

**FEDERAL DEPOSIT INSURANCE CORPORATION**

Washington, DC 20429

**FORM 10-KSB**

(Mark One)

[ **X** ] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
(FEE REQUIRED)

For the fiscal year ended December 31, 2006

OR

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
(NO FEE REQUIRED)

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
FDIC certificate number: 0-17007

**FIRST BANK OF DELAWARE**

(Exact name of registrant as specified in charter)

Delaware  
(State or Other Jurisdiction of Incorporation or Organization)

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

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

19803  
(Zip Code)

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

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

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO     

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES      NO X

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

State Registrant's revenues for the most recent fiscal year. \$16,489,566

State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average of the bid and asked prices of such stock, as of December 14, 2006. The aggregate market value of \$24,480,166 was based on the average of the bid and asked prices on the National Association of Securities Dealers Automated Quotation System on December 14, 2006.

**APPLICABLE ONLY TO CORPORATE REGISTRANTS**

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

Common Stock \$0.05 Par Value  
Title of Class

11,362,159  
Number of Shares Outstanding as of February 28, 2007

**Documents incorporated by reference**

Part III incorporates certain information by reference from the Registrant's Proxy Statement for the 2007 Annual Meeting of Shareholders to be held on April 17, 2007.

**FIRST BANK OF DELAWARE**

**Form 10-KSB**

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## PART I

### ITEM 1: DESCRIPTION OF BUSINESS

#### First Bank of Delaware (“FBD”)

We are a commercial bank chartered pursuant to the laws of the State of Delaware. Our principal office is located at Brandywine Commons II, Concord Pike, Wilmington, Delaware, and our telephone number is (302) 529-5984. As a Delaware chartered bank, we are subject to the regulation and examination of the Delaware State Banking Commissioner. As a state chartered bank which is not a member of the Federal Reserve System, we are also subject to examination and comprehensive regulation by the Federal Deposit Insurance Corporation (“FDIC”). The deposits which are held by us are insured up to applicable limits by the Bank Insurance Fund of the FDIC. We presently conduct our principal business banking activities through our two offices in Wilmington, Delaware. We offer a variety of credit and depository banking services. Our commercial loan services are primarily offered to individuals and businesses in the Delaware area through two offices in New Castle County, Delaware; however, we also make a substantial number of short term consumer installment loans (with terms up to 140 days) through third party servicers in various states and via the Internet. Credit and prepaid card products are also offered nationally, beginning in the third quarter of 2005.

The majority of loan balances resulting from these national products are sold. FBD has two subsidiaries, BSC Services Corp and FBD Capital Corp. dba/First Capital Exchange. BSC Services provides operations, accounting, compliance and human resources staffing to FBD and Republic First Bank. First Capital Exchange provides financing for commercial real estate projects. Related loans differ from those made by FBD in that they may have higher loan to value ratios.

Effective on January 31, 2005, FBD was spun-off as an independent company from Republic First Bancorp, Inc. (“Republic”). Prior to the spin-off, we were a wholly owned subsidiary of Republic, which was a two-bank holding company. Republic's other wholly owned subsidiary was, and still is, Republic First Bank, a Pennsylvania chartered bank (the “PA Bank”).

As of December 31, 2006, we had total assets of approximately \$123.9 million, total shareholders' equity of approximately \$25.9 million, total deposits of approximately \$92.6 million and net loans receivable of approximately \$67.7 million. Our net income for the year ended December 31, 2006 was \$3.4 million.

#### Products and Services Offered

##### General

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

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

We offer a broad range of loan and credit facilities to the businesses and residents of our service area, including secured and unsecured commercial loans and commercial real estate and construction loans. We also have the ability to offer automobile loans, home improvement loans, home equity and overdraft lines of credit, and other products. However, activity in these categories has been minimal, as we have emphasized commercial relationships. We also nationally offer short term installment loans with terms of up to 140 days, and credit and prepaid cards to the underbanked market. We also offer mezzanine financing through our subsidiary, First Capital Exchange. Such financing is generally short term (less than two years), with higher loan to value ratios than loans made by the bank. We previously offered tax and payday loan products in 2006 and prior years, but have ceased offering those products. We manage credit risk through loan application evaluation and monitoring for adherence with credit policies. Since our inception, we have had a senior officer monitor compliance with our lending policies and procedures.

We also maintain an investment securities portfolio. Investment securities are purchased within standards of our Investment Policies, which are approved annually by our Board of Directors. The Investment Policies address such issues as permissible investment categories, credit quality, maturities, and concentrations. At December 31, 2006, substantially all of the aggregate dollar amount of the investment securities consisted of U.S. Government Agency issued mortgage-backed securities. Credit risk associated with these U.S. Government Agency securities is minimal, with risk-based capital weighting factors of 20%.

### **Traditional Banking Products and Services**

We offer a range of competitively priced commercial and other banking services, including secured and unsecured commercial real estate loans, construction and land development and other commercial loans. We offer both commercial and consumer deposit accounts, including checking accounts, interest-bearing demand accounts, money market accounts, certificates of deposit, savings accounts, sweep accounts, lockbox services and individual retirement accounts (and other traditional banking services). Our commercial loans typically range between \$100,000 and \$1.0 million but customers may borrow significantly larger amounts up to our secured legal lending limit to one borrower of approximately \$5.7 million. Also, individual customers may have several loans often secured by different collateral, which are in total subject to that lending limit.

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

Our lending activities generally are focused on small and medium-sized businesses within the professional community. Commercial and construction loans are the most significant category of our outstanding loans, representing 93.5% of total loans outstanding at December 31, 2006. Repayment of these loans is, in part, dependent on general economic conditions affecting the community and the various businesses within the community. Although our management continues to follow established underwriting policies and monitors loans through our loan review officer, credit risk is still inherent in the portfolio.

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

### **First Capital Exchange**

We offer mezzanine financing through our subsidiary, First Capital Exchange. Such financing is generally short term (less than two years), with higher loan to value ratios than loans made by the bank. The loans are made primarily for real estate projects and allow the borrower to expedite projects without adding outside investors. Some of these loans are participated. At December 31, 2006 FBD, through First Capital Exchange, held \$5.5 million of such loans on its balance sheet.

### **National Consumer Products**

We offer a variety of products on a national basis to the un-banked and under-banked segment of the population. These products include subprime loan products, credit cards, and prepaid cards. Our products are generally offered through unaffiliated third party marketers and servicers.

#### *Prepaid Cards*

Through our membership 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 and can be used in a manner similar to some debit/ATM cards and in some instances 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 retail storefronts, corporations or directly to the consumer. We have contracted with several card processors to provide the 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.

### *Credit Card Products*

In 2005, we became an issuing bank for certain credit card programs targeted principally to the subprime market. FBD originates credit card receivables and sells the majority of such receivables into the secondary market. FBD has partnered with unaffiliated third party marketers and servicers who perform customer service, marketing, processing services and collections related to the accounts. FBD earns a monthly fee for each active account. At December 31, 2006 FBD had \$306,000 of credit card receivables on its books.

### *Tax Refund Anticipation Products*

We had a contractual relationship with Liberty Tax Service, one of the nation's largest tax preparation services, to provide tax refund products to consumer taxpayers for whom Liberty Tax Service and its franchisees prepare and electronically file federal and state income tax returns ("Tax Refund Products"). In 2006 and prior periods the Tax Refund Products consisted of electronic refund checks ("ERCs") and refund anticipation loans ("RALs").

For both ERCs and RALs, the taxpayer must have filed his or her tax return electronically and designate a bank account at FBD for electronic receipt of the anticipated refund (the "Refund Account"). An ERC was an FBD check sent to the taxpayer after we received notice that the IRS is depositing the tax refund into the Refund Account. For the 2006 tax season (for 2005 returns), the IRS typically took 6-13 days to notify us that the refund was being transmitted to the Refund Account. Accordingly, the ERC served as a convenient method for the taxpayer to quickly obtain his or her anticipated federal income tax refund. Taxpayers receiving ERCs from us incurred application and handling fees that ranged in excess of \$100, depending upon the application fee charged by the tax preparer. These fees, and the taxpayer's tax preparation and electronic filing fees, were deducted from the refund before the balance was paid to the taxpayer through the ERC.

A RAL was a loan made in an amount that does not exceed the taxpayer's anticipated federal income tax refund. The maximum RAL amount for the 2006 tax season was \$7,000. We deducted from the RAL the tax preparer's tax preparation and electronic filing fees; the application and handling fees charged on an ERC; and a finance charge, which ranged from \$7-\$87 for the 2006 tax season, depending upon the amount of the RAL. This finance charge represents an annual percentage rate of interest that ranged from less than 50% to in excess of 200%. We derive our authority to charge this rate of interest from federal banking laws, which provide that FDIC insured financial institutions may charge nationwide the interest allowed by the laws of the states where they are located, and from Delaware banking laws, which do not impose limits on the rate of interest Delaware banks may charge on these loans. Typically, within 24 hours after the application for a RAL, the balance of the RAL was disbursed to the taxpayer by an FBD check delivered by the tax preparer or by an electronic transfer from us to the taxpayer's bank account. RALs were secured by the anticipated tax refund and were normally repaid when the IRS deposited the refund into the Refund Account, which typically took 8-15 days. Barring such a deposit, the RAL became, in effect, an unsecured loan payable approximately 65 days after the RAL was made or upon demand.

