

FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, DC 20429

FORM 10-Q

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

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

FDIC certificate number: **34929**

First Bank of Delaware

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

Delaware

(State or other jurisdiction of
incorporation or organization)

51-0389698

IRS Employer Identification
Number

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

(Address of principal executive offices)

(Zip code)

302-529-5984

(Issuer's telephone number, including area code)

N/A

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

11,391,951 shares of Issuer's Common Stock, par value
\$0.05 per share, issued and outstanding as of August 12, 2008

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PART I - FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

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

| ASSETS: | <u>June 30, 2008</u> | <u>December 31, 2007</u> |
|---|----------------------|--------------------------|
| Cash and due from banks | \$ 2,252 | \$ 1,715 |
| Interest bearing deposits with banks | 63 | 344 |
| Federal funds sold | <u>32,815</u> | <u>13,933</u> |
| Total cash and cash equivalents | 35,130 | 15,992 |
| Investment securities available for sale, at fair value | 8,184 | 17,195 |
| Federal Home Loan Bank stock, at cost | 166 | 124 |
| Loans held for sale | 548 | 139 |
| Loans receivable (net of allowance for loan losses of \$3,164 and \$2,581, respectively) | 70,967 | 76,765 |
| Premises and equipment, net | 3,552 | 3,575 |
| Other real estate owned | 293 | 18 |
| Accrued interest receivable | 306 | 462 |
| Bank owned life insurance | 1,789 | 1,757 |
| Other assets | <u>3,468</u> | <u>3,334</u> |
| Total Assets | <u>\$ 124,403</u> | <u>\$ 119,361</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY: | | |
| Liabilities: | | |
| Deposits: | | |
| Demand – non-interest-bearing | \$ 44,752 | \$ 31,072 |
| Demand – interest-bearing | 221 | 319 |
| Money market and savings | 25,124 | 30,093 |
| Time under \$100,000 | 7,471 | 10,052 |
| Time \$100,000 or more | <u>3,883</u> | <u>9,267</u> |
| Total Deposits | 81,451 | 80,803 |
| Accrued interest payable | 245 | 374 |
| Due to short term consumer loan servicers and purchasers | - | 84 |
| Accrued expenses | 3,410 | 2,625 |
| Other liabilities | <u>1,473</u> | <u>1,315</u> |
| Total Liabilities | <u>86,579</u> | <u>85,201</u> |
| Shareholders' Equity: | | |
| Common stock par value: \$0.05; shares authorized: 15,000,000 | | |
| Shares issued and outstanding at June 30, 2008: 11,391,951 | | |
| Shares issued and outstanding at December 31, 2007: 11,359,017 | | |
| | 570 | 569 |
| Additional paid in capital | 13,345 | 13,284 |
| Retained earnings | 24,242 | 20,604 |
| Stock held by deferred compensation plan | (384) | (384) |
| Accumulated other comprehensive income | <u>51</u> | <u>87</u> |
| Total Shareholders' Equity | <u>37,824</u> | <u>34,160</u> |
| Total Liabilities and Shareholders' Equity | <u>\$ 124,403</u> | <u>\$ 119,361</u> |

(See notes to unaudited consolidated financial statements)

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

| | For the Three Months Ended | | For the Six Months Ended | |
|--|-----------------------------------|----------------|---------------------------------|----------------|
| | June 30, | | June 30, | |
| | 2008 | 2007 | 2008 | 2007 |
| Interest income: | | | | |
| Interest and fees on loans | \$2,618 | \$1,962 | \$5,430 | \$3,842 |
| Interest and dividend income on federal funds sold and other interest-earning balances | 83 | 597 | 216 | 1,202 |
| Interest and dividends on investment securities | 197 | 149 | 419 | 298 |
| Total interest income | <u>2,898</u> | <u>2,708</u> | <u>6,065</u> | <u>5,342</u> |
| Interest expense: | | | | |
| Demand - interest bearing | 1 | 1 | 2 | 1 |
| Money market and savings | 144 | 350 | 371 | 642 |
| Time less than \$100,000 | 69 | 354 | 175 | 728 |
| Time over \$100,000 | 74 | 218 | 177 | 441 |
| Other borrowed funds | - | 7 | - | 7 |
| | <u>288</u> | <u>930</u> | <u>725</u> | <u>1,819</u> |
| Net interest income | 2,610 | 1,778 | 5,340 | 3,523 |
| Provision for loan losses | 1,250 | 18 | 2,050 | 152 |
| Net interest income after provision for loan losses | <u>1,360</u> | <u>1,760</u> | <u>3,290</u> | <u>3,371</u> |
| Non-interest income: | | | | |
| Loan advisory and servicing fees | 19 | 57 | 53 | 70 |
| Service fees on deposit accounts | 148 | 111 | 256 | 218 |
| Net gain on sales of loans | 239 | 417 | 398 | 559 |
| Consumer loan fee income | 1,403 | 2,111 | 3,208 | 3,594 |
| First Capital Exchange fee income | 6 | 9 | 13 | 64 |
| Card products | 3,026 | 1,482 | 5,890 | 2,613 |
| Other income | 205 | 68 | 393 | 121 |
| | <u>5,046</u> | <u>4,255</u> | <u>10,211</u> | <u>7,239</u> |
| Non-interest expenses: | | | | |
| Salaries and employee benefits | 2,028 | 2,022 | 4,253 | 3,937 |
| Occupancy | 140 | 156 | 283 | 254 |
| Depreciation | 103 | 56 | 211 | 104 |
| Legal | 83 | 230 | 179 | 293 |
| Data processing and operational expenses | 132 | 57 | 261 | 125 |
| Delaware franchise tax | 112 | 150 | 298 | 243 |
| Professional fees | 252 | 75 | 339 | 124 |
| Credit card program marketing expense | 596 | - | 596 | - |
| Credit card program processing expense | 420 | 36 | 537 | 61 |
| Other operating expenses | 404 | 388 | 872 | 841 |
| | <u>4,270</u> | <u>3,170</u> | <u>7,829</u> | <u>5,982</u> |
| Income before income taxes | 2,136 | 2,845 | 5,672 | 4,628 |
| Provision for income taxes | 772 | 991 | 2,034 | 1,598 |
| Net Income | <u>\$1,364</u> | <u>\$1,854</u> | <u>\$3,638</u> | <u>\$3,030</u> |
| Earnings per share: | | | | |
| Basic | <u>\$0.12</u> | <u>\$0.16</u> | <u>\$0.32</u> | <u>\$0.26</u> |
| Diluted | <u>\$0.12</u> | <u>\$0.16</u> | <u>\$0.32</u> | <u>\$0.26</u> |

(See notes to unaudited consolidated financial statements)

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

| | Six months ended | |
|---|------------------|------------------|
| | June 30, | |
| | <u>2008</u> | <u>2007</u> |
| Cash flows from operating activities: | | |
| Net income | \$ 3,638 | \$ 3,080 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 2,050 | 152 |
| Stock compensation expense | 41 | 28 |
| Depreciation | 211 | 104 |
| Amortization of discount on investment securities | - | (6) |
| Net gain on sale of loans | (398) | (559) |
| Increase in value of bank owned life insurance | (32) | (31) |
| Decrease (increase) in accrued interest receivable and other assets | 60 | (1,243) |
| Decrease in due to consumer loan servicers and purchasers | (84) | (2,408) |
| Increase in accrued interest payable, accrued expenses and other liabilities | 814 | 2,115 |
| Net cash provided by operating activities | <u>6,300</u> | <u>1,182</u> |
| Cash flows from investing activities: | | |
| Purchase of securities: | | |
| Available for sale | - | (322) |
| FHLB Stock purchase | (42) | (56) |
| Proceeds from principal receipts, calls and maturities of securities: | | |
| Available for sale | 8,955 | 346 |
| Gross loans originated for sale | (32,980) | (54,991) |
| Proceeds from sales of loans | 32,969 | 51,455 |
| Net decrease (increase) in loans | 3,455 | (2,224) |
| Premises and equipment expenditures | (188) | (1,564) |
| Net cash provided by (used in) investing activities | <u>12,169</u> | <u>(7,356)</u> |
| Cash flows from financing activities: | | |
| Net proceeds from the exercise of stock options | 21 | 24 |
| Net increase in demand, money market and savings deposits | 8,613 | 16,130 |
| Net increase in short term borrowings | - | 1,259 |
| Net decrease in time deposits | (7,965) | (4,918) |
| Net cash provided by financing activities | <u>669</u> | <u>12,495</u> |
| Increase in cash and cash equivalents | 19,138 | 6,321 |
| Cash and cash equivalents, beginning of period | 15,992 | 38,755 |
| Cash and cash equivalents, end of period | <u>\$ 35,130</u> | <u>\$ 45,076</u> |
| Supplemental disclosure: | | |
| Interest paid | <u>\$ 854</u> | <u>\$ 1,289</u> |
| Taxes paid | <u>\$ 2,200</u> | <u>\$ 1,700</u> |
| Non-monetary transfers into CREO | \$ 293 | \$ - |

(See notes to unaudited consolidated financial statements)

