classified as “investment securities available for sale” and are reported at fair value with net unrealized gains and losses, net of tax, reported as a separate component of shareholders’ equity. Gains or losses on disposition are based on the net proceeds and cost of securities sold, adjusted for amortization of premiums and accretion of discounts, using the specific identification method. We did not have any investment securities designated as held to maturity or trading during 2008 and 2007.

Declines in the fair value of available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of FBD to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Restricted Stock:

Restricted stock, which represents required investment in the common stock of correspondent banks, is carried at cost and as of December 31, 2008 and 2007, consists of the common stock of FHLB of Pittsburgh. In December 2008, the FHLB of Pittsburgh notified member banks that it was suspending dividend payments and the repurchase of capital stock.

Management evaluates the restricted stock for impairment in accordance with Statement of Positions (SOP) 01-6, *Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others*. Management’s determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of their cost is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB.

Management believes no impairment charge is necessary related to the restricted stock as of December 31, 2008.

Loans and Allowance for Loan Losses:

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at the amount of unpaid principal, reduced by unearned income and an allowance for loan losses. Interest on loans is calculated based upon the principal amounts outstanding. FBD defers and amortizes certain origination and commitment fees, and certain direct loan origination costs over the contractual life of the related loan. This results in an adjustment of the related loan yields.

FBD accounts for amortization of premiums and accretion of discounts related to loans purchased and investment securities based upon the effective interest method. If a loan prepays in full before the contractual maturity date, any unamortized premiums, discounts or fees are recognized immediately as an adjustment to interest income.

Loans are generally classified as non-accrual if they are past due as to maturity or payment of principal or interest 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 of

interest and principal by the borrower, in accordance with the contractual terms. Generally, in the case of non-accrual loans, cash received is applied to reduce the principal outstanding.

The allowance for loan losses is established through a provision for loan losses charged to operations. Loans are charged against the allowance when management believes that the collectibility of the loan principal is unlikely. Recoveries on loans previously charged off are credited to the allowance.

The allowance is an amount that represents management's best estimate of known and inherent loan losses. Management's evaluations of the allowance for loan losses consider such factors as an examination of the portfolio, past loss experience, the results of the most recent regulatory examination, current economic conditions and other relevant factors.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment, include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration of all the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

The Bank accounts for transfers of financial assets in accordance with SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*. Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

The majority of subprime consumer loans are sold to third parties without recourse. FBD records fees on sold loans as non-interest income. FBD had total subprime consumer loan participations sold of \$29.7 million at December 31, 2008 and \$79.5 million at December 31, 2007. FBD evaluated these sales and determined that they qualified as such under SFAS No. 140.

FBD accounts for guarantees in accordance with FIN 45 *Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others*. FIN 45 requires a guarantor entity, at the inception of a guarantee covered by the measurement provisions of the interpretation, to record a liability for the fair value of the obligation undertaken in issuing the guarantee. The Bank has financial and performance letters of credit. Financial letters of credit require the Bank to make payment if the customer's financial condition deteriorates, as defined in the agreements. Performance letters of credit require the Bank to make payments if the customer fails to perform certain non-financial contractual obligations. The maximum potential undiscounted amount of future payments of these letters of credit as of December 31, 2008 is \$131,000 and they expire in 2009. Amounts due under these letters of credit would be reduced by any proceeds that the Bank would be able to obtain in liquidating the collateral for the loans, which varies depending on the customer.

Fees earned on short term consumer loans which are not sold or participated are recorded as interest income. At December 31, 2008, there were approximately \$4.0 million of these loans outstanding.

Subprime consumer installment loans, previously made under marketing and servicing agreements with third parties are now managed directly by FBD. The majority of such loans are sold to other third parties. Balances due to these third parties are shown in the balance sheet as "due to short term loan servicers and purchasers".

While most consumer installment loans are sold, an allowance for loan loss is established for loans held on the balance sheet, based upon varying percentages applied to different products. The percentage reflects FBD experience and regulatory and other inputs.

Premises and Equipment:

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation of buildings, furniture and equipment is calculated over the estimated useful life of the asset using the straight-line method. Leasehold improvements are amortized over the shorter of their estimated useful lives or terms of their respective leases, using the straight-line method. Repairs and maintenance are charged to current operations as incurred, and renewals and betterments are capitalized.

Bank Owned Life Insurance:

FBD invests in bank owned life insurance (“BOLI”) as a source of funding to purchase life insurance on certain employees. FBD is the owner and beneficiary of the policies. This life insurance investment is carried at the cash surrender value of the underlying policies. Income from the increase in cash surrender value of the policies is included in other income on the income statement. At December 31, 2008 and 2007, the Company owned \$1.8 million and \$1.8 million, respectively in BOLI. In 2008 and 2007, we respectively recognized \$60,000 and \$64,000, in related income.

Advertising Costs:

It is our policy to expense advertising costs in the period in which they are incurred. Advertising expense in 2008 and 2007 was approximately \$26,000 and \$64,000 respectively.

Income Taxes:

FBD has adopted FIN 48, which has had a minimal impact as related tax liabilities, interest and penalties are not significant.

FBD accounts for income taxes under the liability method of accounting. Deferred tax assets and liabilities are established for the temporary differences between the financial reporting basis and the tax basis of FBD’s assets and liabilities at the tax rates expected to be in effect when the temporary differences are realized or settled. The deferred tax assets may be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized.