In 2006, these two products generated approximately \$2.3 million of revenue for FBD. Subsequent to the 2006 tax season we agreed with Liberty Tax Service ("LTS") to terminate the agreement pursuant to which FBD offered its products, including refund anticipation loans ("RALs") and electronic refund checks ("ERCs"), in stores owned or franchised by LTS. The decision to cease offering the products was necessitated because several large national banks are offering "Paystub Loans" which are loans made to taxpayers prior to receiving their W-2 from their employer. The Paystub Loan amounts are based on the customer's final paycheck and the customer's prospective earned income tax credit if the customer is participating in that program. The Bank believes that these loans are legally questionable and are too financially risky for the Bank, especially since most Paystub Loan customers receive their refunds through the Earned Income Tax Credit Program, and accordingly has decided that it is not comfortable offering these products. This change will have a material adverse impact on the Bank's earnings in the first and second quarters of 2007. The tax program is a seasonal business with a majority of the earnings from the program being recognized in the first two quarters of each year. The Bank continues to transition its loan products to installment loans and other consumer loans which are more traditional loan products and to grow its credit and prepaid card programs.

### *Short-Term Consumer Loans (Installment Loans and Payday Loans)*

FBD currently offers short-term unsecured consumer installment loans. In 2006 and prior years we also offered payday loans. Due to a change in FDIC guidelines, FBD ceased originating payday loans on June 30, 2006.

Payday loans were small-denomination unsecured advances of \$1,500 or less, typically payable on the consumer's next pay date (approximately 2 weeks). Our customers were typically middle-income individuals who are employed. A customer with an active checking account, valid identification and a regular source of income would supply a personal check for the advance amount plus a fee. After executing a loan agreement, the customer was then provided a check or voucher for the loan proceeds. At the end of the loan term, the customer's check was deposited or the customer returned with cash to reclaim the check. We ceased originating payday loans on June 30, 2006.

Installment loans are fully amortizing unsecured loans of \$2,500 or less with a term of up to 140 days and have anywhere between 4 and 12 scheduled repayments. Customers must have an active checking account, valid identification and a regular source of income. In addition, a customer must meet additional credit underwriting criteria which include FICO and debt to income thresholds. Upon approval, a customer is then provided a loan agreement, which he or she signs, and is then provided a check or voucher for the loan proceeds or the funds are electronically deposited via ACH into the customer's bank account. Principal and interest payments are due approximately every two weeks. Customers may repay their loans at the store where the loan was obtained or in some cases may repay via ACH from their bank account. These loans carry an annual percentage rate of approximately 450%.

We derive our authority to charge these rates of interest on payday and installment loans from federal banking laws, which provide that FDIC insured financial institutions may charge nationwide the interest allowed by the laws of the states where they are located, and from Delaware banking laws, which do not impose limits on the rate of interest Delaware banks may charge on these loans.

Short term consumer loans are offered through unaffiliated third party marketers and servicers with whom we contract and who own the stores and or internet sites at which 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 sell the majority of our short term 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 most 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 in various states, and via the Internet/Telephone, which are mostly sold to third parties. At December 31, 2006, there were approximately \$14.7 million of such loans outstanding of which \$4.2 million was retained on the bank's books.

Legislation eliminating or limiting interest rates upon short term consumer loans has from time to time been proposed primarily as a result of the high fee levels. If adopted, such legislation can impair or eliminate our ability to make such short term consumer loans. If such proposals cease, a large number of competitors may begin offering these products, and increasing competition could result in lower fees. Further, we use a small number of marketers under contracts, which can be terminated upon short notice, under various circumstances. The impact of the legislation or negative conditions influencing the above factors, if any, is not possible to predict but could have a material adverse effect on our operations and financial results. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Recent Developments."

### **Service Area/Market Overview**

Our primary business banking service area consists of northern Delaware. Additionally, we make short-term loans in various states and via the Internet. Credit and prepaid card products are offered nationally.

### Competition

There is substantial competition among financial institutions in our business banking service area. We compete with new and established local commercial banks, as well as numerous regionally based and super-regional commercial banks. In addition to competing with new and established commercial banking institutions for both deposits and loan customers, we compete directly with savings banks, savings and loan associations, finance companies, credit unions, factors, mortgage

brokers, insurance companies, securities brokerage firms, mutual funds, money market funds, private lenders and other institutions for deposits, commercial loans, mortgages and consumer loans, as well as other services.

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

Many of the banks with which we compete have greater financial resources than we do and offer a wider range of deposit and lending instruments with higher legal lending limits. Our legal lending limit was approximately \$3.3 million for unsecured loans and \$5.7 million for adequately secured loans, at December 31, 2006. As a result, we sell participations in larger loans. We are subject to potential intensified competition from new branches of established banks in the area as well as new banks that could open in our market area. New banks with business strategies similar to those of FBD represent potentially additional competitor Banks. There are banks and other financial institutions, which serve surrounding areas, and additional out-of-state financial institutions, which currently, or in the future, may compete in our market.

With regard to competition for the short-term loans we offer nationally, there are only a limited number of banks and finance companies that currently compete for such business. However, we believe that competition for short term consumer installment loans is likely to increase both in the number of competitors and related competing products. For instance, many banks have begun to offer a courtesy overdraft product, which may compete with short term installment loans.

#### Operating Strategy for Business Banking

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

##### *Providing Attentive and Personalized Service*

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

##### *Attracting and Retaining Highly Experienced Personnel*

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

##### *Product Expansion*

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

#### **Branch Expansion Plans**

We have plans to establish a branch in Rehobeth, Delaware during 2007.

#### **Supervision and Regulation**

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

## General

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

## Gramm-Leach-Bliley Act

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

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

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

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

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

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

## Sarbanes-Oxley Act of 2002

The following is a brief summary of some of the provisions of the Sarbanes-Oxley Act of 2002 ("SOX") that affect FBD. It is not intended as an exhaustive description of SOX or its impact on us.

SOX instituted or increased various requirements for corporate governance, board of director and audit committee composition and membership, board duties, auditing standards, external audit firm standards, additional disclosure requirements, including CEO and CFO certification of financial statements and related controls, and other new requirements.

Boards of directors are now required to have a majority of independent directors, and audit committees are required to be wholly independent, with greater financial expertise. Such independent directors are not allowed to receive compensation from the company on whose board they serve except for directors' fees. Additionally, requirements for auditing standards and independence of external auditors were increased and included independent audit partner review, audit partner rotation, and

limitations over non-audit services. Penalties for non-compliance with existing and new requirements were established or increased.

In addition, Section 404 of SOX currently requires that by the end of 2007, our management perform a detailed assessment of internal controls and report thereon as follows:

- (1) We must state that we accept the responsibility for maintaining an adequate internal control structure and procedures for financial reporting;
- (2) We must present an assessment, as of the end of the December 31, 2007 fiscal year, of the effectiveness of the internal control structure and procedure for our financial reporting; and
- (3) We must have our auditors attest to, and report on, the assessment made by management beginning in 2008. The attestation must be made in accordance with standards for attestation engagements issued or adopted by the Public Company Accounting Oversight Board.

We have taken necessary steps with respect to achieving compliance

#### Regulatory Restrictions on Dividends

Dividend payments are limited by the FDIC and the Delaware State Banking Commissioner. Under the Federal Deposit Insurance Act, an insured bank may pay no dividends if the bank is in arrears in the payment of any insurance assessment due to the FDIC. Under current banking laws, we would be limited to \$12.4 million of dividends, plus an additional amount equal to our net profit for 2007, up to the date of any such dividend declaration. However, dividends would be further limited in order to maintain capital ratios since state and federal regulatory authorities have adopted standards for the maintenance of adequate levels of capital by banks. State and Federal regulatory authorities have additional standards for the maintenance of capital levels. Adherence to such standards further limit our ability to pay dividends.

#### Dividend Policy

We have not paid any cash dividends but may consider dividend payments in 2007.

#### FDIC Insurance Assessments

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

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

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

#### Capital Adequacy

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

In addition to the risk-based capital guidelines, the FDIC has established minimum leverage ratio (Tier 1 capital to average total assets) guidelines for banks under its supervision. These guidelines provide for a minimum leverage ratio of 3% for those banks that have the highest regulatory examination ratings and are not contemplating or experiencing significant

growth or expansion. All other banks are required to maintain a leverage ratio of at least 1% to 2% above the 3% stated minimum. We are in compliance with these guidelines.

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

### Interstate Banking

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

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

### Profitability, Monetary Policy and Economic Conditions

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

## **ITEM 2: DESCRIPTION OF PROPERTIES**

We have a land lease on approximately 2,000 sq. feet of ground at Concord Pike and Rocky Run Pkwy, Brandywine Commons II, Delaware for our branch operations and headquarters. That office opened on June 1, 1999. The initial ten-year term of the lease expires in December 2008 and contains two five-year options to renew the lease. The annual rent for such location is \$83,369, payable in monthly installments.