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

| Comprehensive Income | Common Stock | Additional Paid in Capital | Retained Earnings | Stock Held by Deferred Compensation Plan | Accumulated Other Comprehensive Income | Total Shareholders' Equity |
|---|-----------------|----------------------------------|----------------------|---|---|----------------------------------|
| Balance January 1, 2008 | \$ 569 | \$ 13,284 | \$ 20,604 | \$ (384) | \$ 87 | \$ 34,160 |
| Options exercised(14,850 shares) | 1 | 20 | - | - | - | 21 |
| Stock Based Compensation | - | 41 | - | - | - | 41 |
| Total other comprehensive loss, net of taxes of \$19 | \$ (36) | - | - | - | (36) | (36) |
| Net income | 3,638 | - | 3,638 | - | - | 3,638 |
| Total comprehensive income..... | <u>\$ 3,602</u> | - | - | - | - | - |
| Balance June 30, 2008 | <u>\$ 570</u> | <u>\$ 13,345</u> | <u>\$ 24,242</u> | <u>\$ (384)</u> | <u>\$ 51</u> | <u>\$ 37,824</u> |

| Comprehensive Income | Common Stock | Additional Paid in Capital | Retained Earnings | Stock Held by Deferred Compensation Plan | Accumulated Other Comprehensive Income (loss) | Total Shareholders' Equity |
|---|-----------------|----------------------------------|----------------------|---|--|----------------------------------|
| Balance January 1, 2007 | \$ 568 | \$ 13,201 | \$ 12,420 | \$ (384) | \$ 48 | \$ 25,853 |
| Options exercised(16,513 shares) | 1 | 23 | - | - | - | 24 |
| Stock Based Compensation | - | 28 | - | - | - | 28 |
| Total other comprehensive loss, net of taxes of \$61 | \$ (117) | - | - | - | (117) | (117) |
| Net income | 3,030 | - | 3,030 | - | - | 3,030 |
| Total comprehensive income..... | <u>\$ 2,913</u> | - | - | - | - | - |
| Balance June 30, 2007 | <u>\$ 569</u> | <u>\$ 13,252</u> | <u>\$ 15,450</u> | <u>\$ (384)</u> | <u>\$ (69)</u> | <u>\$ 28,818</u> |

(See notes to unaudited consolidated financial statements)

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

Note 1: Organization

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

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

Note 2: Summary of Significant Accounting Policies:

Basis of Presentation:

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

Risks and Uncertainties and Certain Significant Estimates:

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

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

One of the companies which markets the Bank's subprime consumer loans and another which markets the Bank's subprime credit cards, generated respective loans and credit card products which resulted in revenues greater than 10% of total revenues. In second quarter 2008 revenue resulting from the company marketing loans amounted to \$1.2 million and revenues from the company that markets cards totaled \$1.1 million, which represented 15.3% and 13.7% respectively of total revenues of \$7.9 million. In second quarter 2007, those companies marketed loans and credit cards which respectively generated \$1.5 million (22.1%) and \$916,000 (13.1%) of total revenues of \$7.0 million. Year to date 2008 revenue resulting from the company marketing loans amounted to \$2.8 million and revenues from the company that markets cards totaled \$3.0 million, which represented 17.3% and 18.5% respectively of total revenues of \$16.2 million. For year to date 2007, those companies marketed loans and credit cards which respectively generated \$2.3 million (18.4%) and \$1.6 million(12.6%) of total revenues of \$12.6 million. In third quarter 2008, we will cease marketing loans through the aforementioned company. This will result in a phased out reduction in related reserves as existing loans mature. (See"Management's Discussion and Analysis of Financial Condition and Results of Operations – Recent Developments.")

At June 30, 2008, there were approximately \$6.9 million of subprime consumer loans and credit card receivables outstanding on the balance sheet, including \$2.0 million of subprime credit cards directly offered by FBD which were originated via the internet. The balance of the receivables were generated through outside marketers. These loans and receivables generally have principal amounts of \$10,000 or less. Legislation eliminating or limiting interest rates upon such loans has from time to time been proposed. Certain loans that FBD originates are classified as "Held For Sale" on the balance sheet.

FBD is an issuing bank for certain credit card programs. FBD originates subprime credit card receivables through various marketers and sells the majority of such receivables into the secondary market on a non-recourse basis. FBD earns a monthly fee for each active account. FBD also offers certain credit

cards directly and retains these balances on its books. At June 30, 2008 and December 31, 2007 FBD had approximately \$2.0 million and \$200,000 of credit card related receivables on its books.

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

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

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

The Bank has received a notice from the Federal Deposit Insurance Corporation, or "FDIC," commencing an administrative action relating certain consumer loan and credit card programs which have been offered by the Bank for years. We believe these programs are serving consumers with special credit needs and we remain committed to providing access to credit to these underserved consumers. It is important to note that the FDIC notice does not concern the financial condition of the Bank. The Bank has always sought to work cooperatively with its regulators and will continue to work with the FDIC to resolve this matter. However, the Bank believes that the FDIC's claims are unfounded and unfair. The Bank will vigorously defend its programs through the administrative hearing process afforded to the Bank by federal law.

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

Significant estimates are made by management in determining the allowance for loan losses, carrying values of other real estate owned, other than temporary impairment of investment securities and the realization of deferred tax assets. Consideration is given to a variety of factors in establishing these estimates. In estimating the allowance for loan losses, management considers current economic conditions, diversification of the loan portfolio, delinquency statistics, results of internal loan reviews, borrowers' perceived financial and managerial strengths, the adequacy of underlying collateral, if collateral dependent, or present value of future cash flows and other relevant factors. Since these estimates are dependent, to a great extent, on the general economy and other conditions that may be beyond FBD's control, it is at least reasonably possible that the estimates could differ materially in the near term. In estimating other than temporary impairment of investment securities, securities are evaluated on at least a quarterly basis, and more frequently when market conditions warrant such an evaluation, to determine whether a decline in their value is other-than-temporary. To determine whether a loss in value is other-than-temporary, management utilizes criteria such as the reasons underlying the decline, the magnitude and duration of the decline and the intent and ability of the Company to retain its investment in the security for a period of time sufficient to allow for an anticipated recovery in the fair value. The term "other-than-temporary" is not intended to

indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of investment. Once a decline in value is determined to be other-than-temporary, the value of the security is reduced and a corresponding charge to earnings is recognized. In evaluating our ability to recover deferred tax assets, management considers all available positive and negative evidence, including our past operating results and our forecast of future taxable income. In determining future taxable income, management makes assumptions for the amount of taxable income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require us to make judgments about our future taxable income and are consistent with the plans and estimates we use to manage our business. Any reduction in estimated future taxable income may require us to record a valuation allowance against our deferred tax assets. An increase in the valuation allowance would result in additional income tax expense in the period and could have a significant impact on our future earnings.

FBD's results of operations will be significantly affected by the ability of borrowers to repay their loan and card obligations as many national consumer borrowers, including short term installment loan customers and subprime credit card borrowers, are considered to be high credit risks. Further, litigation in connection with such consumer loans and card receivables, if successful, and if not reimbursed by loan and card servicers obligated to indemnify FBD, could have an adverse impact on earnings and financial condition. There is no indemnification for the subprime credit cards offered directly by FBD.

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

Stock Based Compensation:

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

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

| | For the Six Months Ended June 30, | | | |
|--|-----------------------------------|---------------------------------|------------------|---------------------------------|
| | 2008 | | 2007 | |
| | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| Outstanding, beginning of year | 1,029,988 | \$ 2.49 | 892,071 | \$ 2.49 |
| Granted | 59,000 | 2.76 | 167,000 | 3.10 |
| Exercised | (14,850) | 1.42 | (16,513) | 1.46 |
| Forfeited | (220,720) | 2.63 | - | - |
| Outstanding, end of period | <u>853,418</u> | <u>2.64</u> | <u>1,042,558</u> | <u>2.62</u> |
| Options exercisable at period-end | <u>647,418</u> | <u>2.52</u> | <u>864,558</u> | <u>2.51</u> |
| Weighted average fair value of options granted during the period | | <u>\$ 0.94</u> | | <u>\$ 1.21</u> |

| | For the Six Months Ended June 30, | |
|-----------------------------|-----------------------------------|-----------|
| | 2008 | 2007 |
| Number of options exercised | 14,850 | 16,513 |
| Cash received | \$ 21,159 | \$ 24,031 |
| Intrinsic value | 15,967 | 25,371 |
| Tax benefit | 5,588 | 8,880 |

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

| Range of Exercise Prices | Options outstanding | | | Options exercisable | |
|--------------------------|---------------------|---|---------------------------------|---------------------|---------------------------------|
| | Shares | Weighted Average remaining contractual life (years) | Weighted Average exercise price | Shares | Weighted Average Exercise Price |
| \$0.78 to \$1.00 | 17,600 | 2.5 | \$ 0.78 | 17,600 | \$ 0.78 |
| \$1.01 to \$1.50 | 13,750 | 3.4 | 1.20 | 13,750 | 1.20 |
| \$1.51 to \$1.99 | 10,950 | 2.7 | 1.68 | 10,950 | 1.68 |
| \$2.00 to \$2.69 | 269,818 | 6.0 | 2.51 | 269,818 | 2.51 |
| \$2.70 to \$2.92 | 541,300 | 7.5 | 2.82 | 335,300 | 2.71 |
| | <u>853,418</u> | | <u>\$ 2.64</u> | <u>647,418</u> | <u>\$ 2.52</u> |

During the three months ended June 30, 2008, \$18,000 was recognized in compensation expense, with a

35% assumed tax benefit, for the Stock Option Plan. During the six months ended June 30, 2008, \$41,000 was recognized in compensation expense, with a 35% assumed tax benefit, for the Stock Option Plan. During the three months ended June 30, 2007, \$20,000 was recognized in compensation expense, with a 35% assumed tax benefit, for the Stock Option Plan. During the six months ended June 30, 2007, \$28,000 was recognized in compensation expense, with a 35% assumed tax benefit, for the Stock Option Plan. The fair value of each option granted in 2008 is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for those grants: dividend yield of 0%; expected volatility of 24.98%; risk-free interest rate of 3.01% and an expected life of 7.0 years. At June 30, 2008, there were 206,000 unvested options with a fair value of \$253,700 with \$161,900 of that amount remaining to be recognized as expense. At that date, the intrinsic value of the 853,418 options outstanding was \$31,302, while the intrinsic value of the 647,418 exercisable (vested) options was \$31,302. During the six months ended June 30, 2008, 220,720 options were forfeited with a weighted average grant fair value of \$267,071.