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 (“CSE”). Common stock equivalents consist of dilutive stock options granted through our stock option plan. The following table is a reconciliation of the numerator and denominator used in calculating basic and diluted EPS. Common stock equivalents, which are antidilutive are not included for purposes of this calculation. At December 31, 2008 and 2007, respectively, there were 880,500 and 169,200 anti dilutive options excluded from the computation of earnings per share because the option price was greater than the average market price, respectively.

| | <i>(Dollars in thousands, except per share data)</i> | | <u>2008</u> | <u>2007</u> |
|---|--|------------------|-------------------|------------------|
| Income (numerator for basic and diluted earnings per share) | | | <u>\$5,055</u> | <u>\$8,184</u> |
| | <u>Shares</u> | <u>Per Share</u> | <u>Shares</u> | <u>Per Share</u> |
| Weighted average shares outstanding for the period (denominator for basic earnings per share) | 11,390,982 | | 11,369,794 | |
| Earnings per share — basic | | \$0.44 | | \$0.72 |
| Effect of dilutive stock options | <u>23,067</u> | | <u>155,290</u> | |
| Effect on basic earnings per share of CSE | | <u>\$0.00</u> | | <u>(\$0.01)</u> |
| Weighted average shares outstanding- diluted | <u>11,414,049</u> | | <u>11,525,084</u> | |
| Earnings per share — diluted | | <u>\$0.44</u> | | <u>\$0.71</u> |

Stock Based Compensation:

Effective January 1, 2006, the Company adopted Financial Accounting Standards Board (FASB) Statement No. 123(R), "Share-Based Payment," ("FAS 123(R)") using the modified prospective method. FAS 123 (R) requires compensation costs related to share-based payment transactions to be recognized in the income statement (with limited exceptions) based on the grant-date fair value of the stock-based compensation issued. Compensation costs are recognized over the period that an employee provides service in exchange for the award. The adoption of Statement of Financial Accounting Standards ("SFAS") 123 (R) has an unfavorable impact on our net income and net income per share and will continue to do so in future periods as we recognize compensation expense for stock option awards.

In 2005, FBD vested all previously issued unvested options. As a result the impact of the adoption of SFAS No. 123 on operations in future periods will be the value imputed on future options grants using the methods prescribed in SFAS No. 123R.

At December 31, 2008 and 2007, FBD maintained a Stock Option Plan (the "Plan") under which we grant options to our 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 our stock on the date of grant. Any options granted vest within one to five years and have a maximum term of 10 years.

For the year ended December 31, 2008, \$54,000 was recognized in compensation expense for the Stock Option Plan versus \$56,000 in 2007.

Comprehensive Income:

The components of comprehensive income, net of tax, are as follows:

For the year ended December 31, 2008

(Dollars in thousands)

| | <u>Before Tax Amount</u> | <u>Tax Benefit</u> | <u>Net of Tax Amount</u> |
|---|----------------------------------|------------------------|------------------------------|
| Unrealized gains on securities: | | | |
| Unrealized holding gains arising during the period | \$ 292 | \$ (102) | \$ 190 |
| Other comprehensive gain | <u>\$ 292</u> | <u>\$ (102)</u> | <u>\$ 190</u> |

For the year ended December 31, 2007

(Dollars in thousands)

| | | | |
|---|--------------|----------------|--------------|
| Unrealized gains on securities: | | | |
| Unrealized holding gains arising during the period | \$ 61 | \$ (22) | \$ 39 |
| Other comprehensive gain | <u>\$ 61</u> | <u>\$ (22)</u> | <u>\$ 39</u> |

Recent Accounting Pronouncements:

In September 2006, the FASB issued FASB Statement No. 157, “Fair Value Measurements”, which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about assets and liabilities measured at fair value. FASB Statement No. 157 does not change existing guidance as to whether or not an asset or liability is carried at fair value. The new standard provides a consistent definition of fair value which focuses on exit price and prioritizes, within a measurement of fair value, the use of market-based inputs over entity-specific inputs. The standard also establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The standard eliminates large position discounts for financial instruments quoted in active markets, requires costs related to acquiring financial instruments carried at fair value to be included in earnings as incurred and requires that an issuer’s credit standing be considered when measuring liabilities at fair value. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, with early adoption permitted. The implementation of this standard did not have a material impact on our consolidated financial statements or results of operations.

In December 2007, the FASB issued SFAS No. 141 (R), Business Combinations. 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 the Bank’s accounting for business combinations completed after January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51. This statement establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The guidance will become effective as of the beginning of a company’s fiscal year beginning after December 15, 2008. The implementation of this standard will not have a material impact on the Bank’s consolidated financial position and results of operations.

In May 2008, the FASB issued FASB Staff Position (FSP) APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" which clarifies the accounting for convertible debt instruments that may be settled in cash (including partial cash settlement) upon conversion. The FSP requires issuers to account separately for the liability and equity components of certain convertible debt instruments in a manner that reflects the issuer's nonconvertible debt borrowing rate when interest cost is recognized. The FSP requires bifurcation of a component of the debt, classification of that component in equity and the accretion of the resulting discount on the debt to be recognized as part of interest expense. The FSP requires retrospective application to the terms of instruments as they existed for all periods presented. The FSP is effective for fiscal years beginning after December 15, 2008, and interim periods within those years. Early adoption is not permitted. FBD 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 implementation of this standard will not have a material impact on FBD’s consolidated financial position and results of operations.

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 did not have a material impact on our consolidated financial position and results of operations.

In December 2008, the FASB issued FSP SFAS 140-4 and FASB Interpretation (FIN) 46(R)-8, “Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities” (FSP SFAS 140-4 and FIN 46(R)-8). FSP SFAS 140-4 and FIN 46(R)-8 amends FASB SFAS 140 “Accounting for Transfers and Servicing of Financial Assets

and Extinguishments of Liabilities”, to require public entities to provide additional disclosures about transfers of financial assets. It also amends FIN 46(R), “Consolidation of Variable Interest Entities”, to require public enterprises, including sponsors that have a variable interest in a variable interest entity, to provide additional disclosures about their involvement with variable interest entities. Additionally, this FSP requires certain disclosures to be provided by a public enterprise that is (a) a sponsor of a qualifying special purpose entity (SPE) that holds a variable interest in the qualifying SPE but was not the transferor of financial assets to the qualifying SPE and (b) a servicer of a qualifying SPE that holds a significant variable interest in the qualifying SPE but was not the transferor of financial assets to the qualifying SPE. The disclosures required by FSP SFAS 140-4 and FIN 46(R)-8 are intended to provide greater transparency to financial statement users about a transferor’s continuing involvement with transferred financial assets and an enterprise’s involvement with variable interest entities and qualifying SPEs. FSP SFAS 140-4 and FIN 46(R) is effective for reporting periods (annual or interim) ending after December 15, 2008. The implementation of this standard did not have an impact on FBD’s consolidated financial position and results of operations.