We have a lease for approximately 2,850 square feet on the first floor of the Stoney Batter Office Complex located at 5301 Limestone Road, Suite 106, Wilmington, Delaware. This space contains a loan production office, administrative offices, and a branch, which opened on September 27, 2004. The lease is for an initial seven-year term with options to renew for three additional five-year terms. The annual rent for the location is \$71,068, payable in monthly installments.

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

## **ITEM 3: LEGAL PROCEEDINGS**

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

**Available Information**

We maintain a website at [www.fbde1.com](http://www.fbde1.com). We will make available free of charge any reports we file with the FDIC on our website as soon as practicable after such reports are filed with the FDIC.

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

Not applicable.

## PART II

### Item 5: Market for Registrant's Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities

#### Market Information

We were spun-off by Republic effective January 31, 2005. Since the spin-off, our common stock has been quoted on the Over-the-Counter ("OTC") Bulletin Board under the symbol "FBOD.OB." Until January 31, 2005 and for all prior years, all of our stock was held by Republic and was not listed for trade on any securities exchange. On February 21, 2007, the closing price of our common stock was \$3.70 per share.

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

<u>Year</u>	<u>Quarter</u>	<u>High</u>	<u>Low</u>
2006.....	4 <sup>th</sup>	\$3.35	\$2.90
	3 <sup>rd</sup>	3.11	2.50
	2 <sup>nd</sup>	2.95	2.27
	1 <sup>st</sup>	3.40	2.10

<u>Year</u>	<u>Quarter</u>	<u>High</u>	<u>Low</u>
2005.....	4 <sup>th</sup>	\$3.30	\$3.00
	3 <sup>rd</sup>	3.55	2.55
	2 <sup>nd</sup>	3.65	2.55
	1 <sup>st</sup>	4.85	2.95

As of February 21, 2007, we had approximately 1,718 shareholders on record.

#### Proceeds From Rights Offering

Effective June 30, 2006, a common stock rights offering to current shareholders resulted in the issuance of 3.4 million shares. A total of \$7.5 million, net of offering costs, was generated through the exercise of the rights, and related oversubscription. The offering expenses came to \$149,000 which resulted in net proceeds of \$7.5 million. The proceeds of this offering were used to capitalize our First Capital Exchange subsidiary, and for other general corporate purposes.

#### Dividend Policy

We have not paid any cash dividends on our common stock. We may consider paying dividends in 2007; however, the payment of dividends in the future will depend upon earnings, capital levels, cash requirements, our financial condition, applicable government regulations and policies and other factors deemed relevant by our Board of Directors. See "Description of our Business—Supervision and Regulation—Regulatory Restrictions on Dividends."

## Equity Compensation Plan Information

On November 30, 2004, our Board of Directors adopted, and our stockholder approved, the Stock Option Plan and Restricted Stock Plan of First Bank of Delaware. The plan became effective on January 1, 2005. 1,540,000 shares of our common stock were authorized for grant under the plan. As required by applicable rules, the following table shows the number of remaining options available for grant under equity compensation plans as of December 31, 2006.

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	892,071	\$2.49	195,059
Equity compensation plans not approved by security holders	-	-	-
Total	<u>892,071</u>	<u>\$2.49</u>	<u>195,059</u>

## SELECTED FINANCIAL DATA

The following table sets forth certain selected financial data of FBD, which have been derived from the consolidated financial statements of FBD for each of the five years in the period ended December 31, 2006. The historical information may not be indicative of our future performance as an independent company. The information set forth below should be read in conjunction with "Management's Discussion and Analysis of Results of Operations and Financial Condition," the financial statements and the notes thereto and the pro forma financial information included elsewhere in this document.

	As of or for the Years Ended December 31,				
	2006	2005	2004	2003	2002
(Dollars in thousands, except per share data)					
<b>INCOME STATEMENT DATA:</b>					
Total interest income	\$8,676	\$6,681	\$3,994	\$2,677	\$2,539
Total interest expense	2,252	1,090	444	504	857
Net interest income	6,424	5,591	3,550	2,173	1,682
Provision for loan losses	948	1,858	1,463	937	260
Non-interest income	7,813	6,853	8,184	6,812	2,849
Non-interest expenses	8,028	6,368	5,211	4,608	3,009
Federal income taxes	1,827	1,449	1,710	1,217	462
Net income	<u>\$3,434</u>	<u>\$2,769</u>	<u>\$3,350</u>	<u>\$ 2,223</u>	<u>\$800</u>
<b>PER SHARE DATA (1)</b>					
Basic earnings per share	\$ 0.36	\$ 0.38	\$ 0.46	\$ 0.31	\$ 0.12
Diluted earnings per share	0.36	0.36	0.44	0.30	0.11
Book value per share	2.29	1.90	1.57	1.12	0.86
<b>BALANCE SHEET DATA</b>					
Total assets	\$123,913	\$82,176	\$58,608	\$44,537	\$43,765
Total loans, net	67,697	51,238	39,914	27,032	28,630
Total investment securities	9,689	807	1,207	1,852	2,578
Total deposits	92,636	62,543	37,713	33,247	34,727
Total shareholders' equity	25,853	14,301	11,396	8,060	5,864
<b>PERFORMANCE RATIOS</b>					
Return on average assets	3.26%	3.80%	6.15%	4.12%	1.90%
Return on average shareholders' equity	16.58	20.65	33.93	33.01	13.86
Net interest margin	6.79	8.58	7.75	5.42	4.35
Total non-interest expenses as a percentage of average assets	7.63	8.74	9.57	8.54	7.17
<b>ASSET QUALITY RATIOS</b>					
Allowance for loan losses as a percentage of loans	2.67%	3.18%	2.56%	4.75%	1.93%
Allowance for loan losses as a percentage of non-performing loans	6000.00	850.5	686.27	250.09	334.91
Non-performing loans as a percentage of total loans	0.04	0.37	0.37	1.90	0.57
Non-performing assets as a percentage of total assets	0.05	0.24	0.26	1.22	0.38
Net charge-offs as a percentage of average loans, net	1.27	2.56	5.21	0.45	0.26
<b>LIQUIDITY AND CAPITAL RATIOS</b>					
Average equity to average assets	19.69%	18.41%	18.14%	12.49%	13.76%
Leverage ratio	21.06	18.69	20.56	16.55	13.94
Tier 1 capital to risk-weighted assets	31.81	25.11	25.01	27.76	21.33
Total capital to risk-weighted assets	33.07	26.38	26.27	29.06	22.59

(1) Through December 31, 2004, per share data is based upon the equity structure of FBD's sole shareholder, Republic First Bancorp, Inc.

## **ITEM 6: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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

Certain statements in this document may be considered to be "forward-looking statements" as that term is defined in the U.S. Private Securities Litigation Reform Act of 1995, such as statements that include the words "may," "could," "will," "likely," "believes," "expect," "estimate," "project," "anticipate," "should," "would," "intend," "probability," "risk," "target," "objective" and similar expressions or variations on such expressions. The forward-looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. For example, risks and uncertainties can arise with changes in: general economic conditions, including their impact on capital expenditures; business conditions in the financial services industry; the regulatory and litigation environment, including additional restrictions on short term consumer loans and other products and evolving banking industry standards; rapidly changing technology and competition with community, regional and national financial institutions; new service and product offerings by competitors, price pressures; and similar items. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. We undertake no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances that arise after the date hereof. Readers should carefully review the risk factors described in other documents filed by us from time to time with the FDIC, including our annual report on Form 10-KSB for the year ended December 31, 2006, quarterly reports on Form 10-QSB and current reports on Form 8-K.

### **Critical Accounting Policies, Judgements and Estimates**

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

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

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

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

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

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

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

While management uses the best information available to make loan loss allowance valuations, adjustments to the allowance may be necessary based on changes in economic and other conditions, changes in the composition of the loan portfolio or changes in accounting guidance. In times of economic slowdown, either regional or national, the risk inherent in the loan portfolio could increase resulting in the need for additional provisions to the allowance for loan losses in future periods. An increase could also be necessitated by an increase in the size of the loan portfolio or in any of its components even though the credit quality of the overall portfolio may be improving. Historically, our estimates of the allowance for loan loss have approximated actual losses incurred. In addition, the Delaware State Bank Commissioner and the FDIC, as an integral part of their examination processes, periodically review our allowance for loan losses. The Delaware State Bank Commissioner or the FDIC may require the recognition of adjustment to the allowance for loan losses based on their judgment of information available to them at the time of their examinations. To the extent that actual outcomes differ from management’s estimates, additional provisions to the allowance for loan losses may be required that would adversely impact earnings in future periods.

**Revenue Recognition** - Fees earned on installment loans that are not sold are recorded as interest income. Interest is accrued over the life of the loan. Because of the relatively short terms, such loans and related interest are charged off sixty days after the due date, if the loan is delinquent, precluding the need to place such loans on non-accrual status. At December 31, 2006 and 2005, there were approximately \$4.2 million and \$2.0 million respectively of installment loans outstanding.