Note 3: Reclassifications

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

Note 4: Recent Accounting Pronouncements

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

In April 2008, the FASB issued FASB Staff Position ("FSP") FAS 142-3, "Determination of the Useful Life of Intangible Assets." This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R, and other GAAP. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The Bank is currently evaluating the potential impact the new pronouncement will have on its consolidated financial statements.

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. The Bank is currently evaluating the potential impact the new pronouncement will have on its consolidated financial statements.

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

In September 2006, the FASB ratified the consensus reached by the Emerging Issues Task Force ("EITF") in Issue 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*. EITF 06-4 applies to life insurance arrangements that provide an employee with a specified benefit that is not limited to the employee's active service period, including certain bank-owned life insurance ("BOLI") policies. EITF 06-4 requires an employer to recognize a liability and related compensation costs for future benefits that extend to postretirement periods. EITF 06-4 is effective for fiscal years beginning after December 15, 2007, with earlier application permitted. FBD adopted this policy on January 1, 2008 and the impact is not expected to be material.

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

Staff Accounting Bulletin No. 110 (SAB 110) amends and replaces Question 6 of Section D.2 of Topic 14, "Share-Based Payment," of the Staff Accounting Bulletin series. Question 6 of Section D.2 of Topic 14 expresses the views of the staff regarding the use of the "simplified" method in developing an estimate of expected term of "plain vanilla" share options and allows usage of the "simplified" method for share option grants prior to December 31, 2007. SAB 110 allows public companies which do not have historically sufficient experience to provide a reasonable estimate to continue use of the "simplified" method for estimating the expected term of "plain vanilla" share option grants after December 31, 2007. SAB 110 is effective January 1, 2008. The amendment was adopted January 1, 2008 and the impact was not material to the Bank's financial position or results of operation.

Staff Accounting Bulletin No. 109 (SAB 109), "Written Loan Commitments Recorded at Fair Value Through Earnings" expresses the views of the staff regarding written loan commitments that are accounted

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

In June 2007, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards" ("EITF 06-11"). EITF 06-11 states that an entity should recognize a realized tax benefit associated with dividends on nonvested equity shares, nonvested equity share units and outstanding equity share options charged to retained earnings as an increase in additional paid in capital. The amount recognized in additional paid in capital should be included in the pool of excess tax benefits available to absorb potential future tax deficiencies on share-based payment awards. EITF 06-11 should be applied prospectively to income tax benefits of dividends on equity-classified share-based payment awards that are declared in fiscal years beginning after December 15, 2007. The Bank adopted EITF 06-11 on January 1, 2008 and the impact was not material to the Bank's financial position or results of operation.

Note 5: Legal Proceedings

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

Note 6: Segment Reporting

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

FBD evaluates the performance of the community banking segment based upon net income, return on equity and return on average assets. Mezzanine financing, consumer installment loans, and card products are evaluated based upon net income. Consumer installment loans and card products are provided to satisfy consumer demands while diversifying the earnings stream.

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

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

(dollars in thousands)

| | First Bank of Delaware | Mezzanine Financing | Card Products | Consumer loans | Total |
|----------------------------|---------------------------|------------------------|------------------|-------------------|-----------------|
| Net interest income | \$ 966 | \$ 140 | \$ 80 | \$ 1,424 | \$ 2,610 |
| Provision for loan losses | 79 | - | 899 | 272 | 1,250 |
| Non-interest income | 373 | 6 | 3,025 | 1,642 | 5,046 |
| Non-interest expenses | 757 | 67 | 2,336 | 1,110 | 4,270 |
| Provision for income taxes | 176 | 28 | (46) | 614 | 772 |
| Net income (loss) | <u>\$ 327</u> | <u>\$ 51</u> | <u>\$ (84)</u> | <u>\$ 1,070</u> | <u>\$ 1,364</u> |

As of and for the six months ended June 30, 2008

(dollars in thousands)

| | First Bank of Delaware | Mezzanine Financing | Card Products | Consumer loans | Total |
|----------------------------|---------------------------|------------------------|------------------|-------------------|-----------------|
| Net interest income | \$ 1,993 | \$ 254 | \$ 150 | \$ 2,943 | \$ 5,340 |
| Provision for loan losses | 144 | - | 899 | 1,007 | 2,050 |
| Non-interest income | 703 | 13 | 5,889 | 3,606 | 10,211 |
| Non-interest expenses | 1,637 | 162 | 3,762 | 2,268 | 7,829 |
| Provision for income taxes | 329 | 38 | 496 | 1,171 | 2,034 |
| Net income | <u>\$ 586</u> | <u>\$ 67</u> | <u>\$ 882</u> | <u>\$ 2,103</u> | <u>\$ 3,638</u> |

Selected Balance Sheet Accounts at June 30, 2008:

| | | | | | |
|----------------|-----------|------|-----------|----------|------------|
| Total assets | \$ 89,263 | \$ - | \$ 29,025 | \$ 6,115 | \$ 124,403 |
| Total loans | 64,110 | - | 2,000 | 5,405 | 71,515 |
| Total deposits | 48,242 | - | 31,025 | 2,184 | 81,451 |

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

(dollars in thousands)

| | Community Banking | Mezzanine Financing | Card Products | Consumer loans | Total |
|----------------------------|----------------------|------------------------|------------------|-------------------|-----------------|
| Net interest income | \$ 866 | \$ 174 | \$ 220 | \$ 518 | \$ 1,778 |
| Provision for loan losses | 18 | - | - | - | 18 |
| Non-interest income | 235 | 10 | 1,482 | 2,528 | 4,255 |
| Non-interest expenses | 743 | 150 | 985 | 1,292 | 3,170 |
| Provision for income taxes | 118 | 13 | 250 | 610 | 991 |
| Net income | <u>\$ 222</u> | <u>\$ 21</u> | <u>\$ 467</u> | <u>\$ 1,144</u> | <u>\$ 1,854</u> |

As of and for the six months ended June 30, 2007

(dollars in thousands)

| | Community Banking | Mezzanine Financing | Card Products | Consumer loans | Total |
|----------------------------|----------------------|------------------------|------------------|-------------------|-----------------|
| Net interest income | \$ 1,816 | \$ 301 | \$ 415 | \$ 991 | \$ 3,523 |
| Provision for loan losses | 52 | - | - | 100 | 152 |
| Non-interest income | 409 | 65 | 2,613 | 4,152 | 7,239 |
| Non-interest expenses | 1,457 | 264 | 1,910 | 2,351 | 5,982 |
| Provision for income taxes | 244 | 36 | 388 | 930 | 1,598 |
| Net income | <u>\$ 472</u> | <u>\$ 66</u> | <u>\$ 730</u> | <u>\$ 1,762</u> | <u>\$ 3,030</u> |

Selected Balance Sheet Accounts at December 31, 2007:

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

Note 7: Earnings Per Share:

Earnings per share ("EPS") consists of two separate components: basic EPS and diluted EPS. Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding for each period presented. Diluted EPS is calculated by dividing net income by the weighted average number of common shares outstanding plus dilutive common stock equivalents ("CSEs"). CSEs consist of dilutive stock options granted through FBD's stock option plan. The following table is a reconciliation of the numerator and denominator used in calculating basic and diluted EPS. CSEs which are anti-dilutive are not included in the following calculation. At June 30, 2008 there were 811,118 options which were antidilutive and therefore excluded from the calculation. At June 30, 2007, there were 167,000 options which were antidilutive because the option exercise price being greater than the average market price for the period.