In December 2008, the FASB issued FSP FAS 132(R)-1, “Employers’ Disclosures about Postretirement Benefit Plan Assets”. This FSP amends SFAS 132(R), “Employers’ Disclosures about Pensions and Other Postretirement Benefits”, to provide guidance on an employer’s disclosures about plan assets of a defined benefit pension or other postretirement plan. The disclosures about plan assets required by this FSP shall be provided for fiscal years ending after December 15, 2009. FBD is currently reviewing the effect this new pronouncement will have on its consolidated financial statements.

Reclassifications:

Certain reclassifications have been made to the 2007 information to conform to the current year’s presentation.

3. Investment Securities:

Investment securities available for sale as of December 31, 2008 are as follows:

| <i>(Dollars in thousands)</i> | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---------------------------------|-------------------|------------------------------|-------------------------------|------------------|
| FHLB Discount Notes..... | \$ 14,751 | \$ 196 | \$ - | \$ 14,947 |
| Mortgage Backed Securities..... | 7,453 | 231 | - | 7,684 |
| Total..... | <u>\$ 22,204</u> | <u>\$ 427</u> | <u>\$ -</u> | <u>\$ 22,631</u> |

Investment securities available for sale as of December 31, 2007 are as follows:

| <i>(Dollars in thousands)</i> | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---------------------------------|-------------------|------------------------------|-------------------------------|------------------|
| FHLMC Bonds | \$ 8,000 | \$ - | \$ (2) | \$ 7,998 |
| Mortgage Backed Securities..... | 9,060 | 139 | (2) | 9,197 |
| Total..... | <u>\$ 17,060</u> | <u>\$ 139</u> | <u>\$ (4)</u> | <u>\$ 17,195</u> |

The maturity distribution of the amortized cost and estimated fair value of investment securities by contractual maturity at December 31, 2008, is as follows:

| <i>(Dollars in thousands)</i> | Available for Sale | |
|-------------------------------|--------------------|-------------------------|
| | Amortized Cost | Estimated Fair Value |
| After 1 year to 5 years..... | \$ 14,751 | \$ 14,947 |
| After 10 years..... | 7,453 | 7,684 |
| Total..... | <u>\$ 22,204</u> | <u>\$ 22,631</u> |

Expected maturities will differ from contractual maturities because borrowers have the right to call or prepay obligations with or without prepayment penalties.

FBD did not sell any securities during 2008 or 2007. The FHLMC bonds were called in second quarter of 2008.

There were no pledged securities as of December 31, 2008 and 2007.

At December 31, 2008, FBD held no securities with unrealized losses.

At December 31, 2007, FBD held two securities with unrealized loss of approximately \$4,000. The securities had a fair market value of approximately \$8.2 million, and were in an unrealized loss position for less than twelve months.

4. Loans Receivable:

Loans receivable consist of the following at December 31,

| <i>(Dollars in thousands)</i> | <u>2008</u> | <u>2007</u> |
|--|------------------|------------------|
| Commercial - real estate and other | \$ 42,086 | \$ 51,856 |
| Construction and land development | 26,726 | 21,182 |
| Consumer and other | <u>5,366</u> | <u>6,348</u> |
| Loans receivable | 74,178 | 79,386 |
| Less net deferred loan fees | 64 | (40) |
| Less allowance for loan losses | <u>(2,935)</u> | <u>(2,581)</u> |
| Total loans receivable, net | <u>\$ 71,307</u> | <u>\$ 76,765</u> |

The recorded investment in loans, which are impaired in accordance with SFAS No. 114, totaled \$2.1 million and \$970,000 at December 31, 2008 and 2007 respectively. The increase was primarily the result of the transfer of two commercial loans totaling \$1.2 million and the transfer of \$425,000 of credit card receivables to non accrual during the period. The increase was partially offset by the transfer of two loans totaling \$293,000 from non accrual to other real estate owned during the period. The amounts of related valuation allowances were \$1.0 million and \$462,000 respectively at those dates. For the years ended December 31, 2008 and 2007, the average recorded investment in impaired loans was approximately \$1.6 million and \$778,000, respectively. FBD did not realize any interest on impaired loans during 2008 or 2007. There were no commitments to extend credit to any borrowers with impaired loans as of the end of the periods presented herein.

As of December 31, 2008 and 2007, there were loans of approximately \$2.1 million and \$970,000 respectively, which were classified as non-accrual. If these loans were performing under their original contractual rate, interest income on such loans would have increased approximately \$49,000 and \$70,000, for 2008 and 2007 respectively. Loans past due 90 days and accruing totaled \$0 and \$0 respectively, at December 31, 2008 and December 31, 2007.

The majority of loans outstanding are with borrowers in FBD's marketplace, Delaware. Generally, these loans are to customers whose assets and businesses are concentrated in real estate. Repayment of FBD's loans is in part dependent upon general economic conditions affecting FBD's market place and specific industries. FBD evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained is based on management's credit evaluation of the customer. Collateral varies but primarily includes residential, commercial and income-producing properties. At December 31, 2008, FBD had no foreign loans and no loan concentrations exceeding 10% of total loans except for credits extended to real estate operators and lessors in the aggregate amount of \$28.4 million, which represented 38.3% of gross loans receivable at December 31, 2008. Various types of real estate are included in this category, including industrial, retail shopping centers, office space, residential multi-family and others. Loan concentrations are considered to exist when their amounts loaned to a multiple number of borrowers engaged in similar activities that management believes would cause them to be similarly impacted by economic or other conditions.