The majority of short term consumer loans are sold to third parties. We record fees on sold loans as non-interest income. We had total short-term loan participations sold of \$10.5 million at December 31, 2006. We evaluated these sales and determined that they qualified as such under SFAS No. 140.

**Other-Than-Temporary Impairment of Securities**—Securities are evaluated on at least a quarterly basis, and more frequently when market conditions warrant such an evaluation, to determine whether a decline in their value is other-than-temporary. To determine whether a loss in value is other-than-temporary, management utilizes criteria such as the reasons underlying the decline, the magnitude and duration of the decline and the intent and ability of FBD to retain its investment in the security for a period of time sufficient to allow for an anticipated recovery in the fair value. The term “other-than-temporary” is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other-than-temporary, the value of the security is reduced and a corresponding charge to earnings is recognized.

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

**Recent Accounting Pronouncements**—In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments*. This statement amends FASB Statements No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. This statement resolves issues addressed in Statement 133 Implementation Issue No. D1, *Application of Statement 133 to Beneficial Interest in Securitized Financial Assets*. This Statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company adopted this guidance on January 1, 2007. The adoption did not have any effect on FBD's financial position or results of operations.

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Asset- An Amendment of FASB Statement No. 140*. This statement amends SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*, with respect to the accounting for separately recognized servicing assets and servicing liabilities. This statement requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. It also permits, but does not require, the subsequent measurement of servicing assets and servicing liabilities at fair value. FBD adopted this statement effective January 1, 2007. The adoption did not have a material effect on FBD's financial position or results of operations.

In July 2006, the FASB issued FASB Interpretation ("FIN") No. 48, *Accounting for Uncertainty in Income Taxes*. This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This Interpretation is effective for fiscal years beginning after December 15, 2006. FBD is continuing to evaluate the impact of this interpretation, but does not expect that the guidance will have a material effect on the Company's financial position or results of operations.

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 is continuing to evaluate the impact of this consensus, which may require FBD to recognize an additional liability and compensation expense related to its BOLI policies.

In September 2006, the FASB ratified the consensus reached by the EITF in Issue 06-5, *Accounting for Purchases of Life Insurance – Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance*. Technical Bulletin No. 85-4 states that an entity should report as an asset in the statement of financial position the amount that could be realized under the insurance contract. EITF 06-5 clarifies certain factors that should be considered in the determination of the amount that could be realized. EITF 06-5 is effective for fiscal years beginning after December 15, 2006, with earlier application permitted under certain circumstances. FBD is continuing to evaluate the impact of this consensus, but does not expect that the guidance will have a material effect on FBD's consolidated financial position or results of operations.

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. FASB Statement No. 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. We are currently evaluating the potential impact, if any, of the adoption of FASB Statement No. 157 on our consolidated financial position or results of operations.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. This statement which amends SFAS No. 87 and SFAS No. 106 to require recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. Under SFAS No. 158, gains and losses, prior service costs and credits, and any remaining transition amounts under SFAS No. 87 and SFAS No. 106 that have not yet been recognized through net periodic benefit cost will be recognized in accumulated other comprehensive income, net of tax effects, until they are amortized as a component of net periodic cost. The measurement date — the date at which the benefit obligation and plan assets are measured — is required to be the company's fiscal year end. SFAS No. 158 is effective for publicly-held companies for fiscal years ending after December 15, 2006, except for the measurement date provisions, which are effective for fiscal years ending after December 15, 2008. FBD adopted SFAS No. 158 as of December 31, 2006. The adoption of this FASB Statement did not impact FBD's financial position or results of operations.

In September 2006, the SEC issued SAB No. 108, *Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements*. SAB No. 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a potential current year misstatement. Prior to SAB No. 108, companies might evaluate the materiality of financial-statement misstatements using either the income statement or balance sheet approach, with the income statement approach focusing on new misstatements added in the current year, and the balance sheet approach focusing on the cumulative amount of misstatement present in a company's balance sheet. Misstatements that would be material under one approach could be viewed as immaterial under another approach, and not be corrected. SAB No. 108 now requires that companies view financial statement misstatements as material if they are material according to either the income statement or balance sheet approach. FBD has analyzed SAB No. 108 and determined that upon adoption it will have no impact on the reported financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. An entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. This statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS No. 157. We are currently evaluating the potential impact, if any, of the adoption of FASB Statement No. 159 on our consolidated financial position or results of operations.

## **Recent Developments**

### FDIC Payday Guidelines

On February 17, 2006 FBD received a letter from the FDIC indicating that the Agency in its examination of banks using third parties to service payday and installment loans had found deficiencies in their expectations concerning oversight of those loan products by FBD. The letter further indicated that because of perceived reputational, compliance and legal risks FBD should exit payday loan and installment loan businesses. The letter further stated that if FBD determines to continue the loan program we should notify the FDIC and provide it with information as to how we can correct identified problems. On February 21, 2006, FBD issued a press release stating that we have determined to cease offering payday loans on a date to be determined. FBD ceased originating payday loans on June 30, 2006. The revised guidelines issued by the FDIC have had a material adverse effect on the financial results of FBD.

In addition to installment loans offered in various states, via the internet and by phone, FBD plans to continue to diversify its business by offering prepaid cards, credit cards and other loan products to sub-prime and other borrowers, in each case through cooperation with and the assistance of intermediaries with whom FBD is currently entering into arrangements. These products were first implemented in the third quarter of 2005.

### Tax Products

The Company has agreed with Liberty Tax Service ("LTS") to terminate the agreement pursuant to which we offered our tax products, which include refund anticipation loans ("RALs") and electronic refund checks ("ERCs"), in stores owned or franchised by LTS. The decision to cease offering the products was necessitated because several large national banks are offering "Paystub Loans" which are loans made to taxpayers prior to receiving their W-2 from their employer. The Paystub Loan amounts are based on the customer's final paycheck and the customer's prospective earned income tax credit if the customer is participating in that program. We believe that these loans are legally questionable and are too financially risky for us, especially since most Paystub Loan customers receive their refunds through the Earned Income Tax Credit Program, and accordingly has decided that it is not comfortable offering these products.

This change will have a material adverse impact on FBD's earnings in the first and second quarters of 2007. The tax program is a seasonal business with a majority of the earnings from the program being recognized in the first two quarters of each year. FBD continues to transition its loan products to installment loans and other consumer loans which are more traditional loan products and to grow its credit and debit card programs.

## **Results of Operations for the years ended December 31, 2006 and 2005**

### Overview

Our net income increased \$665,000, or 24.0%, to \$3.4 million for the year ended December 31, 2006, compared to \$2.8 million for the prior year. However, diluted earnings per share were \$.36 in both years as a result of the increased number of shares in 2006. Substantially all of the increase in shares resulted from the 2006 rights offering to current shareholders. The

increase reflected a \$960,000 increase in non-interest income resulting primarily from the increase in volume of tax refund and card products. Net interest income, however increased \$833,000 reflecting a 26.5% increase in the average balance of loans and higher rates, while the provision for loan losses decreased \$910,000 reflecting reduced charge-offs of payday loans. Non-interest expenses grew by \$1.6 million, reflecting increased costs of the national consumer products, including costs associated with the new loan and card products.

#### Analysis of Net Interest Income

Historically, our earnings have depended primarily upon our 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 affected by changes in the mix of the volume and rates of interest-earning assets and interest-bearing liabilities. The following table provides an analysis of net interest income on an annualized basis, setting forth for the periods (i) average assets, liabilities, and shareholders' equity, (ii) interest income earned on interest-earning assets and interest expense on interest-bearing liabilities, (iii) average yields earned on interest-earning assets and average rates on interest-bearing liabilities, and (iv) our net interest margin (net interest income as a percentage of average total interest-earning assets). Averages are computed based on daily balances. Non-accrual loans are included in average loans receivable. Yields are not adjusted for tax equivalency, as we had no tax-exempt income, but may have such income in the future.