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

| | <u>2008</u> | | <u>2007</u> | |
|---|-------------------|------------------|-------------------|------------------|
| | <u>Shares</u> | <u>Per Share</u> | <u>Shares</u> | <u>Per Share</u> |
| Net Income | \$1,364,000 | | \$1,854,000 | |
| Weighted average shares For period | 11,391,951 | | 11,366,990 | |
| Basic EPS | | \$0.12 | | \$0.16 |
| Add common stock equivalents representing dilutive stock options | <u>21,921</u> | | <u>159,295</u> | |
| Effect on basic EPS of dilutive CSE | | = | | = |
| Equals total weighted average shares and CSE (diluted) | <u>11,413,872</u> | | <u>11,526,285</u> | |
| Diluted EPS | | <u>\$0.12</u> | | <u>\$0.16</u> |

| | <u>2008</u> | | <u>2007</u> | |
|---|-------------------|------------------|-------------------|------------------|
| | <u>Shares</u> | <u>Per Share</u> | <u>Shares</u> | <u>Per Share</u> |
| Net Income | \$3,638,000 | | \$3,030,000 | |
| Weighted average shares For period | 11,384,526 | | 11,363,977 | |
| Basic EPS | | \$0.32 | | \$0.26 |
| Add common stock equivalents representing dilutive stock options | <u>34,658</u> | | <u>228,548</u> | |
| Effect on basic EPS of dilutive CSE | | = | | = |
| Equals total weighted average shares and CSE (diluted) | <u>11,419,184</u> | | <u>11,592,525</u> | |
| Diluted EPS | | <u>\$0.32</u> | | <u>\$0.26</u> |

Note 8: Comprehensive Income

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

| (dollar amounts in thousands) | Three months ended | | Six months ended | |
|---|--------------------|-----------------|------------------|-----------------|
| | June 30, | | June 30, | |
| | 2008 | 2007 | 2008 | 2007 |
| Net income | \$ 1,364 | \$ 1,854 | \$ 3,638 | \$ 3,030 |
| Other comprehensive loss, net of tax: | | | | |
| Unrealized losses on securities: | | | | |
| Unrealized holding losses during the period | (172) | (168) | (56) | (178) |
| Tax effect on unrealized holding losses | 60 | 58 | 20 | 61 |
| Comprehensive income | <u>\$ 1,252</u> | <u>\$ 1,744</u> | <u>\$ 3,602</u> | <u>\$ 2,913</u> |

Note 9: Fair Value of Financial Instruments:

SFAS No.157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FAS No.157 are described below:

Basis of Fair Value Measurement:

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

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

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

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

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

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

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

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

All of the Bank's securities at June 30, 2008 were level 1 with a fair value of \$8.2 million.

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

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

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

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

Recent Developments:

The Bank has received a notice from the Federal Deposit Insurance Corporation, or "FDIC," commencing an administrative action relating certain consumer loan and credit card programs which have been offered by the Bank for years. We believe these programs are serving consumers with special credit needs and we remain committed to providing access to credit to these underserved consumers. It is important to note that the FDIC notice does not concern the financial condition of the Bank. The Bank has always sought to work cooperatively with its regulators and will continue to work with the FDIC to resolve this matter. However, the Bank believes that the FDIC's claims are unfounded and unfair. The Bank will vigorously defend its programs through the administrative hearing process afforded to the Bank by federal law.

In accordance with a decision by the Board of Directors to phase out all current marketing and servicing agreements for subprime consumer installment loans through third parties, we will cease our marketing and servicing agreement for subprime consumer installment loans through a company for which year to date revenues amounted to \$2.8 million. This will result in a phased out reduction of related revenues as existing loans pay off. We will also cease marketing with other consumer loan and certain prepaid card marketers with additional reductions in revenues. Elimination of these revenues will have a material impact on operations. While First Bank of Delaware has begun to offer subprime credit cards directly to consumers and will similarly begin to offer subprime consumer installment loans, there can be no assurance as to the amount of revenue or net income which will be realized.

Consumer Installment Loans

In 2007, FBD ceased offering loans in the stores of its marketers. Subprime consumer loans are now offered through unaffiliated third party marketers and servicers, via the internet, with whom we contract and who own the internet sites where the loans are marketed. These marketers and servicers process applications and also provide customer service. However, we make all credit decisions prior to our making the loan. We contract with these marketers and servicers after we perform our due diligence with respect to them. We will cease marketing loans through one of our marketers/servicers in third quarter 2008. This marketer represented \$1.2 million or 15.3% of revenue in second quarter 2008 and \$2.8 million or 17.3% for year to date 2008. In addition to installment loans offered via the internet and by phone, FBD similarly offers prepaid cards, credit cards and other loan products to subprime and other borrowers.

We sell the majority of our subprime consumer loans or interests therein to third party investors. These third party buyers are investors or investment groups familiar with the industry. These loans are sold on a non-recourse basis and the investors bear the risk of loss for any defaults on these loans. We retain a portion of the income on these sold loans, which is recorded as non-interest income. 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 and telephone, which are mostly sold to third parties. At June 30, 2008, there were approximately \$70.6 million of such loans outstanding of which \$4.9 million was retained by the Bank. At June 30, 2008, there were \$548,000 of loans accounted for as "held for sale," which a buyer was committed to purchase.

Card Products

Prepaid Cards

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

Credit Card Products

In 2005, we became an issuing bank for certain credit card programs targeted principally to the subprime market. FBD originates subprime credit card receivables and sells the majority of such receivables into the secondary market without recourse. FBD has partnered with unaffiliated third party marketers and servicers who perform customer service, marketing, processing services and collections related to the accounts. The receivables are sold on a non-recourse basis and the purchasers bear the risk of loss for any defaults on the receivables. FBD earns a monthly fee for each active account, as well as a monthly management fee. FBD also offers its own credit card products, which it retains on the balance sheet and for which it retains all income, pays all expenses and bears the risk of loss. At June 30, 2008, FBD had \$2.0 million of subprime credit card receivables on its books.

Financial Condition:

June 30, 2008, Compared to December 31, 2007

Total assets increased \$5.0 million to \$124.4 million at June 30, 2008, versus \$119.4 million at December 31, 2007. This increase reflected an \$18.9 million increase in fed funds sold which was offset in part by decreases in investments of \$9.0 million, and in loan receivables of \$5.8 million, between those respective dates.

Loans:

The loan portfolio represents FBD's largest asset, and is its most significant source of interest income. Net loans, excluding loans held for sale, decreased \$5.8 million, or 7.6%, to \$71.0 million at June 30, 2008, versus \$76.8 million at December 31, 2007. The majority of the decrease was the result of a sale of FBD's First Capital Exchange loan portfolio of \$4.3 million at par in June of 2008. As a result of changes in market conditions First Capital Exchange will no longer be operative effective third quarter 2008. The loan portfolio consists of commercial real estate, construction and other commercial loans, as well as short term subprime consumer loans and credit card balances. Commercial real estate loans comprise the majority of the loan portfolio. Commercial real estate loans amounted to \$34.7 million at June 30, 2008 compared to \$44.1 million at December 31, 2007, this included the mezzanine loans. Construction and land development loans amounted to \$27.0 million and \$21.2 million respectively, at those dates. At June 30, 2008, there were \$6.9 million in subprime consumer loans and credit card receivables outstanding versus \$6.3 million at December 31, 2007.

Investment Securities:

Investment securities available-for-sale are investments, which may be sold in response to changing market and interest rate conditions and for liquidity and other purposes. The investment securities available-for-sale consist primarily of U.S. Government agency issued mortgage backed securities. Available-for-sale securities totaled \$8.2 million at June 30, 2008, a decrease of \$9.0 million or 52.4%, from year-end 2007. This decrease resulted primarily from a redemption of one security for \$8.0 million and pay downs of mortgage-backed securities. At June 30, 2008, and December 31, 2007, the portfolio had net unrealized gains of \$79,000 and \$135,000, respectively.

Cash and Cash Equivalents:

Cash and due from banks, interest-bearing deposits and federal funds sold comprise this category, which consists of FBD's most liquid assets. The aggregate amount in these three categories increased by \$19.1 million to \$35.1 million at June 30, 2008 from \$16.0 million at December 31, 2007. Federal funds sold increased by \$18.9 million between those respective dates, to \$32.8 million at June 30, 2008.

Fixed Assets:

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

Bank Owned Life Insurance:

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

Deposits:

Deposits, which include non-interest and interest-bearing demand deposits, money market, savings and time deposits and may include some brokered deposits, represent the major sources of funding. Deposits are generally solicited from the Delaware market area through a variety of products to attract and retain customers, with a primary focus on multi-product relationships. We also obtain deposits, including significant non-interest bearing demand deposits, from our card product customers.

Total deposits increased by \$648,000 to \$81.5 million at June 30, 2008, from \$80.8 million at December 31, 2007. Average transaction accounts in the current quarter decreased 0.6% or \$369,000 over the comparable prior year quarter. Time deposits decreased \$8.0 million to \$11.4 million at June 30, 2008, versus \$19.3 million at December 31, 2007 as higher cost deposits matured and were not renewed.

Other Liabilities:

Other liabilities increased by \$158,000 or 12.0% to \$1.5 million at June 30, 2008 from \$1.3 million at December 31, 2007. The increase is primarily due to insurance loan fees payable, which increased between the periods.

Shareholders' Equity:

Total shareholders' equity increased \$3.6 million to \$37.8 million at June 30, 2008, versus \$34.2 million at December 31, 2007. This increase primarily reflected net income of \$3.6 million.

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

Results of Operations:

Overview

FBD's net income decreased to \$1.4 million or \$0.12 per diluted share for the three months ended June 30, 2008, compared to \$1.9 million or \$0.16 per diluted share for the comparable prior year period. Non-interest income increased \$791,000 primarily due to increases in subprime credit card product fees of \$1.5 million which was partially offset by a decrease in subprime consumer loan income of \$708,000. The impact of higher average loan balances and higher yields thereon and lower funding costs led to an increase in net interest income of \$832,000 or 46.8%, which was more than offset by a \$1.2 million increase in the loan loss provision in 2008. The primary component of the increased loss provision was the Bank's direct subprime credit card program originated in 2008, for which the Bank holds the related receivables and bears risk of loss. Other operating expenses increased \$1.1 million primarily reflecting increases related to the credit card products. These factors were reflected in a return on average assets and average equity of 4.55% and 14.60% respectively, in the second quarter of 2008 compared to 5.18% and 26.37% respectively for the same period in 2007.

