



Doing more for you.

Dear Members of First Federal of Bucks County,

Welcome to the Annual Meeting of Members for First Federal of Bucks County. This past year was marked by significant improvement in most areas of our business, deposit growth, loan growth, and margin growth. However, despite First Federal's wise decisions in years past to stay clear of the sub-prime lending market, we were not immune to the economic disruptions and financial market stress that occurred as a result.

The Association gained traction on several of the initiatives that started in 2007. We made a change in our logo and tagline in May of this year that called to the market's attention that things are changing at First Federal. Our improved deposit products and services allowed us to turn around a trend of declining, or at best flat deposit levels, into a clear growth mode. During the year our deposits grew by \$28 million, or 7.9%. This deposit growth helped us fund loan growth of \$31 million. Much of this loan growth, \$21 million, occurred in our Commercial Banking group. The balance of our loan growth, \$10 million, was in residential mortgages while our consumer loan portfolio was relatively unchanged.

The growth in loans and deposits, the resulting change in the mix of both, combined with a steepening of the yield curve, contributed to significant growth in our net interest income. Net interest income for 2008 was \$12.7 million versus \$10.5 million in 2007, or an increase of 20.6%.

The impact of "mark to market" accounting caused First Federal to write down an investment in a short term ARM mutual fund throughout the year as the underlying investments continued to plunge as there were really no buyers in the marketplace to create a realistic value. Our prior plan to divest this investment was halted in its early stages as the fund was virtually closed to redemptions. The lack of a market for this type of investment was again a result of the real estate market demise and the total loss of confidence in the underlying assets by the usual market makers of these instruments.

During September Freddie Mac ceased paying dividends on their preferred stock, of which First Federal was an investor. With the US Treasury placing Freddie Mac into conservatorship, our investment became virtually worthless despite the governments past "encouragement" of banks to invest in these organizations.

Our loan portfolios performed well, despite the rapid decline in the economy, due to our conservative lending philosophy. However, the real estate market downturn adversely impacted some of our customers in the real estate development business such that we added significantly to our loan loss reserves. With the continuing weakness in the real estate market impacting almost all construction projects in the market, we will closely monitor our loans and make adjustments as needed.

As the year was coming to a close, we opened our ninth branch office during November in Newtown. We have high hopes for this office in this vibrant town and our initial deposit results support that position.

The Team Members of the Association are proud of the growth of our deposits and loans during 2008. The economic setbacks we have had were troubling but our capital base remains strong even after absorbing those losses. We will continue to execute our strategic plan which calls for continued growth and a return to profitability in 2009. The Board of Directors, Officers and Team Members of the First Federal thank you for your support and look forward to continuing to be your financial solutions partner.

<u>Description</u>	<u>12/31/08</u>	<u>12/31/07</u>
Total Assets	\$553,290,000	\$524,144,000
Net Loans	\$366,087,000	\$334,755,000
Total Deposits	\$383,750,000	\$355,882,000
Tangible Equity Capital	\$57,916,000	\$60,094,000

President and CEO,



Bruce Iacobucci