Included in loans are loans due from directors and other related parties of \$2.7 million and \$4.2 million at December 31, 2008 and 2007, respectively. All loans made to directors and other related parties have substantially the same terms and interest rates as other bank borrowers. The Board of Directors can approve loans to individual directors if collateral requirements, terms and rates are comparable to other borrowers and are in compliance with underwriting policies.

| (Dollars in thousands) | <u>2008</u> | <u>2007</u> |
|------------------------------------|-----------------------|-----------------------|
| Balance at beginning of year | \$4,172 | \$2,000 |
| Additions | - | \$2,172 |
| Repayments | <u>\$1,516</u> | <u>-</u> |
| Balance at end of year | <u><u>\$2,656</u></u> | <u><u>\$4,172</u></u> |

5. Allowance for Loan Losses:

Changes in the allowance for loan losses for the years ended December 31, are as follows:

| <i>(Dollars in thousands)</i> | <u>2008</u> | <u>2007</u> |
|------------------------------------|-----------------------|-----------------------|
| Balance at beginning of year | \$2,581 | \$1,860 |
| Charge-offs | (4,265) | (458) |
| Recoveries | 434 | 37 |
| Provision for loan losses | <u>4,185</u> | <u>1,142</u> |
| Balance at end of year | <u><u>\$2,935</u></u> | <u><u>\$2,581</u></u> |

6. Premises and Equipment:

A summary of premises and equipment at December 31 is as follows:

| <i>(Dollars in thousands)</i> | <u>Useful lives</u> | <u>2008</u> | <u>2007</u> |
|-------------------------------------|---------------------|-----------------------|-----------------------|
| Furniture and equipment | 3 to 13 years | \$2,196 | \$1,937 |
| Banking building | 40 years | 917 | 917 |
| Leasehold improvements | 20 to 23 years | <u>2,457</u> | <u>2,440</u> |
| | | 5,570 | 5,294 |
| Less accumulated depreciation | | <u>(2,140)</u> | <u>(1,719)</u> |
| Net premises and equipment | | <u><u>\$3,430</u></u> | <u><u>\$3,575</u></u> |

Depreciation expense on premises, equipment and leasehold improvements amounted to \$421,000 and \$278,000 in 2008 and 2007 respectively.

7. Deposits:

The following is a breakdown by contractual maturity of FBD's time certificates of deposit as of December 31, 2008 for the years 2009 through 2011, which is the longest remaining maturity.

| <i>(Dollars in thousands)</i> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>Totals</u> |
|------------------------------------|----------------|----------------|--------------|-----------------|
| Time certificates of deposit | <u>\$8,015</u> | <u>\$4,320</u> | <u>\$100</u> | <u>\$12,435</u> |

Deposits of related parties totaled \$5.7 million and \$777,000 at December 31, 2008 and 2007.

8. Income Taxes:

The following represents the components of income tax expense for the years ended December 31, 2008 and 2007 respectively.

| <i>(Dollars in thousands)</i> | <u>2008</u> | <u>2007</u> |
|---------------------------------------|-----------------|-----------------|
| Current provision | | |
| Federal: | | |
| Current | \$ 2,913 | \$ 4,697 |
| Deferred | (297) | (297) |
| Total provision for income taxes..... | <u>\$ 2,616</u> | <u>\$ 4,400</u> |

The following table accounts for the difference between the actual tax provision and the amount obtained by applying the statutory federal income tax rate of 34.0% to income before income taxes for the years ended December 31, 2008 and 2007.

| <i>(Dollars in thousands)</i> | <u>2008</u> | <u>2007</u> |
|--|-----------------|-----------------|
| Tax provision computed at statutory rate | \$ 2,608 | \$ 4,279 |
| Bank owned life insurance | (20) | (23) |
| Other | 28 | 144 |
| Total provision for income taxes..... | <u>\$ 2,616</u> | <u>\$ 4,400</u> |

The approximate tax effect of each type of temporary difference and that gives rise to net deferred tax assets included in the other assets in FBD balance sheets at December 31, 2008 and 2007 are as follows:

| <i>(Dollars in thousands)</i> | <u>2008</u> | <u>2007</u> |
|---------------------------------------|-----------------|---------------|
| Allowance for loan losses | \$ 999 | \$ 878 |
| Deferred compensation plan..... | 235 | 54 |
| Non accrual loan interest..... | 40 | - |
| Other | 20 | (28) |
| Deferred tax assets | <u>1,294</u> | <u>904</u> |
| Depreciation | (3) | 80 |
| Deferred loan costs | (55) | (45) |
| Unrealized gains on investments | (150) | (48) |
| Deferred tax liabilities..... | <u>(208)</u> | <u>(13)</u> |
| Net deferred tax assets | <u>\$ 1,086</u> | <u>\$ 891</u> |

The realizability of the deferred tax asset is dependent upon a variety of factors, including the generation of future taxable income, the existence of taxes paid and recoverable, the reversal of deferred tax liabilities and tax planning strategies. Based upon these and other factors, management believes that it is more likely than not that FBD will realize the benefits of these deferred tax assets. All tax years for which the Internal Revenue Service has statutory authority to conduct audits are open, and there are no audits in progress for any years.

9. Financial Instruments with Off-Balance Sheet Risk:

FBD is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. 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 are commitments to extend credit of approximately \$166.8 million and \$210.0 million and standby letters of credit of approximately \$131,000 and \$192,000 at December 31, 2008 and 2007, respectively. \$160.7 million and \$197.1 million of the commitments in 2008 and 2007 respectively represent unused credit card lines for which the outstanding balances are sold after funding. Therefore such amounts are not indicative of future liquidity requirements. The Bank has the unilateral right to cancel the unused lines, in the unlikely event 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 credit card funding. Further, commitments may often expire without being drawn upon. The non-credit card commitments to extend credit at December 31, 2008, were substantially all variable rate commitments.

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 issued 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. Management believes that the proceeds obtained through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees. The current amount of the liability as of December 31, 2008 and 2007 for guarantees under standby letters of credit issued is not material. Contingencies also include a standby letter of credit issued by an unrelated bank in the amount of \$170,000, which was required by a lessor and renews annually.