Analysis of Net Interest Income

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

| Interest-earning assets: (Dollars in thousands) | For the three months ended June 30, 2008 | | | For the three months ended June 30, 2007 | | |
|---|---|--------------------------------|----------------|---|--------------------------------|----------------|
| | Average Balance | Interest Income/ Expense | Yield/ Rate | Average Balance | Interest Income/ Expense | Yield/ Rate |
| Federal funds sold and other interest- earning assets | \$ 15,850 | \$ 83 | 2.11% | \$ 45,172 | \$ 597 | 5.30% |
| Securities | 15,054 | 197 | 5.22% | 9,920 | 149 | 6.01% |
| Loans receivable | 79,606 | 2,618 | 13.19% | 75,374 | 1,962 | 10.44% |
| Total interest-earning assets | <u>110,510</u> | <u>2,898</u> | <u>10.52%</u> | <u>130,466</u> | <u>2,708</u> | <u>8.33%</u> |
| Other assets | <u>9,655</u> | | | <u>12,984</u> | | |
| Total assets | <u>\$ 120,165</u> | | | <u>\$ 143,450</u> | | |
| Interest-bearing liabilities: | | | | | | |
| Demand-non interest bearing | \$ 37,781 | | | \$ 35,014 | | |
| Demand interest-bearing | 314 | \$ 1 | 1.28% | 230 | \$ 1 | 1.74% |
| Money market & savings | 27,116 | 144 | 2.13% | 30,336 | 350 | 4.63% |
| Time deposits | 12,470 | 143 | 4.60% | 42,294 | 572 | 5.42% |
| Total deposits | <u>77,681</u> | <u>288</u> | <u>1.49%</u> | <u>107,874</u> | <u>923</u> | <u>3.43%</u> |
| Total interest-bearing deposits | <u>39,900</u> | <u>288</u> | <u>2.90%</u> | <u>72,860</u> | <u>923</u> | <u>5.08%</u> |
| Other borrowings | <u>-</u> | <u>-</u> | <u>-</u> | <u>337</u> | <u>7</u> | <u>8.33%</u> |
| Total interest-bearing liabilities | <u>\$ 39,900</u> | <u>\$ 288</u> | <u>2.90%</u> | <u>\$ 73,197</u> | <u>\$ 930</u> | <u>5.10%</u> |
| Total deposits and other borrowings | <u>77,681</u> | <u>288</u> | <u>1.49%</u> | <u>108,211</u> | <u>930</u> | <u>3.45%</u> |
| Non interest-bearing liabilities | 5,005 | | | 7,041 | | |
| Shareholders' equity | <u>37,479</u> | | | <u>28,198</u> | | |
| Total liabilities and shareholders' equity | <u>\$ 120,165</u> | | | <u>\$ 143,450</u> | | |
| Net interest income | | <u>\$ 2,610</u> | | | <u>\$ 1,778</u> | |
| Net interest spread | | | <u>7.62%</u> | | | <u>3.23%</u> |
| Net interest margin | | | <u>9.47%</u> | | | <u>5.47%</u> |

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

Rate/Volume Table

| | Three months ended June 30, 2008 versus June 2007 (dollars in thousands) | | |
|---------------------------------------|--|---------------|---------------|
| | Due to change in: | | |
| | Volume | Rate | Total |
| Interest earned on: | | | |
| Federal funds sold | \$ (154) | \$ (360) | \$ (514) |
| Securities | 67 | (19) | 48 |
| Loans | 139 | 517 | 656 |
| Total interest-earning assets | 52 | 138 | 190 |
| Interest expense of | | | |
| deposits: | | | |
| Interest-bearing demand deposits | - | - | - |
| Money market and savings | 18 | 188 | 206 |
| Time deposits | 342 | 87 | 429 |
| Total deposit interest expense | 360 | 275 | 635 |
| Other borrowings | - | 7 | 7 |
| Total interest expense | 360 | 282 | 642 |
| Net interest income | \$ 412 | \$ 420 | \$ 832 |

FBD's net interest margin increased 400 basis points to 9.47% for the three months ended June 30, 2008, versus the prior year comparable period. The majority of the increase resulted from an increase in higher yielding average subprime consumer loan balances. The average yield on interest-earning assets increased 219 basis points to 10.52% for the three months ended June 30, 2008, from 8.33% for the prior year comparable period, reflecting the impact of the higher yielding subprime consumer loan balances. Without the consumer loans, net interest margins would have been approximately 4.30% in second quarter 2008 and 3.88% in second quarter 2007. The higher 2008 margin reflected lower rates paid on deposit accounts. The average rate paid on interest-bearing liabilities decreased 220 basis points to 2.90% for the three months ended June 30, 2008, from 5.10% in the prior year comparable period. The decrease reflected a decision not to renew higher priced fixed rate time deposits as FBD anticipated declines in interest rates. Rates paid on total deposits decreased 194 basis points, to 1.49% in second quarter 2008 from 3.43% in second quarter 2007, primarily for that reason. While the yield on prime rate loans declined between periods, these decreases more than offset the impact of such declines.

FBD's net interest income increased \$832,000, or 46.8%, to \$2.6 million for the three months ended June 30, 2008, from \$1.8 million for the prior year comparable period. The increase reflected \$190,000 of growth in interest income resulting from higher average balances and yields on loans, primarily subprime loans, and a \$642,000 decrease in interest expense, reflecting lower rates and balances held.

Total interest income increased \$190,000, or 7.0%, to \$2.9 million for the three months ended June 30, 2008, from \$2.7 million for the prior year comparable period. Interest and fees on loans increased \$656,000, or 33.4% to \$2.6 million for the three months ended June 30, 2008, from \$2.0 million for the prior year comparable period. The increases reflected those factors noted in the preceding paragraphs which discussed net interest margin and net interest income. Interest and dividends on investment securities increased \$48,000, or 32.2% to \$197,000 for the three months ended June 30, 2008, from \$149,000 for the prior year comparable period primarily reflecting increased average balances. Excess liquidity was generally invested in overnight federal funds sold. Federal funds sold income decreased \$514,000, to \$83,000 in second quarter 2008, compared to \$597,000 in second quarter 2007. The decrease reflected lower average short-term interest rates which decreased the yield to 2.11% from 5.30% between those respective periods. In second quarter 2008, average federal funds sold decreased \$29.3 million, or 64.8%, to \$15.9 million in second quarter 2008, from \$45.2 million in second quarter 2007.

Total interest expense decreased \$642,000, or 69.0%, to \$288,000 for the three months ended June 30, 2008, from \$930,000 for the prior year comparable period. That decrease primarily reflected the maturity and non renewal of higher cost certificates of deposit as well as lower rates. Rates paid on money market and savings also declined. Total interest-bearing liabilities decreased \$33.3 million, or 45.5%, to \$39.9 million in second quarter 2008, from \$73.2 million in second quarter 2007.

Interest expense on money market and savings decreased \$206,000, or 58.9% to \$144,000 for second quarter 2008 from \$350,000 for the prior year comparable period. The decrease reflected a decrease in balances of \$3.2 million to \$27.1 million from \$30.3 million and a decrease in yield to 2.13% from 4.63%, resulting from the declining rate environment.

Interest expense on time deposits (certificates of deposit) decreased \$429,000, or 75.0%, to \$143,000 for second quarter 2008, from \$572,000 for the prior year comparable period. Average certificates of deposit outstanding decreased \$29.8 million, or 70.5%, to \$12.5 million, for the quarter ended June 30, 2008, from \$42.3 million in the prior year comparable period. This decrease reflected the maturity and non renewal of higher cost certificates of deposit. The average rate decreased 82 basis points to 4.60% in second quarter 2008 from 5.42% in the prior year comparable period.

Provision for Loan Losses

The provision for loan losses is charged to operations in an amount necessary to bring the total allowance for loan losses to a level that reflects the known and estimated inherent losses in the portfolio. The provision for loan losses increased \$1.2 million to \$1.2 million for the three months ended June 30, 2008, from \$18,000 for the prior year comparable period. The increase reflected an increase in the provision for loan losses required by FBD's allowance for loan loss methodology for subprime consumer installment loans and subprime credit card receivables. The FBD direct subprime credit card program accounted for the majority of the \$1.2 million increase as the Bank holds the receivables and is responsible for any losses.