### Analysis of Net Interest Income

	Average Balance	Interest Income/ Expense	Yield/ Rate (1)	Average Balance	Interest Income/ Expense	Yield/ Rate (1)
	<b>For the Year Ended December 31, 2006</b>			<b>For the Year Ended December 31, 2005</b>		
(Dollars in thousands)						
Interest-earning assets:						
Federal funds sold and other interest-earning assets .....	\$31,121	\$1,562	5.02%	\$16,261	\$481	2.96%
Investment securities .....	2,942	173	5.87%	986	55	5.58%
Loans receivable .....	60,595	6,941	11.46%	47,916	6,145	12.83%
Total interest-earning assets .....	<u>94,658</u>	<u>8,676</u>	<u>9.17%</u>	<u>65,163</u>	<u>6,681</u>	<u>10.26%</u>
Other assets .....	10,508			7,663		
Total assets .....	<u>\$105,166</u>			<u>\$72,826</u>		
Interest-bearing liabilities:						
Demand – non-interest						
Bearing .....	\$23,890	-	-	\$13,987	-	-
Demand – interest-bearing .....	127	1	0.96%	385	1	0.26%
Money market & savings .....	22,058	732	3.32%	23,031	568	2.47%
Time deposits .....	31,831	1,519	4.77%	15,592	521	3.35%
Total deposits .....	<u>77,906</u>	<u>2,252</u>	<u>2.89%</u>	<u>52,995</u>	<u>1,090</u>	<u>2.06%</u>
Total interest- bearing deposits .....	<u>54,016</u>	<u>2,252</u>	<u>4.17%</u>	<u>39,008</u>	<u>1,090</u>	<u>2.80%</u>
Other borrowings .....	-	-	-	2	-	-
Total interest-bearing liabilities .....	<u>54,016</u>	<u>2,252</u>	<u>4.17%</u>	<u>39,010</u>	<u>1,090</u>	<u>2.80%</u>
Total deposits and other borrowings .....	<u>77,906</u>	<u>2,252</u>	<u>2.89%</u>	<u>52,997</u>	<u>1,090</u>	<u>2.06%</u>
Non-interest-bearing Other liabilities .....	6,556			6,421		
Shareholders' equity .....	<u>20,704</u>			<u>13,408</u>		
Total liabilities and Shareholders' equity .....	<u>\$105,166</u>			<u>\$72,826</u>		
Net interest income .....		<u>\$6,424</u>			<u>\$5,591</u>	
Net interest spread .....			<u>5.00%</u>			<u>7.46%</u>
Net interest margin (2) .....			<u>6.79%</u>			<u>8.58%</u>

(1) Yields on investments are calculated based on amortized cost.

(2) The net interest margin is calculated by dividing net interest income by average total interest earning assets.

Rate/Volume Analysis of Changes in Net Interest Income

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

(Dollars in thousands)	Year ended December 31, 2006 vs. 2005			Year ended December 31, 2005 vs. 2004		
	Change due to			Change due to		
	Average Volume	Average Rate	Total	Average Volume	Average Rate	Total
Interest earned on:						
Federal funds sold and other						
Interest-earning assets	\$ 746	\$ 335	\$ 1,081	\$ 179	\$ 184	\$ 363
Securities	115	3	118	(29)	(2)	(31)
Loans	1,452	(656)	796	1,773	582	2,355
Total interest earning assets	\$ 2,313	\$ (318)	\$ 1,995	\$ 1,923	\$ 764	\$ 2,687
Interest expense of						
Deposits						
Interest-bearing demand deposits	\$ 3	\$ (3)	\$ -	\$ -	\$ 1	\$ 1
Money market and savings	32	(196)	(164)	(64)	(214)	(278)
Time deposits	(775)	(223)	(998)	(289)	(80)	(369)
Total deposit interest expense	(740)	(422)	(1,162)	(353)	(293)	(646)
Other borrowings	-	-	-	-	-	-
Total interest expense	(740)	(422)	(1,162)	(353)	(293)	(646)
Net interest income	\$ 1,573	\$ (740)	\$ 833	\$ 1,570	\$ 471	\$ 2,041

Net Interest Income

Our net interest margin decreased from 8.58% to 6.79% for the year ended December 31, 2006, versus the prior year. The decrease reflected lower yields on short term consumer loans and increased rates paid on deposits. In 2006, short-term consumer loans contributed approximately 2.18% of the total 6.79% net interest margin, compared to 4.46% of the 8.58% net interest margin in 2005. Accordingly, margins excluding short-term loans were 4.61% in 2006 and 4.12% in 2005. The margin increase reflected the impact of a 70.8% increase in non interest bearing demand deposits to \$23.9 million in 2006 from \$14.0 million in 2005.

Our total interest income increased \$2.0 million, or 29.9%, to \$8.7 million for the year ended December 31, 2006, from \$6.7 million for the prior year. As shown in the Rate Volume table above, the increase in net interest income reflected the \$1.5 million positive effect of increased loan volume. While yields on commercial loans increased, the change for 2006 due to rate was a decrease of \$656,000 primarily as a result of the lower yields on short term consumer loans.

Interest on loans increased \$796,000 or 13.0% to \$6.9 million in 2006 from \$6.1 million in 2005. The \$796,000 increase in interest on loans reflected an increase in commercial loan interest of \$1.4 million to \$4.4 million in 2006 from \$3.0 million in 2005. As a result of the decrease in short term consumer loan yields, related interest income decreased \$799,000 between those periods. Average loans increased to \$60.6 million in 2006 from \$47.9 million in 2005. The \$12.7 million increase primarily represented an increase in commercial loans. Average short-term consumer loans outstanding increased to \$4.1 million in 2006 from \$2.6 million in 2005. Yields on commercial loans rose in 2006, due primarily to the impact of the rising rate environment that existed for the majority of that year on loans tied to prime.

Interest and dividend income on investment securities increased \$118,000, or 215.0%, to \$173,000 for 2006, from \$55,000 for the prior year. The increase was due principally to the \$2.0 million, or 198.4%, increase in average investment securities outstanding to \$2.9 million at December 31, 2006 from \$986,000 in 2005.

Interest income on federal funds sold and other interest-earning assets increased \$1.1 million, or 224.5%, as average federal funds sold outstanding increased 91.4% or \$14.9 million in 2006 to \$31.1 million. In addition, the average rate earned on these balances increased 206 basis points to 5.02% reflecting the higher interest rate environment.

Our total interest expense increased \$1.2 million, or 106.7%, to \$2.3 million for the year ended December 31, 2006, from \$1.1 million for the prior year. The increase reflected the \$15.0 million or 38.5% growth in 2006 of interest bearing deposits. It also reflected the higher rate environment as a result of which the average rate on interest bearing deposits increased to 4.17% from 2.80%. Interest-bearing liabilities averaged \$54.0 million for the year ended December 31, 2006, versus \$39.0 million for the prior year. Total interest expense benefited from the significant increase in non interest bearing demand deposits. Such balances fluctuate significantly and may not be retained.

Interest expense on time deposits (certificates of deposit) increased \$998,000, or 191.6%, to \$1.5 million for 2006, from \$521,000 for the prior year. The majority of the increase resulted from average certificates of deposit increasing \$16.2 million, or 104.1%, to \$31.8 million, for 2006, from \$15.6 million in the prior year. This increase also reflected the higher interest rate environment in 2006, as the average rate on certificates of deposit increased to 4.77% in 2006 from 3.35% in 2005.

#### 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 decreased \$910,000 to \$948,000 for the year ended December 31, 2006, from \$1.9 million for the prior year. The majority of this decrease resulted from reduced provisions for short term consumer loans, as a result of the cessation of payday lending on June 30, 2006.

#### Non-Interest Income

Total non-interest income increased \$960,000, or 14.0%, to \$7.8 million for the year ended December 31, 2006, versus \$6.9 million for the prior year due primarily to an increase of \$675,000, or 41.0% in tax refund program income. The reduction in short term loan fee income of \$2.0 million, due to the ceasing of payday loans, was offset by revenue in the new card products revenue of \$1.9 million. FBD also earned \$180,000 in revenue from its money transmitter product, which was reflected in service fees on deposit accounts and which were introduced in second quarter 2006.

#### Non-Interest Expenses

Total non-interest expenses increased \$1.7 million, or 26.1% to \$8.0 million for the year ended December 31, 2006, from \$6.4 million for the prior year. Salaries and employee benefits increased \$1.4 million, or 39.7%, to \$4.9 million for the year ended December 31, 2006, from \$3.5 million for the prior year. The majority of the increase reflected increases related to staffing for the short term installment loan, credit and prepaid card, and other loan products.

Occupancy expense increased \$101,000 to \$397,000 in 2006 from \$296,000 in 2005, an increase of 34.1%, reflecting expansion of rental space to support growth related to new products.

Depreciation expense increased \$89,000, or 33.3% to \$356,000 for the year ended December 31, 2006, versus \$267,000 for the prior year. The increase reflected the charge off of software for the tax program and other fixed asset charge offs. It also reflected depreciation on equipment used by new staff.

Legal fees decreased \$233,000, or 58.1% to \$168,000 for the year ended December 31, 2006, from \$401,000 for the prior year. Higher expenses in 2005 related to new product development and the spin-off of FBD in that year.

Advertising expense increased \$15,000, or 23.4% to \$79,000 in 2006, from \$64,000 for the prior year reflecting increased 2006 newspaper advertising expense for deposit promotions.

Data processing and operational expense decreased \$87,000, or 25.5%, in 2006, to \$254,000 from \$341,000 in the prior year. The decrease reflected lower loan processing costs reflecting the exit from payday lending.

Audit expense increased \$40,000, or 38.1%, in 2006, to \$145,000 from \$105,000 in the prior year reflecting increased internal and external audit fees, including expense for the new products.

Professional Fees decreased \$89,000 or 37.7% in 2006, to \$147,000 from \$236,000 in the prior year reflecting reduced consulting and employment fees on new product development and recoveries of payday loan partner expenses.

Delaware franchise tax increased \$55,000, or 24.7%, in 2006, to \$277,000 from \$222,000 in the prior year primarily as a result of increased taxable income.