10. Commitments:

Lease Arrangements:

As of December 31, 2008, FBD had entered into non-cancelable leases expiring through May 31, 2030 (including options to renew). The leases are accounted for as operating leases. The minimum annual rental payments required under these leases are as follows:

| <i>(Dollars in thousands)</i> | | Amount |
|-------------------------------|-----------|---------------|
| Year Ended | | |
| 2009..... | \$ | 514 |
| 2010..... | | 531 |
| 2011..... | | 547 |
| 2012..... | | 560 |
| 2013 | | 575 |
| Thereafter | | 10,394 |
| Total..... | <u>\$</u> | <u>13,121</u> |

FBD incurred rent expense of approximately \$476,000 and \$411,000 for the years ended December 31, 2008 and 2007 respectively.

Other:

FBD is from time to time a party (plaintiff or defendant) to lawsuits that are in the normal course of business. While any litigation involves an element of uncertainty, management, after reviewing pending actions with its legal counsel, is of the opinion that the liability of FBD, if any, resulting from such actions will not have a material effect on the financial condition or results of operations of FBD.

Employment Agreements:

FBD has entered into two employment agreements with both the Chief Executive Officer and Chairman of FBD, which provide for the payment of base salary and certain benefits through the year 2009. The aggregate commitment for future salaries and benefits under these employment agreements at December 31, 2008 is approximately \$955,000.

11. Regulatory Considerations:

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, which have not been made, and were reflected on the December 31, 2008 balance sheet. For another program, a total of \$85,000 was refunded of which \$37,000 was paid and expensed by the Bank. The balance was paid by a vendor. The \$304,000 was recognized as an expense in the third quarter of 2008. The Bank expects that the \$700,000 in refund payments will be reimbursed by a third party vendor under indemnification agreements. 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. The Bank has engaged a consultant to assist in developing various plans that will address FDIC concerns. These plans have been submitted to the FDIC for review. As a result of the discussions with the FDIC, all third party credit card relationships, with exception of one program, have been terminated. All third party installment loan relationships have also been terminated, and we are now offering our installment loan product independently of these prior relationships. 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 has or is in process of exiting certain products with specific vendors, which has and is reducing revenues. Related vendor non-interest-bearing deposits would also be reduced or eliminated. While the Bank is offering installment loans directly, termination of prior third party relationships has reduced volume significantly. There can be no assurance as to the level or timing of revenues from the Bank's efforts to offer these products directly.

Dividend payments by FBD are subject to regulation by the Delaware Banking Commissioner and the Federal Deposit Insurance Act (the "FDIA"). Generally, no dividends may be paid except from "accumulated net earnings" (generally, retained earnings). Under the FDIA, an insured bank may pay no dividends if the bank is in arrears in the payment of any insurance assessment due to the FDIC. Under current banking laws, FBD would be limited to \$25.7 million of dividends plus an additional amount equal to its net profit for 2009, up to the date of any such dividend declaration. However, dividends would be further limited in order to maintain capital ratios, requirements for which may vary. FBD has not paid dividends, since its inception.

State and Federal regulatory authorities have adopted standards for the maintenance of adequate levels of capital by banks. Federal banking agencies impose three minimum capital requirements on FBD's risk-based capital ratios based on total capital, Tier 1 capital, and a leverage capital ratio. The risk-based capital ratios measure the adequacy of a bank's capital against the riskiness of its assets and off-balance sheet activities.

Failure to maintain adequate capital is a basis for "prompt corrective action" or other regulatory enforcement action. In assessing a bank's capital adequacy, regulators also consider other factors such as interest rate risk exposure; liquidity, funding and market risks; quality and level of earnings; concentrations of credit; quality of loans and investments; risks of any nontraditional activities; effectiveness of bank policies; and management's overall ability to monitor and control risks.

Management believes that FBD meets, as of December 31, 2008, all capital adequacy requirements to which it is subject. As of December 31, 2008, the FDIC categorized FBD as well capitalized under the regulatory framework for prompt corrective action provisions of the Federal Deposit Insurance Act. There are no calculations or events since that notification that management believes have changed FBD's category.

The following table presents FBD's capital regulatory ratios at December 31, 2008 and 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 December 31, 2008 | | | | | | |
| Total risk based capital..... | \$40,358 | 45.07% | \$7,164 | 8.00% | \$8,955 | 10.00% |
| Tier 1 risk based capital..... | 39,216 | 43.79 | 3,582 | 4.00 | 5,373 | 6.00 |
| Tier 1 leverage capital..... | 39,216 | 32.21 | 6,088 | 5.00 | 6,088 | 5.00 |
| At December 31, 2007 | | | | | | |
| Total risk based capital..... | \$35,268 | 37.44% | \$7,536 | 8.00% | \$9,419 | 10.00% |
| Tier 1 risk based capital..... | 34,073 | 36.18 | 3,767 | 4.00 | 5,651 | 6.00 |
| Tier 1 leverage capital..... | 34,073 | 27.49 | 6,197 | 5.00 | 6,197 | 5.00 |

12. Fair Value of Financial Instruments:

Management uses its best judgment in estimating the fair value of our financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year-ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement No. 157, *Fair Value Measurements* ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements. The Company adopted SFAS 157 effective for its fiscal year beginning January 1, 2008.

In December 2007, the FASB issued FASB Staff Position 157-2, *Effective Date of FASB Statement No. 157* ("FSP 157-2"). FSP 157-2 delays the effective date of SFAS 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. As such, the Corporation only partially adopted the provisions of SFAS 157, and will begin to account and report for non-financial assets and liabilities in 2009. In October 2008, the FASB issued FASB Staff Position 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 the Company's December 31, 2008 consolidated financial statements. The adoption of SFAS 157 and FSP 157-3 had a minimal impact on the amounts reported in the consolidated financial statements.

SFAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation methods 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 SFAS 157 are as follows:

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 unobservable (i.e., supported with little or no market activity).