Non-Interest Income

Total non-interest income increased \$791,000 or 18.6%, to \$5.1 million for the three months ended June 30, 2008, versus \$4.3 million for the prior year comparable period. Subprime card product income, which includes prepaid and credit cards increased by \$1.5 million or 104.2% from \$1.5 million in the prior year comparable period to \$3.0 million for the three months ended June 30, 2008. The increase was primarily a result of increased revenue from retained balances of FBD's direct card program of \$1.1 million, card incentive revenue of \$200,000 and a \$200,000 increase in our active card revenue for balances sold to third parties between the comparable periods. Active card revenue is earned primarily on the number of active accounts, which increased substantially between the periods. Additionally, incentive revenues are earned based on new card issuance. One company that markets FBD credit cards generated \$1.1 million in revenue or 21.6% of non-interest revenue. Consumer loan fee income and net gain on sales of such loans decreased by \$900,000 or 35.04% to \$1.6 million from \$2.5 million due to the decreased volume of subprime consumer installment loans. This decline reflected the termination of storefront lending in second quarter 2007. One company that markets the Bank's subprime consumer installment loans generated loans which resulted in revenues of \$1.2 million or 23.8% of non-interest revenue. The Bank will cease doing business with that marketer in third quarter 2008. (See "Recent Developments")

Non-Interest Expenses

Total non-interest expenses increased \$1.1 million, or 34.7% to \$4.3 million for the three months ended June 30, 2008, from \$3.2 million for the prior year comparable period reflecting expenses for the subprime credit card product offered directly by FBD. Salaries and employee benefits were comparable between the periods at \$2.0 million.

Occupancy expense decreased \$16,000, or 10.3%, to \$140,000 for second quarter 2008, versus \$156,000 for second quarter 2007.

Depreciation expense increased \$47,000, or 83.9% to \$103,000 for the three months ended June 30, 2008, versus \$56,000 for the prior year comparable period. The increase reflected expenditures on equipment.

Legal fees decreased \$147,000, or 63.9%, to \$83,000 in second quarter 2008, compared to \$230,000 in second quarter 2007. The decrease reflected legal fees paid in 2007 related to new product development which included consumer installment loans, prepaid and credit cards and other loan products.

Data processing expense increased \$75,000, or 131.6%, to \$132,000 in second quarter 2008 from \$57,000 in second quarter 2007. The increase reflected higher data processing charges related to subprime credit card and consumer installment loan products.

Delaware franchise tax decreased \$38,000, or 25.3%, to \$112,000 in second quarter 2008 from \$150,000 in second quarter 2007. The decrease resulted primarily from decreased taxable income.

Professional fees increased \$177,000, or 236.0% to \$252,000 in second quarter 2008, compared to \$75,000 in the comparable prior year period. The increase reflected consulting fees related to credit cards.

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

Deleted: setting up

Credit card program processing expense increased to \$420,000 in second quarter 2008, compared to \$36,000 in the comparable prior year period. The increase reflected the significant increase in processing and servicing expenses for the Bank's directly offered credit card in the second quarter of 2008.

Other expenses increased \$16,000, or 4.12% to \$404,000 for the three months ended June 30, 2008, from \$388,000 for the prior year comparable period. The increase reflected a \$16,000 increase in audit expenses, \$16,000 in travel expenses and a \$13,000 increase in FDIC assessment expense. These increases were partially offset by reductions in other areas.

Provision for Income Taxes

The provision for income taxes decreased \$219,000, or 22.1% to \$772,000 for the three months ended June 30, 2008, from \$991,000 for the prior year comparable period. The increase was primarily the result of the decrease in pre-tax income. The effective tax rate was 36% for the three month period ended June 30, 2008 compared to 35% in the prior year comparable period.

Six Months Ended June 30, 2008 Compared to June 30, 2007

Results of Operations:

Overview

FBD's net income increased to \$3.6 million or \$0.32 per diluted share for the six months ended June 30, 2008, compared to \$3.0 million, or \$0.26 per diluted share for the comparable prior year period primarily reflecting higher non-interest income. The increase in current year income reflected a \$3.3 million increase in subprime card product income, which was partially offset by the increase of \$1.1 million in card program expense. Subprime consumer loan fee income decreased by \$386,000 from the prior year. The loan loss provision increased by \$1.9 million to \$2.1 million in year to date 2008 from \$152,000 in the prior year comparable period. The primary component of the increased loss provision was the Bank's subprime consumer installment loan and direct credit card program originated in 2008 and for which the Bank held the related receivables and bears risk of loss. These factors were reflected in a return on average assets and average equity of 6.01% and 20.19% respectively, in the six months ended 2008 compared to 4.33% and 22.27% respectively for the same period in 2007.

Analysis of Net Interest Income

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

| Interest-earning assets: (Dollars in thousands) | For the six months ended June 30, 2008 | | | For the six months ended June 30, 2007 | | |
|---|---|--------------------------------|----------------|---|--------------------------------|----------------|
| | Average Balance | Interest Income/ Expense | Yield/ Rate | Average Balance | Interest Income/ Expense | Yield/ Rate |
| Federal funds sold and other interest- earning assets | \$ 16,242 | \$ 216 | 2.69% | \$ 46,010 | \$ 1,202 | 5.27% |
| Securities | 16,078 | 419 | 5.21% | 9,962 | 298 | 5.98% |
| Loans receivable | 79,086 | 5,430 | 13.85% | 73,562 | 3,842 | 10.53% |
| Total interest-earning assets | 111,406 | 6,065 | 10.98% | 129,534 | 5,342 | 8.32% |
| Other assets | 10,291 | | | 11,613 | | |
| Total assets | <u>\$ 121,697</u> | | | <u>\$ 141,147</u> | | |
| Interest-bearing liabilities: | | | | | | |
| Demand-non interest bearing | \$ 36,864 | | | \$ 34,680 | | |
| Demand interest-bearing | 394 | \$ 2 | 1.02% | 253 | \$ 1 | 0.79% |
| Money market & savings | 28,319 | 371 | 2.65% | 28,234 | 642 | 4.59% |
| Time deposits | 14,732 | 352 | 4.80% | 43,651 | 1,169 | 5.40% |
| Total deposits | 80,309 | 725 | 1.82% | 106,818 | 1,812 | 3.42% |
| Total interest-bearing deposits | 43,445 | 725 | 3.37% | 72,138 | 1,812 | 5.07% |
| Other borrowings | - | - | - | 169 | 7 | 8.35% |
| Total interest-bearing liabilities | <u>\$ 43,445</u> | <u>\$ 725</u> | <u>3.37%</u> | <u>\$ 72,307</u> | <u>\$ 1,819</u> | <u>5.07%</u> |
| Total deposits and other borrowings | 80,309 | 725 | 1.82% | 106,987 | 1,819 | 3.43% |
| Non interest-bearing liabilities | 5,144 | | | 6,723 | | |
| Shareholders' equity | 36,244 | | | 27,437 | | |
| Total liabilities and shareholders' equity | <u>\$ 121,697</u> | | | <u>\$ 141,147</u> | | |
| Net interest income | | <u>\$ 5,340</u> | | | <u>\$ 3,523</u> | |
| Net interest spread | | | <u>7.62%</u> | | | <u>3.25%</u> |
| Net interest margin | | | <u>9.67%</u> | | | <u>5.48%</u> |

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

Rate/Volume Table

| | Six months ended June 30, 2008 versus June 2007 (dollars in thousands) | | |
|---------------------------------------|--|---------------|-----------------|
| | Volume | Rate | Total |
| Interest earned on: | | | |
| Federal funds sold | \$ (398) | \$ (588) | \$ (986) |
| Securities | 159 | (38) | 121 |
| Loans | 382 | 1,206 | 1,588 |
| Total interest-earning assets | 143 | 580 | 723 |
| Interest expense of deposits: | | | |
| Interest-bearing demand deposits | (1) | - | (1) |
| Money market and savings | (1) | 272 | 271 |
| Time deposits | 691 | 126 | 817 |
| Total deposit interest expense | 689 | 398 | 1,087 |
| Other borrowings | - | 7 | 7 |
| Total interest expense | 689 | 405 | 1,094 |
| Net interest income | \$ 832 | \$ 985 | \$ 1,817 |

FBD's net interest margin increased 419 basis points to 9.67% for the six months ended June 30, 2008, versus the prior year comparable period. The majority of the increase resulted from the increased amount of higher yield subprime consumer loans retained on the balance sheet. Without the consumer loans, net interest margins would have been approximately 4.34% for year to date 2008 and 3.95% for year to date 2007. The resulting 39 basis point increase was primarily the result of reduced funding cost on deposit products. The average rate paid on interest bearing liabilities decreased 170 basis points to 3.37% for the six months ended June 30, 2008 from 5.07% in the prior year comparable period, as FBD chose not to renew higher priced fixed rate time deposits in anticipation of declines in interest rates. Yields on total deposits also decreased 160 basis points, to 1.82% in the six months ended June 30, 2008 from 3.42% in the prior year comparable period primarily as a result of the declining rate environment. While the yield on prime rate loans declined between periods, these decreases more than offset the impact of such declines.

FBD's net interest income increased \$1.8 million, or 51.6%, to \$5.3 million for the six months ended June 30, 2008, from \$3.5 million for the prior year comparable period, as the impact of higher average loan balances and lower interest costs more than offset lower investment and federal fund yields.

Total interest income increased \$723,000, or 13.5%, to \$6.1 million for the six months ended June 30, 2008, from \$5.3 million for the prior year comparable period. Interest and fees on loans increased \$1.6 million, or 41.3%, to \$5.4 million for the six months ended June 30, 2008, from \$3.8 million for the prior year comparable period. The increase reflected those factors noted in the preceding paragraph. Interest and dividends on investment securities increased \$121,000, or 40.6%, to \$419,000 for the six months ended

June 30, 2008, from \$298,000 for the prior year comparable period. FBD purchased securities in 2007 which accounted for substantially all of the increase in income from the prior year period. Federal funds sold income decreased \$986,000, or 82.0%, to \$216,000 in year to date 2008, compared to \$1.2 million in year to date 2007. The decrease reflected lower average fed funds sold balances as FBD reduced balances of higher cost time deposits funding such balances. Lower short-term interest rates decreased the yield on federal funds sold to 2.69% from 5.27% between those respective periods. In year to date 2008, average federal funds sold decreased \$29.8 million, or 64.7%, to \$16.2 million from \$46.0 million in year to date 2007.