Other operating expenses increased \$366,000, or 40.6% to \$1.3 million for the year ended December 31, 2006, from \$901,000 for the prior year. That increase reflected a \$54,000 increase in education expense reflecting expenditures for management and employee training programs, a \$43,000 increase in travel, \$34,000 in money transmitter expenses related to that line of business which began in 2006, and a \$24,000 of increased expense related to credit card programs.

#### Provision for Income Taxes

The provision for income taxes increased \$378,000 to \$1.8 million for the year ended December 31, 2006, from \$1.4 million for the prior year. This increase was primarily the result of the increase in pre-tax income. The effective tax rate approximated the statutory rate of 34% in both years.

### **Financial Condition**

#### December 31, 2006 Compared to December 31, 2005

Total assets increased \$41.7 million to \$123.9 million at December 31, 2006, versus \$82.2 million at December 31, 2005. The majority of total assets were comprised of loans, which grew \$16.5 million to \$67.7 million, and fed funds sold, which grew \$17.7 million to \$36.1 million from respective prior year end balances.

#### Loans:

Our loan portfolio, which represents our largest asset, is our most significant source of interest income. Our commercial loan lending strategy is to focus on small and medium sized businesses and professionals that seek highly personalized banking services. We also offer installment, credit card, and tax refund loans and sell most of those loans to third party investors. Gross loans increased \$16.6 million, or 31.4%, to \$69.6 million at December 31, 2006, versus \$52.9 million at December 31, 2005. The loan portfolio consists primarily of commercial real estate, construction and other commercial loans as well as short term consumer loans. Commercial real estate and construction loans comprise the majority of our loan portfolio. Commercial real estate loans amounted to \$50.4 million at December 31, 2006 compared to \$36.3 million at the prior year-end. Construction and land development loans amounted to \$14.6 million and \$13.6 million respectively, at those dates. At December 31, 2006, we had \$4.2 million in short term consumer loans outstanding versus \$2.8 million at December 31, 2005.

#### Investment Securities:

Investment securities available-for-sale are investments, which may be sold in response to changing market and interest rate conditions and for liquidity and other purposes. Our investment securities available-for-sale consist primarily of U.S. Government agency issued mortgage backed securities. Available-for-sale securities totaled \$9.7 million at December 31, 2006, an increase of \$8.9 million from year-end 2005. This increase resulted from purchases of new mortgage-backed securities, which were made primarily to reduce exposure to lower rate environments. At December 31, 2006, and December 31, 2005, our portfolio had net unrealized gains of \$73,000 and \$6,000, respectively.

Investment securities held-to-maturity are investments for which there is the intent and ability to hold the investment to maturity. These investments are carried at amortized cost. The Bank did not have any held-to-maturity securities as of December 31, 2006 or 2005.

#### Cash and Due From Banks:

Cash and due from banks, interest bearing deposits and federal funds sold comprise this category, which consists of our most liquid assets. The aggregate amount in these three categories increased by \$15.9 million, to \$38.8 million at December 31, 2006, from \$22.8 million at December 31, 2005. Federal funds sold increased by \$17.0 million to \$36.1 million at year-end 2006.

#### Fixed Assets:

Bank premises and equipment, net of accumulated depreciation was \$1.2 million and \$1.3 million at December 31, 2006 and 2005, respectively.

### Bank Owned Life Insurance:

Bank owned life insurance amounted to \$1.7 million and \$1.6 million at December 31, 2006 and 2005, respectively. The income earned on these policies is reflected in non-interest income. Such income was \$55,000 and \$49,000 for the years ending December 31, 2006 and 2005, respectively.

### Other Assets:

Other assets increased by \$221,000 at December 31, 2006, compared to the prior year end.

### Deposits:

Deposits, which include non-interest and interest-bearing demand deposits, money market, savings and time deposits including some brokered deposits, represent the major sources of funding. Deposits are generally solicited from our market area through the offering of a variety of products to attract and retain customers, with a primary focus on multi-product relationships. Additionally, certificate of deposit promotions are utilized.

Total deposits increased by \$30.1 million to \$92.6 million at December 31, 2006, from \$62.5 million at December 31, 2005. Transaction account deposits increased 48.1% or \$15.8 million more than the prior year end to \$48.7 million in 2006. Time deposits increased \$14.3 million, or 48.1% to \$44.0 million at December 31, 2006, versus \$29.7 million at the prior year-end. Transaction account growth benefited from our business development efforts.

### Due to Short Term Consumer Loan Servicers and Purchasers:

Due to short term consumer loan servicers and purchasers decreased \$740,000 to \$3.4 million at December 31, 2006 from \$4.1 million at December 31, 2005 due to lower volumes of sales of short term consumer loans.

### Shareholders' Equity:

Total shareholders' equity increased \$11.6 million to \$25.9 million at December 31, 2006, versus \$14.3 million at December 31, 2005. This increase was the result of a common stock rights offering in June of 2006, which resulted in \$7.5 million of proceeds, 2006 net income of \$3.4 million, and proceeds from exercise of stock options totaling \$679,000.

## **Risks and Uncertainties**

We are dependent primarily upon the level of net interest income, which is the difference between interest earned on our interest-earning assets, such as loans and investments, and the interest paid on its interest-bearing liabilities, such as deposits and borrowings. Accordingly, our operations are subject to risks and uncertainties surrounding their exposure to change in the interest rate environment.

Short term consumer loans were offered from 2001 until July 2006 primarily consisted of payday loans. At December 31, 2006, there were approximately \$4.2 million in short term consumer loans outstanding on the balance sheet, all of which represented short term installment loans. We also originate loans in various states, and via the Internet, which are sold to third parties. The short term loan participations sold at December 31, 2006 were \$10.5 million. New guidelines issued regarding payday loans by the FDIC had a material adverse impact on the Bank's financial results in 2006. The guidelines may adversely affect our business and operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments".

We began offering two tax refund products in 2001 with Liberty Tax Service. Liberty Tax Service is a nationwide professional tax service provider, which prepares and electronically files federal and state income tax returns ("Tax Refund Products"). The Tax Refund Products consist of electronic refund check ("ERCs"), and refund anticipation loans ("RALs"). The Bank has decided to terminate this arrangement and will not be offering these products in 2007. This change will have an adverse impact on the Bank's earnings in first and second quarter of 2007.

FBD's results of operations are affected by the ability of its borrowers to repay their loans. Lending money is an essential part of the banking business. However, borrowers do not always repay their loans. The risk of non-payment is affected by credit risks of a particular borrower, changes in economic conditions, the duration of the loan and in the case of a collateralized loan, uncertainties as to the future value of the collateral.

FBD may not be able to compete effectively in its markets, which could adversely affect its results of operations. The banking and financial services industry in Republic's market area is highly competitive. The increasingly competitive environment is a result of changes in regulation, changes in technology and product delivery systems, and the accelerated pace of consolidation among financial service providers. Such larger institutions have greater access to capital markets, with higher lending limits and a broader array of services. Competition may require increases in deposit rates and decreases in loan rates.

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

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

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

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

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

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

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

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

acceptable to us. If we cannot raise additional capital when needed, our ability to further expand our operations through internal growth, branching, de novo bank formations and/or acquisitions could be materially impaired.

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

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

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

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

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

### **Commitments, Contingencies and Concentrations**

We are a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the financial statements.

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

Financial instruments whose contract amounts represent potential credit risk are commitments to extend credit of approximately \$18.9 million and \$7.5 million and standby letters of credit of approximately \$323,000 and \$73,000 at December 31, 2006 and 2005, respectively. Commitments may often expire without being drawn upon. The commitments to extend credit at December 31, 2006, were substantially all variable rate commitments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and many require the payment of a fee.

Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. We evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained upon extension of credit is based on Management's credit evaluation of the customer. Collateral held varies but may include real estate, marketable securities, pledged deposits, equipment, and accounts receivable.

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

### Contractual Obligations and Other Commitments

The following table sets forth contractual obligations and other commitments representing required and potential cash outflows as of December 31, 2006:

(Dollars in thousands)	<u>Total</u>	<u>Less than One Year</u>	<u>One to Three Years</u>	<u>Three to Five Years</u>	<u>After Five Years</u>
Minimum annual rentals or non-cancelable operating leases	\$ 14,430	\$ 382	\$ 1,131	\$ 1,195	\$ 11,722
Remaining contractual maturities of time deposits	43,960	43,793	67	100	-
Employment Agreement	1,904	575	1,329	-	-
Loan commitments	18,882	5,113	11,009	460	2,300
Standby letters of credit	<u>323</u>	<u>323</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 79,499</u>	<u>\$ 50,186</u>	<u>\$ 13,536</u>	<u>\$ 1,755</u>	<u>\$ 14,022</u>

We have entered into non-cancelable lease agreements for two retail branches, expiring in 2026, including options to renew, and a headquarters expiring in 2030. The leases are accounted for as operating leases. The minimum annual rental payments required under these leases are \$14,430,000 through the year 2030.