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2008 are as follows:

| Description | December 31, 2008 | (Level 1) Quoted Prices in Active Markets for Identical Assets | (Level 2) Significant Other Observable Inputs | (Level 3) Significant Unobservable Inputs |
|-------------------------------|----------------------|---|---|--|
| (In Thousands) | | | | |
| Securities available for sale | \$ 22,631 | \$ - | \$ 22,631 | \$ - |

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2008 are as follows:

| Description | December 31, 2008 | (Level 1) Quoted Prices in Active Markets for Identical Assets | (Level 2) Significant Other Observable Inputs | (Level 3) Significant Unobservable Inputs |
|----------------|----------------------|---|---|--|
| (In Thousands) | | | | |
| Impaired loans | \$ 1,080 | \$ - | \$ - | \$ 1,080 |

Other real estate owned consists of assets acquired through, or in lieu of, loan foreclosure. They are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis.

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at December 31, 2008 and 2007:

Cash and Cash Equivalents (Carried at Cost):

The carrying amounts reported in the balance sheet for cash and cash equivalents approximate those assets' fair values.

Investment Securities:

The fair value of securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices. For certain securities which are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence (Level 3). In the absence of such evidence, management's best estimate is used. Management's best estimate consists of both internal and external support on certain Level 3 investments. Internal cash flow models using a present value formula that includes assumptions market participants would use along with indicative exit pricing obtained from broker/dealers (where available) were used to support fair values of certain Level 3 investments.

The types of instruments valued based on quoted market prices in active markets include all of the Company's U.S. government and agency securities, municipal obligations and corporate bonds and trust preferred securities. Such instruments are generally classified within level 1 or level 2 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 owns may include investment-grade corporate bonds, municipal obligations, and trust preferred securities. Such instruments are generally classified within level 2 of the fair value hierarchy.

Level 3 is for positions that are not traded in active markets or are subject to transfer restrictions, and may be adjusted to reflect illiquidity and/or non-transferability, with such adjustment generally 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 has never owned any Level 3 securities.

Loans Receivable (Carried at Cost):

The fair values of loans are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values.

Other Real Estate Owned (Generally Carried at Fair Value):

These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Federal Home Loan Bank Stock (Carried at Cost):

The carrying amount of restricted stock approximates fair value, and considers the limited marketability of such securities.

Accrued Interest Receivable and Payable (Carried at Cost):

The carrying amount of accrued interest receivable and accrued interest payable approximates its fair value.

Bank Owned Life Insurance:

The fair value of bank owned life insurance is based on the estimated realizable market value of the underlying investments and insurance reserves.

Deposit Liabilities (Carried at Cost):

The fair values disclosed for demand deposits (e.g., interest and noninterest checking, passbook savings and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Off-Balance Sheet Financial Instruments (Disclosed at Cost):

Fair values for the Company's off-balance sheet financial instruments (lending commitments and letters of credit) are based on fees currently charged in the market to enter into similar agreements, taking into account, the remaining terms of the agreements and the counterparties' credit standing.

The estimated fair values of the Company's financial instruments were as follows at December 31, 2008 and 2007.

| <i>(Dollars in Thousands)</i> | <u>December 31, 2008</u> | | <u>December 31, 2007</u> | |
|---|--------------------------|-------------------|--------------------------|-------------------|
| | <u>Carrying Amount</u> | <u>Fair Value</u> | <u>Carrying Amount</u> | <u>Fair Value</u> |
| Balance Sheet Data: | | | | |
| Financial Assets: | | | | |
| Cash and cash equivalents..... | \$ 9,553 | \$ 9,553 | \$ 15,992 | \$ 15,992 |
| Investment securities available for sale..... | 22,631 | 22,631 | 17,195 | 17,195 |
| FHLB stock | 139 | 139 | 124 | 124 |
| Loans receivable, net..... | 71,307 | 71,147 | 76,904 | 76,909 |
| Bank owned life insurance | 1,817 | 1,817 | 1,757 | 1,757 |
| Accrued interest receivable | 248 | 248 | 462 | 462 |
| Financial Liabilities: | | | | |
| Deposits: | | | | |
| Demand, savings and money market | \$ 59,855 | \$59,855 | \$ 61,484 | \$61,484 |
| Time..... | 12,435 | 12,577 | 19,319 | 19,319 |
| Accrued interest payable..... | 175 | 175 | 374 | 374 |
| Off Balance Sheet Financial Instruments: | | | | |
| Commitments to extend credit | \$ - | \$ - | \$ - | \$ - |
| Letters of credit | - | - | - | - |

13. Benefit Plans:

Defined Contribution Plan:

FBD sponsors a defined contribution plan pursuant to the provision of 401(k) of the Internal Revenue Code. The Plan covers all full-time employees who meet age and service requirements. The plan provides for elective employee contributions with a matching FBD contribution of up to 4% of salary. The total expense charged to FBD, and included in salaries and employee benefits was \$137,000 in 2008 and \$129,000 in 2007.

Directors' and Officers' Plans:

FBD maintains a deferred compensation plan for certain officers, wherein a percentage of base salary is contributed to the plan, and utilized to buy stock of FBD in the open market. To promote officer retention, a three year vesting period applies for each year's contributions. As of December 31, 2008 \$29,000 of 2004 contributions were vested for the benefit of participants. Expense for 2008 and 2007 was \$648,000 and \$133,000, respectively. The total related liability as of December 31, 2008 and 2007 was \$887,000 and \$240,000 respectively. The expense for 2008 reflects accelerated vesting for several participants of the plan.

14. Stock Based Compensation:

FBD maintains a Stock Option Plan (the "Plan") under which the Company grants options to its employees and directors. Under the terms of the Plan, 1.5 million shares of common stock were reserved for such options. The Plan provides that the

exercise price of each option granted equals the market price of the Bank's stock on the date of grant. Any option granted vests within one to five years and has a maximum term of ten years.