Total interest expense decreased \$1.1 million, or 60.1%, to \$725,000 for the six months ended June 30, 2008, from \$1.8 million for the prior year comparable period. That decrease reflected the impact of reduced levels of higher cost time deposits and lower short-term interest rates on the yield on interest-bearing liabilities. The yield on all interest bearing liabilities decreased 170 basis points to 3.37% in year to date 2008 from 5.07% in year to date 2007. Total interest-bearing liabilities decreased \$28.9 million, or 39.9%, to \$43.4 million for year to date 2008, from \$72.3 million for year to date 2007.

Interest expense on time deposits (certificates of deposit) decreased \$817,000, or 70.0%, to \$352,000 for year to date 2008, from \$1.2 million for the prior year comparable period. This decrease primarily reflected the maturity and non-renewal of higher cost certificates of deposit. Average certificates of deposit outstanding decreased \$28.9 million, or 66.3%, to \$14.7 million, for the six months ended June 30, 2008, from \$43.6 million in the prior year comparable period.

Provision for Loan Losses

The provision for loan losses is charged to operations in an amount necessary to bring the total allowance for loan losses to a level that reflects the known and estimated inherent losses in the portfolio. The provision for loan losses increased \$1.9 million to \$2.1 million for the six months ended June 30, 2008, from \$152,000 for the prior year comparable period. The increase reflected additions to the provision for loan losses required by FBD's allowance for loan loss methodology for subprime consumer installment loans and subprime credit card receivables.

Non-Interest Income

Total non-interest income increased \$3.0 million, or 41.0%, to \$10.2 million for the six months ended June 30, 2008, versus \$7.2 million for the prior year comparable period. The \$3.0 million increase resulted primarily from fee income on subprime credit card products. Incentive revenue is earned on new card issuance. The Bank recorded increased incentive income related to such issuance of \$1.3 million for the six months ended June 30, 2008. The Bank retains its directly offered credit card receivables on its books, which income increased \$1.1 million in 2008. The Bank showed an approximate \$900,000 increase in revenues on active cards for balances that are sold to third parties. One company that markets FBD credit cards generated \$3.0 million in revenue or 29.5% of non-interest revenue. Subprime consumer installment loan fee income and net gain on sales of loans decreased \$547,000 to \$3.6 million in 2008 from \$4.1 million in the first six months ended June 30, 2007. One company that market's the Bank's subprime consumer loans generated loans which resulted in revenues of \$2.8 million or 27.4% of non-interest revenue. The Bank will cease its arrangement with that marketer in third quarter 2008. (See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Recent Developments")

Non-Interest Expenses

Total non-interest expenses increased \$1.8 million or 30.9% to \$7.8 million for the six months ended June 30, 2008, from \$6.0 million for the prior year comparable period. Salaries and employee benefits increased \$316,000, or 8.0%, to \$4.2 million for the six months ended June 30, 2008, from \$3.9 million for the prior year comparable period. The increase primarily reflected higher staffing costs for the subprime credit card product offered directly by FBD.

Occupancy expense increased \$29,000, or 11.4%, to \$283,000 in year to date 2008, versus \$254,000 for year to date 2007. The increase reflected the expansion of rental space and the move of the operations center.

Depreciation expense increased \$107,000, or 102.9% to \$211,000 for year to date 2008, versus \$104,000 for the prior year comparable period. The increase reflected expenditures for equipment.

Legal fees decreased \$114,000, or 38.9%, to \$179,000 in year to date 2008, compared to \$293,000 in year to date 2007. The majority of the decrease reflected legal fees paid in 2007 related to new product development which included consumer installment loans, prepaid and credit cards and other loan products.

Data processing expense increased \$136,000, or 108.8%, to \$261,000 in year to date 2008 from \$125,000 in year to date 2007. The increase reflected higher data processing charges related to subprime consumer installment loans and subprime credit card products.

Delaware franchise tax increased \$55,000, or 22.6%, to \$298,000 in year to date 2008 from \$243,000 in year to date 2007. The increase resulted primarily from higher taxable income.

Professional fees increased \$215,000, or 173.4% to \$339,000 in year to date 2008, compared to \$124,000 in the prior year to date. The increase reflected consulting fees related to credit cards and new product development in 2008.

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

Credit card program processing expense increased to \$537,000 in year to date 2008, compared to \$61,000 in the prior year to date. The increase reflected the significant increase in processing and servicing expenses for the Bank's directly offered credit card in the second quarter of 2008.

Other expenses increased \$31,000, or 3.7% to \$872,000 in year to date June 30, 2008, from \$841,000 for the prior year comparable period. Of that increase, audit and accounting expenses increased \$28,000, FDIC assessments increased \$24,000, and other taxes increased \$27,000. These increases were partially offset by declines in other areas.

Provision for Income Taxes

The provision for income taxes increased \$436,000, or 27.3%, to \$2.0 million for the six months ended June 30, 2008, from \$1.6 million for the prior year comparable period. This increase was primarily the result of the increase in pre-tax income. The effective tax rate was approximately 36% in 2008 and 35% in 2007.

Commitments, Contingencies and Concentrations

FBD is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of their customers. These financial instruments include commitments to extend credit and standby letters of credit totaling \$217.3 million at June 30, 2008. These instruments involve to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the financial statements.

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

Financial instruments whose contract amounts represent potential credit risk were comprised of commitments to extend credit of approximately \$217.1 million and \$210.0 million and standby letters of credit of approximately \$192,000 and \$192,000 at June 30, 2008, and December 31, 2007, respectively. No liability is currently recorded for these commitments.

At June 30, 2008 unused credit card lines amounted to \$206.0 million for which the resulting outstanding balances are sold after funding. Therefore such amounts are not indicative of actual future liquidity requirements. FBD has the unilateral right to cancel the unused lines, in the unlikely event that that would become necessary or desirable. The bank has written contingency plans that document the steps required to effectuate the termination of credit card lines. Also, the purchasers maintain deposit balances at FBD which provide support for daily card funding. FBD closely monitors the liquidity resources of each purchaser.

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

Standby letters of credit are conditional commitments that guarantee the performance of a customer to a third party. The credit risk and collateral policy involved in issuing letters of credit is essentially the same as that involved in extending loan commitments. The amount of collateral obtained is based on management's credit evaluation of the customer. Collateral held varies but may include real estate, marketable securities, pledged deposits, equipment and accounts receivable.

Regulatory Matters

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

| | Actual | | For Capital Adequacy Purposes | | To be well capitalized under regulatory capital guidelines | |
|-----------------------------------|----------|--------|-------------------------------|-------|--|--------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| <i>(Dollars in thousands)</i> | | | | | | |
| At June 30, 2008 | | | | | | |
| Total risk based capital | \$38,984 | 41.07% | \$7,594 | 8.00% | \$9,492 | 10.00% |
| Tier one risk based capital | 37,773 | 39.79 | 3,797 | 4.00 | 5,696 | 6.00 |
| Tier one leverage capital | 37,773 | 31.43 | 6,009 | 5.00 | 6,009 | 5.00 |
| At December 31, 2007 | | | | | | |
| Total risk based capital | \$35,268 | 37.44% | \$7,536 | 8.00% | \$9,419 | 10.00% |
| Tier one risk based capital | 34,073 | 36.18 | 3,767 | 4.00 | 5,651 | 6.00 |
| Tier one leverage capital | 34,073 | 27.49 | 6,197 | 5.00 | 6,197 | 5.00 |

Dividend Policy

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

Liquidity

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

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

FBD's most liquid assets, consisting of cash and due from banks, interest bearing deposits with banks and federal funds sold, totaled \$35.1 million at June 30, 2008, compared to \$16.0 million at December 31, 2007, due primarily to an increase in federal funds sold. Loan maturities and repayments, if not reinvested in loans, also are immediately available for liquidity. Funding requirements have historically been satisfied primarily by generating core deposits and certificates of deposit with competitive rates. At June 30, 2008, FBD had aggregate outstanding commitments (including unused lines of credit and letters of credit) of

\$217.3 million. The commitments include \$206.0 million in credit card commitments for which the resulting balances are sold after funding. Therefore such amounts are not indicative of actual future liquidity requirements. The Bank has the unilateral right to cancel the unused lines, in the unlikely event that that would become necessary or desirable. The bank has written contingency plans that document the steps required to effectuate the termination of credit card lines. Also, the purchasers maintain deposit balances at FBD which provide support for daily card funding. FBD closely monitors the liquidity resources of each purchaser. Certificates of deposit scheduled to mature in one year totaled \$9.8 million at June 30, 2008. FBD anticipates that it will have sufficient funds available to meet its current commitments.

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

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

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

Investment Securities Portfolio

At June 30, 2008, FBD had identified certain investment securities that are being held for indefinite periods of time, including securities that will be used as part of FBD's asset/liability management strategy and that may be sold in response to changes in interest rates, prepayments and similar factors. These securities are classified as available for sale and are intended to increase the flexibility of FBD's asset/liability management. Available for sale securities consisted primarily of US Government Agency securities. The book and market values of investment securities available for sale were approximately \$8.2 million as of June 30, 2008. The net unrealized gain on investment securities available for sale as of that date was \$79,000.