From time to time we are a party (plaintiff or defendant) to lawsuits that are in the normal course of business. While any litigation involves an element of uncertainty, Management, after reviewing pending actions with our legal counsel, is of the opinion that our liability, if any, resulting from such actions will not have a material effect on our financial condition or results of operations. But, should we be successfully sued and should companies that service our loans default in their obligation to indemnify us, our results of operations and financial condition could be adversely affected.

At December 31, 2006, we had no foreign loans and no loan concentrations exceeding 10% of total loans except for credits extended to real estate operators and lessors in the aggregate amount of \$19.3 million, which represented 27.7% of gross loans receivable at December 31, 2006. Various types of real estate are included in this category, including industrial, retail shopping centers, office space, residential multi-family, and others. Loan concentrations are considered to exist when there is amounts loaned to a multiple number of borrowers engaged in similar activities that Management believes would cause them to be similarly impacted by economic or other conditions.

### Interest Rate Risk Management

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

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

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

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

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

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

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

The following tables present a summary of our interest rate sensitivity GAP at December 31, 2006. For purposes of these tables, we used assumptions based on industry data and historical experience to calculate the expected maturity of loans because, statistically, certain categories of loans are prepaid before their maturity date, even without regard to interest rate fluctuations. Additionally, certain prepayment assumptions were made with regard to investment securities based upon the expected prepayment of the underlying collateral of the mortgage-backed securities.

**Interest Sensitivity Gap  
at December 31, 2006  
(Dollars in thousands)**

	0-90 Days	91-180 Days	181-365 Days	1-2 Years	2-3 Years	3-4 Years	4-5 Years	More than 5 Years	Financial Statement Total	Fair Value
<b>Interest Sensitive Assets:</b>										
Investment securities and other interest-bearing balances	\$ 37,247	\$ 233	\$ 1,692	\$ 1,667	\$ 1,287	\$ 995	\$ 770	\$ 2,808	\$ 46,699	\$ 46,699
Average interest rate	5.25%	5.90%	5.90%	5.90%	5.90%	5.90%	5.90%	5.90%	-	-
Loans receivable .....	39,804	2,437	6,014	6,148	5,577	3,974	4,311	1,292	69,557	69,367
Average interest rate	9.83%	7.40%	7.40%	6.99%	6.98%	6.53%	7.14%	6.40%	-	-
Total .....	<u>77,051</u>	<u>2,670</u>	<u>7,706</u>	<u>7,815</u>	<u>6,864</u>	<u>4,969</u>	<u>5,081</u>	<u>4,100</u>	<u>116,256</u>	<u>116,066</u>
Cumulative Totals .....	<u>\$ 77,051</u>	<u>\$ 79,721</u>	<u>\$ 87,427</u>	<u>\$ 95,242</u>	<u>\$ 102,106</u>	<u>\$ 107,075</u>	<u>\$ 112,156</u>	<u>\$ 116,256</u>		
<b>Interest Sensitive Liabilities:</b>										
Demand Interest Bearing .....	\$ 78	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 78	\$ 78
Average interest rate	1.09%	-	-	-	-	-	-	-	-	-
Money Market and Savings	12,143	-	-	12,142	-	-	-	-	24,285	24,285
Average interest rate	4.25%	-	-	4.25%	-	-	-	-	-	-
Time Deposits .....	2,591	8,448	32,754	57	-	10	100	-	43,960	43,777
Average interest rate	4.31%	4.83%	5.45%	3.88%	-	2.75%	4.52%	-	-	-
Total .....	<u>14,812</u>	<u>8,448</u>	<u>32,754</u>	<u>12,199</u>	<u>-</u>	<u>10</u>	<u>100</u>	<u>-</u>	<u>68,323</u>	<u>68,140</u>
Cumulative Totals .....	<u>\$ 14,812</u>	<u>\$ 23,260</u>	<u>\$ 56,014</u>	<u>\$ 68,213</u>	<u>\$ 68,213</u>	<u>\$ 68,223</u>	<u>\$ 68,323</u>	<u>\$ 68,323</u>		
<b>Interest Rate</b>										
Sensitivity GAP .....	62,239	(5,778)	(25,048)	(4,384)	6,864	4,959	4,981	4,100		
Cumulative GAP .....	62,239	56,461	31,413	27,029	33,893	38,852	43,833	47,933		
<b>Interest Sensitive Assets/ Liabilities .....</b>										
Cumulative GAP/ Total Earning Assets	520.19%	342.74%	156.08%	139.62%	149.69%	156.95%	164.16%	170.16%		
	54%	49%	27%	23%	29%	33%	38%	41%		

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

**Net Portfolio Value and Net Interest Income Analysis.** Our interest rate sensitivity also is monitored by management through the use of models which generate estimates of the change in its net portfolio value ("NPV") and net interest income ("NII") over a range of interest rate scenarios. NPV is the present value of expected cash flows from assets, liabilities, and off-balance sheet contracts. The NPV ratio, under any interest rate scenario, is defined as the NPV in that scenario divided by the market value of assets in the same scenario. The following table sets forth our NPV as of December 31, 2006 and reflects the changes to NPV as a result of immediate and sustained changes in interest rates as indicated.

Change in Interest Rates In Basis Points (Rate Shock)	Net Portfolio Value			NPV as % of Portfolio Value of Assets	
	Amount	\$ Change	% Change	NPV Ratio	Change
			(Dollars in Thousands)		
200bp	\$30,929	\$493	(1.62)%	26.20%	40bp
100	30,532	96	(0.32)	25.90	10
Static	30,436	--	--	25.80	--
(100)	29,988	(448)	(1.47)	25.46	(34)
(200)	29,485	(951)	(3.13)	25.10	(70)

In addition to modeling changes in NPV, we also analyze potential changes to NII for a twelve-month period under rising and falling interest rate scenarios. The following table shows our NII model as of December 31, 2006.

Change in Interest Rates in Basis Points (Rate Shock)	Net Interest Income	\$ Change	% Change
	(Dollars in Thousands)		
200bp	\$5,595	\$1,054	23.20%
100	5,071	530	11.66
Static	4,541	--	--
(100)	4,266	(275)	(6.06)
(200)	3,926	(615)	(13.54)

The above table indicates that as of December 31, 2006, in the event of an immediate and sustained 200 basis point increase in interest rates, the Company's net interest income for the 12 months ending December 31, 2007 would be expected to increase by \$1.1 million or 23.2% to \$5.6 million. However, a significant portion of such increase would result from non interest bearing demand deposits related balances which may decrease in higher rate environments and may fluctuate significantly for other reasons.

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

## Capital Resources

We are required to comply with certain "risk-based" capital adequacy guidelines issued by the FDIC. The risk-based capital guidelines assign varying risk weights to the individual assets held by a bank. The guidelines also assign weights to the "credit-equivalent" amounts of certain off-balance sheet items, such as letters of credit and interest rate and currency swap contracts. Under these guidelines, banks are expected to meet a minimum target ratio for "qualifying total capital" to weighted risk assets of 8%, at least one-half of which is to be in the form of "Tier 1 capital". Qualifying total capital is divided into two separate categories or "tiers". "Tier 1 capital" includes common stockholders' equity, certain qualifying perpetual preferred stock and minority interests in the equity accounts of consolidated subsidiaries, less goodwill, "Tier 2 capital" components (limited in the aggregate to one-half of total qualifying capital) includes allowances for credit losses (within limits), certain excess levels of perpetual preferred stock and certain types of "hybrid" capital instruments, subordinated debt and other preferred stock. Applying the federal guidelines, the ratio of qualifying total capital to weighted-risk assets, was 33.07% and 26.38% at December 31, 2006 and 2005, respectively, and as required by the guidelines, at least one-half of the qualifying total capital consisted of Tier I capital elements. Tier I risk-based capital ratios on December 31, 2006 and 2005 were 31.81% and 25.11%, respectively. At December 31, 2006 and 2005, we exceeded the requirements for risk-based capital adequacy under both federal and Delaware state guidelines, both of which may vary in the future.

Under FDIC regulations, a bank is deemed to be “well capitalized” when it has a “leverage ratio” (“Tier 1 capital to total assets”) of at least 5%, a Tier 1 capital to weighted-risk assets ratio of at least 6%, and a total capital to weighted-risk assets ratio of at least 10%. At December 31, 2006 and 2005, our leverage ratio was 21.06% and 18.69%, respectively. Accordingly, at December 31, 2006 and 2005, we were considered “well capitalized” under Federal Reserve Board and FDIC regulations.

Our shareholders’ equity as of December 31, 2006, totaled approximately \$25.9 million compared to approximately \$14.3 million as of December 31, 2005. This increase of \$11.6 million reflected a common stock rights offering, of \$7.5 million, 2006 net income of \$3.4 million, and proceeds from stock options of \$679,000. That net income also increased the book value per share of our common stock, which increased from \$1.90 as of December 31, 2005, based upon 7,518,362 shares outstanding, to \$2.29 as of December 31, 2006, based upon 11,359,017 shares outstanding.