A summary of the status of the Bank's stock options under the Stock Option Plan as of December 31, 2008 and changes during the year ended December 31, 2008 and 2007 are presented below:

| | For the Years Ended December 31, | | | |
|--|----------------------------------|---------------------------------|-----------|---------------------------------|
| | 2008 | | 2007 | |
| | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| Outstanding, beginning of year | 1,029,988 | \$2.61 | 891,071 | \$2.49 |
| Granted | 159,000 | \$2.06 | 167,000 | \$3.10 |
| Exercised | (24,200) | \$1.38 | (18,083) | \$1.57 |
| Forfeited | (259,537) | \$2.65 | (10,000) | \$3.10 |
| Outstanding, end of period | 905,251 | \$2.54 | 1,029,988 | \$2.61 |
| Options exercisable at period-end | 609,251 | \$2.54 | 862,988 | \$2.49 |
| Weighted average fair value of options granted during the period | | \$0.77 | | \$1.21 |

| | For the Years Ended December 31, | |
|-----------------------------|----------------------------------|----------|
| | 2008 | 2007 |
| Number of options exercised | 24,200 | 18,083 |
| Cash received | \$33,495 | \$28,087 |
| Intrinsic value | \$20,928 | \$27,504 |
| Tax benefit | \$7,115 | - |

| | For the Years Ended December 31, | | | |
|--|----------------------------------|--|---------|--|
| | 2008 | | 2007 | |
| | Shares | Weighted average grant date fair value | Shares | Weighted average grant date fair value |
| Nonvested at the beginning of the year | 167,000 | \$1.21 | 10,000 | \$1.19 |
| Granted | 159,000 | \$0.77 | 167,000 | \$1.21 |
| Vested | - | - | - | - |
| Forfeited | 30,000 | \$1.21 | 10,000 | \$1.21 |
| Nonvested at the end of year | 296,000 | \$0.98 | 167,000 | \$1.21 |

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 30.27%; risk-free interest rate of 3.0% and an expected life of 7.0 years. The fair value of each option granted in 2007 is similarly estimated with the following weighted average assumption: dividend yield of 0%, expected volatility of 29.03%, risk-free interest rate of 4.99% and an expected life of 7 years. A dividend yield of 0% is utilized, because cash dividends have never been paid. The expected life reflects a 3 year "all or nothing" vesting period, the maximum ten year term and review of historical behavior. The volatility was based on Bloomberg's 7 year volatility calculation for "FBOD" common stock. The risk-free interest rate is based on the 7 year Treasury bond.

The following table summarizes information about options outstanding under the Stock Option Plan at December 31, 2008 and 2007.

| Range of Exercise Prices | Options outstanding | | | Options exercisable | |
|--------------------------|---|---|---------------------------------|---------------------|---------------------------------|
| | Number outstanding at December 31, 2008 | Weighted Average remaining contractual life (years) | Weighted Average exercise price | Shares | Weighted Average Exercise Price |
| \$0.78 to \$1.00 | 17,600 | 1.99 | \$ 0.78 | 17,600 | \$ 0.78 |
| \$1.01 to \$1.50 | 7,150 | 3.14 | 1.20 | 7,150 | 1.20 |
| \$1.51 to \$1.99 | 108,200 | 9.19 | 1.65 | 8,200 | 1.69 |
| \$2.00 to \$2.69 | 243,201 | 5.55 | 2.50 | 243,201 | 2.50 |
| \$2.70 to \$3.10 | 529,100 | 6.99 | 2.81 | 333,100 | 2.71 |
| | <u>905,251</u> | | <u>\$ 2.54</u> | <u>609,251</u> | <u>\$ 2.54</u> |

| Range of Exercise Prices | Options outstanding | | | Options exercisable | |
|--------------------------|---|---|---------------------------------|---------------------|---------------------------------|
| | Number outstanding at December 31, 2007 | Weighted Average remaining contractual life (years) | Weighted Average exercise price | Shares | Weighted Average Exercise Price |
| \$0.78 to \$1.00 | 20,350 | 2.99 | \$ 0.78 | 20,350 | \$ 0.78 |
| \$1.01 to \$1.50 | 15,950 | 3.96 | 1.20 | 15,950 | 1.20 |
| \$1.51 to \$1.99 | 23,600 | 3.58 | 1.66 | 23,600 | 1.66 |
| \$2.00 to \$2.69 | 364,788 | 6.44 | 2.51 | 364,788 | 2.51 |
| \$2.70 to \$2.92 | 605,300 | 7.72 | 2.81 | 438,300 | 2.71 |
| | <u>1,029,988</u> | | <u>\$ 2.61</u> | <u>862,988</u> | <u>\$ 2.52</u> |

During the years ended December 31, 2008 and December 31, 2007, \$54,000 and \$56,000 was recognized respectively in compensation expense for the Stock Option Plan, with no tax benefit recognized. No shares vested in 2008, but expense is recognized ratably over the period required to vest. There were 167,000 unvested options at the beginning of 2008, and 296,000 unvested at December 31, 2008, with a fair value of \$289,000, and \$184,000 of that amount remained to be recognized as expense. At that date, the intrinsic value of the 905,251 options outstanding was \$14,000, while the intrinsic value of the 609,251 exercisable (vested) was \$14,000. During 2008, 30,000 options were forfeited, with a weighted average grant fair value of \$36,000.

15. 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: community banking; mezzanine financing; subprime consumer 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 offered through the First Capital Exchange subsidiary are made primarily for real estate projects with higher loan to value ratios than loans made by FBD and with relatively shorter terms (generally less than two years). At December 31, 2008 there were no loans outstanding in the First Capital Exchange subsidiary. As a result of market conditions, the Bank made a strategic decision to discontinue its mezzanine finance business effective July 1, 2008. FBD additionally offers national consumer products to the underbanked consumer including subprime consumer installment loans and subprime credit cards. Subprime consumer loans are loans with principal amounts of \$2,500 or less and terms of 120 days and greater. These loans typically are made in states that are outside of Delaware via the internet through a small number of marketers with rates and fees significantly different from other loan products offered. FBD also offers subprime card products, which consist of prepaid and credit cards, on a national basis through a small number of marketers. The majority of these installment loans and credit card receivables are sold in the secondary market. As a result of discussions with the FDIC, most third party relationships involved in generating these subprime loans and credit cards have been terminated, which materially has reduced and will continue to reduce revenues.