Loan Portfolio

FBD's loan portfolio consists of secured and unsecured commercial loans including commercial real estate loans, loans secured by one-to-four family residential property, commercial construction and residential construction loans as well as residential mortgages, home equity loans, short-term consumer credit card loans and other consumer loans. Commercial loans are primarily term loans made to small to medium-sized businesses and professionals for working capital, asset acquisition and other purposes. Commercial loans are originated as either fixed or variable rate loans with typical terms of 1 to 5 years. FBD's commercial loans typically range between \$250,000 and \$1,000,000 but customers may borrow significantly larger amounts up to the secured legal lending limit of approximately \$9.0 million at June 30, 2008. Individual customers may have several loans often secured by different collateral.

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

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

| (dollars in thousands) | As of June 30, 2008 | | As of December 31, 2007 | |
|-----------------------------------|---------------------|---------------|-------------------------|---------------|
| | Balance | % of Total | Balance | % of Total |
| Commercial: | | | | |
| Real estate secured | \$ 34,732 | 46.8 | \$ 44,094 | 55.6 |
| Construction and land development | 26,964 | 36.4 | 21,182 | 26.7 |
| Non real estate secured | 4,601 | 6.2 | 6,772 | 8.5 |
| Unsecured | 950 | 1.3 | 950 | 1.2 |
| | <u>67,247</u> | <u>90.7</u> | <u>72,998</u> | <u>92.0</u> |
| Consumer subprime | 6,884 | 9.3 | 6,348 | 8.0 |
| Total loans | <u>74,131</u> | <u>100.0%</u> | <u>79,346</u> | <u>100.0%</u> |
| Less: allowance for loan losses | <u>(3,164)</u> | | <u>(2,581)</u> | |
| Net loans | <u>\$ 70,967</u> | | <u>\$ 76,765</u> | |

Credit Quality

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

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

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

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

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

| | June 30, 2008 | December 31, 2007 |
|--|--------------------------|------------------------------|
| (dollars in thousands) | | |
| Loans accruing, but past due 90 days or more | \$ - | \$ - |
| Non-accrual loans | 902 | 970 |
| Total non-performing loans (1) | 902 | 970 |
| Other real estate owned | 293 | 18 |
| Total non-performing assets (2) | <u>\$ 1,195</u> | <u>\$988</u> |
| | | |
| Non-performing loans as a percentage of total loans net of unearned income | 1.22% | 1.22% |
| Non-performing assets as a percentage of total assets | 0.96% | 0.83% |

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

Non accrual-loans of \$902,000 at June 30, 2008 decreased from the \$970,000 at December 31, 2006, primarily as a result of the transfer of two loans totaling \$293,000 to other real estate owned in the period. The decrease was offset, in part, by a \$304,000 transfer of credit card loans to non-accrual. There were no loans accruing, but past due 90 days or more at June 30, 2008.

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

The recorded investment in loans which are impaired totaled \$902,000 at June 30, 2008 and \$970,000 at December 31, 2007, and the amount of related valuation allowances was \$842,000 and \$462,000 respectively of those dates. There were no commitments to extend credit to any borrowers with impaired loans as of the end of the periods presented herein.

At June 30, 2008, and December 31, 2007, internally classified accruing substandard loans totaled approximately \$0 and \$0 million respectively; and doubtful loans totaled approximately \$10,000 and \$0 respectively. There was one commercial loan totaling \$170,000, \$347,000 of subprime consumer installment loans and \$305,000 of subprime credit card loans classified as loss at June 30, 2008, the full amounts of which were reserved in the valuation allowance noted in the prior paragraph.

FBD had delinquent loans as follows: (i) 30 to 59 days past due, in the aggregate principal amount of \$209,000 at June 30, 2008 and \$469,000 at December 31, 2007; and (ii) 60 to 89 days past due, at June 30, 2008 and December 31, 2007, in the aggregate principal amount of \$0 and \$245,000, respectively.

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

Other Real Estate Owned:

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

At June 30, 2008, FBD had no credit exposure to "highly leveraged transactions" as defined by the Federal Reserve Bank.

Allowance for Loan Losses

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

| (dollars in thousands) | For the six months ended June 30, 2008 | For the twelve months ended December 31, 2007 | For the six months ended June 30, 2007 |
|---|--|---|--|
| Balance at beginning of period..... | \$ 2,581 | \$1,860 | \$ 1,860 |
| Charge-offs: | | | |
| Commercial and construction..... | 137 | - | 1 |
| Subprime consumer loans..... | 1,484 | 454 | - |
| Subprime credit card loans..... | 84 | - | - |
| Consumer | - | 4 | 35 |
| Total charge-offs | <u>1,705</u> | <u>458</u> | <u>36</u> |
| Recoveries: | | | |
| Commercial and construction..... | 38 | - | 2 |
| Subprime consumer loans..... | 200 | 35 | - |
| Consumer..... | - | 2 | 35 |
| Total | <u>238</u> | <u>37</u> | <u>37</u> |
| recoveries..... | | | |
| Net charge-offs..... | <u>1,467</u> | <u>421</u> | <u>(1)</u> |
| Provision for loan losses..... | <u>2,050</u> | <u>1,142</u> | <u>152</u> |
| Balance at end of period..... | <u>\$3,164</u> | <u>\$2,581</u> | <u>\$2,013</u> |
| Average loans outstanding (1)..... | <u>\$79,086</u> | <u>\$73,260</u> | <u>\$73,562</u> |
| As a percent of average loans (1): | | | |
| Net charge-offs (annualized) | 3.71% | 0.57% | 0.00% |
| Provision for loan losses (annualized)..... | 5.18% | 1.55% | 0.41% |
| Allowance for loan losses..... | 4.00% | 3.52% | 2.73% |
| Allowance for loan losses to: | | | |
| Total loans, net of unearned income at period end | 4.24% | 3.25% | 2.65% |
| Total non-performing loans at period end..... | 350.78% | 266.08% | 464.89% |

(1) Includes non-accruing loans.

Management makes at least a quarterly determination as to an appropriate provision from earnings to maintain an allowance for loan losses that is management's best estimate of known and inherent losses. The Board of Directors periodically reviews the status of all non-accrual and impaired loans and loans classified by regulators or internal loan review officer, who reviews both the loan portfolio and overall adequacy of the allowance for loan losses. 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.

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

Estimating the appropriate level of the allowance for loan losses at any given date is difficult, particularly in a continually changing economy. In management's opinion, the allowance for loan losses was appropriate at June 30, 2008. However, there can be no assurance that, if asset quality deteriorates in future periods, additions to the allowance for loan losses will not be required.

FBD management is unable to determine in which loan category future charge-offs and recoveries may occur. The entire allowance for loan losses is available to absorb loan losses in any loan category. The majority of the loan portfolio represents loans made for commercial purposes, while significant amounts of residential property may serve as collateral for such loans. FBD attempts to evaluate larger loans individually, on the basis of its loan review process, which scrutinizes loans on a selective basis and other available information. Even if all commercial purpose loans could be reviewed, there is no assurance that information on potential problems would be available. The portfolio of consumer loans is evaluated in groups. At June 30, 2008, loans made for commercial and construction, and consumer purposes, respectively, amounted to \$67.2 million and \$7.0 million (at that date there were \$548,000 of installment loans held for sale and \$6.9 million of installment loans and credit card receivables).

Effects of Inflation

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

ITEM 4T: CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

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

(b) Changes in internal controls.

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

PART II: OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

None

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

None

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

None

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

The annual meeting of First Bank of Delaware, to take action upon the election of two directors of the Company was held on April 15, 2008 at 4:00 pm at 5301 Limestone Road, suite 106 Wilmington, DE 19803. Written notice of said meeting, according to law, was mailed to each shareholder of record entitled to receive notice of said meeting, 30 days prior thereto. As of the record date of said meeting of the shareholders, the number of shares then issued and outstanding was 11,377,101 shares of common stock, of which 11,377,101 were entitled to vote. A total of 10,428,305 shares were voted. No nominee received less than 91.7 % of the voted shares. Therefore, pursuant to such approval, the following directors were elected to the Company:

Harry D. Madonna 3 year term expires 2011

Existing Directors:

William W. Batoff 3 year term expires 2009
Alonzo J. Primus 3 year term expires 2009
Harris Wildstein 3 year term expires 2010
Lyle Hall 3 year term expires 2010

ITEM 5: OTHER INFORMATION

None

ITEM 6: EXHIBITS

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

Exhibit No.

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

SIGNATURES

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

First Bank of Delaware

Alonzo J. Primus
President and Chief Executive Officer

Paul Frenkiel
Executive Vice President and Chief Financial Officer

Dated: August 13, 2008

CERTIFICATION

I, Alonzo J. Primus, certify that:

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

Date: August 13, 2008

Alonzo J. Primus
President and Chief executive Officer

CERTIFICATION

I, Paul Frenkiel, certify that:

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

Date: August 13, 2008

Paul Frenkiel
Executive Vice President and Chief Financial Officer

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

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

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

Date: August 13, 2008

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

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

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

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

Date: August 13, 2008

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