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 (primarily subprime) are evaluated based upon net income. Subprime consumer loans and card products are provided to satisfy consumer demands while diversifying the earnings stream.

Segment information for the years ended December 31, 2008 and 2007 is as follows:

December 31, 2008

(Dollars in thousands)

| | First Bank of Delaware | Mezza- nine Finance | Subprime Card Products | Subprime Consumer Loans | Total |
|---------------------------------|------------------------------|---------------------------|------------------------------|-------------------------------|--------------|
| Net interest income | \$ 4,041 | \$ 253 | \$ 276 | \$ 5,789 | \$ 10,359 |
| Provision for loan losses | 525 | - | 1,909 | 1,751 | 4,185 |
| Non-interest income | 1251 | 13 | 11,128 | 5,138 | 17,530 |
| Non-interest expenses | 3,353 | 208 | 7,993 | 4,479 | 16,033 |
| Provision for income tax | 485 | <u>20</u> | <u>503</u> | <u>1,608</u> | <u>2,616</u> |
| Net income | \$ 929 | \$ 38 | \$ 999 | \$ 3,089 | \$ 5,055 |

Selected Balance Sheet Amounts:

| | | | | | |
|------------------------|-----------|-------|-----------|----------|-----------|
| Total assets | \$ 83,323 | \$ -- | \$ 29,349 | \$ 3,530 | \$116,202 |
| Total loans, net | 67,849 | -- | 768 | 2,690 | 71,307 |
| Total deposits..... | 47,528 | -- | 24,509 | 253 | 72,290 |

December 31, 2007

(Dollars in thousands)

| | First Bank of Delaware | Mezza- nine Finance | Subprime Card Products | Subprime Consumer Loans | Total |
|---------------------------------|------------------------------|---------------------------|------------------------------|-------------------------------|--------------|
| Net interest income | \$ 3,427 | \$ 635 | \$ 850 | \$ 2,575 | \$ 7,487 |
| Provision for loan losses | 72 | - | - | 1,070 | 1,142 |
| Non-interest income | 1051 | 217 | 7,353 | 9,610 | 18,231 |
| Non-interest expenses | 2,832 | 499 | 4,086 | 4,575 | 11,992 |
| Provision for income tax | <u>624</u> | <u>124</u> | <u>1,442</u> | <u>2,210</u> | <u>4,400</u> |
| Net income | \$ 950 | \$ 229 | \$ 2,675 | \$ 4,330 | \$ 8,184 |

Selected Balance Sheet Amounts:

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

16. Borrowings:

The Bank has a line of credit of \$4.0 million with a correspondent bank. That line was not used in 2008 or 2007, nor were there any other borrowings during those periods. The Bank also has a standby letter of credit, issued by an unrelated bank, in the amount of \$170,000 which was required by a lessor. The Bank also has a line of credit with the Federal Home Loan Bank which has not been used. The maximum borrowing capacity for that line at December 31, 2008 was \$27.3 million. Overnight borrowings, the only borrowings the Bank has utilized, are generally 25-35 basis points higher than overnight Federal Funds sold rates.

17. Concentrations:

One of the companies which markets the Bank's subprime consumer loans and another which markets the Bank's credit cards, generated respective loans and credit card products which resulted in revenues greater than 10% of total revenues. In 2008, revenues resulting from the loan marketer amounted to \$3.5 million and revenues from the credit card marketer totaled \$6.2 million, which represented 11.9% and 21.2%, respectively, of total revenues of \$29.1 million. In 2007, those companies marketed loans and credit cards which respectively generated \$6.3 million (21.8%) and \$4.3 million (15.0%) of total revenues of \$28.9 million. We ceased doing business with the company who marketed loans in the third quarter 2008.

SUBSIDIARIES OF FIRST BANK OF DELAWARE

First Bank of Delaware has two subsidiaries,
BSC Services Corp., a Delaware corporation
FBD Capital Corp., a Delaware corporation, dba/First Capital Exchange (inactive)

CERTIFICATION

I, Alonzo J. Primus, certify that:

1. I have reviewed this annual report on Form 10-K of First Bank of Delaware ("FBD");
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 FBD as of, and for, the periods presented in this report;
4. FBD's other certifying officer(s) 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for FBD 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 FBD, 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of FBD'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
 - (d) Disclosed in this report any change in FBD's internal control over financial reporting that occurred during FBD's most recent fiscal quarter (FBD's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, FBD's internal control over financial reporting; and
5. FBD's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to FBD's auditors and the audit committee of FBD's board of directors (or persons performing the equivalent functions):
 - (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 FBD'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 FBD's internal control over financial reporting.

Date: March 18, 2009

/s/ Alonzo J. Primus
President and Chief Executive Officer

CERTIFICATION

I, Paul Frenkiel, certify that:

1. I have reviewed this annual report on Form 10-K of First Bank of Delaware ("FBD");
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 FBD as of, and for, the periods presented in this report;
4. FBD's other certifying officer(s) 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for FBD 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 FBD, 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of FBD'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
 - (d) Disclosed in this report any change in FBD's internal control over financial reporting that occurred during FBD's most recent fiscal quarter (FBD's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, FBD's internal control over financial reporting; and
5. FBD's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to FBD's auditors and the audit committee of FBD's board of directors (or persons performing the equivalent functions):
 - (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 FBD'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 FBD's internal control over financial reporting.

Date: March 18, 2009

/s/ 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 Annual Report on Form 10-K for the fiscal year ended December 31, 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 results of operations of FBD.

Date: March 18, 2009

By: /s/ Alonzo J. Primus
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 Annual Report on Form 10-K for the fiscal year ended December 31, 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 results of operations of FBD.

Date: March 18, 2009

By: /s/ Paul Frenkiel

Paul Frenkiel,
Executive Vice President and
Chief Financial Officer

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