## Regulatory Capital Requirements

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

The following table presents our regulatory capital ratios at December 31, 2006 and 2005:

(Dollars in thousands)	Actual		For Capital Adequacy Purposes		To be well capitalized under regulatory capital guidelines	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
At December 31, 2006						
Total risk based capital	\$ 26,831	33.07%	\$ 6,491	8.00%	\$ 8,114	10.00%
Tier one risk based capital	25,806	31.81%	3,246	4.00%	4,868	6.00%
Tier one leverage capital	25,806	21.06%	6,127	5.00%	6,127	5.00%
At December 31, 2005						
Total risk based capital	15,021	26.38%	4,555	8.00%	5,694	10.00%
Tier one risk based capital	14,297	25.11%	2,277	4.00%	3,416	6.00%
Tier one leverage capital	14,297	18.69%	3,826	5.00%	3,826	5.00%

We believe that we met, as of December 31, 2006 and 2005, all capital adequacy requirements to which we are subject. As of December 31, 2006, the FDIC categorized us as well capitalized under the regulatory framework for prompt corrective action provisions of the Federal Deposit Insurance Act. There are no calculations or events since that notification, which management believes would have changed our category.

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

In addition to the above minimum capital requirements, the FDIC approved a rule, implementing a statutory requirement that federal banking regulators specified “prompt corrective action” when an insured institution’s capital level falls below certain levels. The rule defines five capital categories based on several of the above capital ratios. We currently exceed

the levels required for a bank to be classified as “well capitalized”. However, the FDIC may consider other criteria when determining such classifications, which criteria could result in a downgrading in such classifications.

Our equity to assets ratio increased from 17.40% as of December 31, 2005, to 20.86% as of December 31, 2006. The increase at year-end 2006 was primarily a result of the common stock rights offering in June of 2006. Our average return on equity for 2006, 2005 and 2004 was 16.58%, 20.65% and 33.93%, respectively; and our average return on assets for these respective years, was 3.26%, 3.80% and 6.15%, respectively.

## **Liquidity**

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

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

Our most liquid assets comprised of cash and cash equivalents on the balance sheet, totaled \$38.8 million and \$22.8 million at December 31, 2006 and 2005, respectively. The increase in liquidity at December 31, 2006 reflected deposit growth of \$30.1 million, only a portion of which was utilized to fund 2006 loan growth of approximately \$16.6 million. Loan maturities and repayments are another source of asset liquidity. Management estimates that in excess of \$5.0 million of loans will be repaid in the six month period ending June 30, 2007.

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

At December 31, 2006, we had outstanding commitments (including unused lines of credit and letters of credit) of \$19.4 million. Certificates of deposit scheduled to mature in one year totaled \$43.8 million at December 31, 2006. We anticipate that we will have sufficient funds available to meet our current commitments.

Our target and actual liquidity levels are determined by comparisons of the estimated repayment and marketability of our interest-earning assets with projected future outflows of deposits and other liabilities. We have established a rarely used contingency line of credit with a correspondent bank to assist in managing our liquidity position. That line of credit at a correspondent bank totaled \$4.0 million at December 31, 2006. As of December 31, 2006, we had no related outstanding balances. Investment decisions generally reflect liquidity over other considerations.

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

Our primary short-term funding sources are certificates of deposit and our securities portfolio. The circumstances that are reasonably likely to affect those sources are as follows. We have been able to generate certificates of deposit by matching Delaware market rates or paying a premium rate of 25 to 50 basis points over those market rates. It is anticipated that this source of liquidity will continue to be available; however, the incremental cost may vary depending on market conditions. Our securities portfolio is also available for liquidity.

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

## Investment Securities Portfolio

Our investment securities portfolio is intended to provide liquidity and contribute to earnings while diversifying credit risk. We attempt to maximize earnings while minimizing our exposure to interest rate risk. The securities portfolio consists primarily of U.S. Government agency, mortgage backed securities. Our ALCO monitors and approves all security purchases. The increase in securities in 2006 was a result of our strategy to reduce exposure to lower interest rates and increase the yield of our liquid assets. There were no investment securities held to maturity at December 31, 2006, 2005 and 2004.

A summary of investment securities available-for-sale at December 31, 2006, 2005 and 2004 are as follows.

### Investment Securities Available for Sale at December 31, (Dollars in thousands)

	2006	2005	2004
Mortgage backed Securities .....	\$ 9,616	\$ 801	\$ 1,174
Total amortized cost of securities.....	\$ 9,616	\$ 801	\$ 1,174
Total fair value of investment securities.....	<u>\$ 9,689</u>	<u>\$ 807</u>	<u>\$ 1,207</u>

The following table presents our contractual maturity distribution and weighted average yield of our securities portfolio at December 31, 2006 and 2005. Mortgage backed securities are presented without consideration of amortization or prepayments.

### Investment Securities Available for Sale at December 31, 2006

	Within One Year		One to Five Years		Five to Ten Years		Past 10 Years		Total		
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Fair value	Cost	Yield
	(Dollars in thousands)										
Mortgage backed securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,616	5.77%	\$ 9,689	\$ 9,616	5.77%
Total Available for sale securities.....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,616</u>	<u>5.77%</u>	<u>\$ 9,689</u>	<u>\$ 9,616</u>	<u>5.77%</u>

### Investment Securities Available for Sale at December 31, 2005

	Within One Year		One to Five Years		Five to Ten Years		Past 10 Years		Total		
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Fair value	Cost	Yield
	(Dollars in thousands)										
Mortgage backed securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 801	5.55%	\$ 801	\$ 801	5.55%
Total Available for sale securities.....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 801</u>	<u>5.55%</u>	<u>\$ 801</u>	<u>\$ 801</u>	<u>5.55%</u>

## Loan Portfolio

Our loan portfolio consists principally of secured and unsecured commercial loans including commercial real estate loans, loans secured by one-to-four family residential property, commercial construction, and residential construction loans. Commercial loans are primarily secured term loans made to small to medium-sized businesses and professionals for working capital, asset acquisition, and other purposes. Commercial loans are originated as either fixed or variable rate loans with typical terms of 1 to 5 years for fixed rate loans.

Our commercial loans typically range between \$100,000 and \$1.0 million but customers may borrow significantly larger amounts up to our secured legal lending limit of approximately \$5.7 million at December 31, 2006. Individual customers may have several loans often secured by different collateral. The majority of short term consumer loans and credit card receivables are sold, as internal guidelines limit retention of such loans to 25% of capital.

Our total loans increased \$16.6 million, or 31.6%, to \$69.6 million at December 31, 2006, from \$52.9 million at December 31, 2005.

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

	At December 31, (Dollars in thousands)				
	2006	2005	2004	2003	2002
Commercial:					
Real estate secured.....	\$ 50,411	\$ 36,273	\$ 29,411	\$ 21,529	\$ 22,824
Construction and land development.....	14,596	13,590	9,926	5,680	5,728
Total commercial.....	65,007	49,863	39,337	27,209	28,552
Consumer and other.....	4,550	3,059	1,627	1,436	644
Total loans, net of unearned income.....	<u>\$ 69,557</u>	<u>\$ 52,922</u>	<u>\$ 40,964</u>	<u>\$ 28,645</u>	<u>\$ 29,196</u>

### Loan Maturity and Interest Rate Sensitivity

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

	At December 31, 2006 (Dollars in thousands)			
	Commercial and Commercial Real Estate	Construction and Land Development	Consumer and Other	Total
Fixed Rate.....				
1 year or less.....	\$ 8,455	\$ 640	\$ 4,550	\$ 13,645
1-5 years.....	20,265	4,471	-	24,736
After 5 years.....	3,085	-	-	3,085
Total fixed rate.....	<u>31,805</u>	<u>5,111</u>	<u>4,550</u>	<u>41,466</u>
Adjustable Rate.....				
1 year or less.....	12,456	4,210	-	16,666
1-5 years.....	1,834	5,379	-	7,213
After 5 years.....	4,212	-	-	4,212
Total adjustable rate.....	<u>18,502</u>	<u>9,589</u>	<u>-</u>	<u>28,091</u>
Total.....	<u>\$ 50,307</u>	<u>\$ 14,700</u>	<u>\$ 4,550</u>	<u>\$ 69,557</u>

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

At December 31, 2006, 59.61% of total loans were fixed rate compared to 46.22% at December 31, 2005.

### Credit Quality

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

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

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

While a loan is classified as non-accrual or as an impaired loan and the future collectibility of the recorded loan balance is doubtful, collections of interest and principal are generally applied as a reduction to principal outstanding. When the future collectability of the recorded loan balance is expected, interest income may be recognized on a cash basis.

For non-accrual loans, which have been partially charged off, recognition of interest on a cash basis is limited to that which would have been recognized on the recorded loan balance at the contractual interest rate. Cash interest receipts in excess of that amount are recorded as recoveries to the allowance for loan losses until prior charge-offs have been fully recovered.

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

	At December 31,				
	2006	2005	2004	2003	2002
	(Dollars in thousands)				
Loans accruing, but past due 90 days or more.....	\$ -	\$ -	\$ -	\$ 156	\$ 42
Restructured loans .....	-	-	-	-	-
Non-accrual loans .....	31	198	153	389	127
Total non-performing loans .....	31	198	153	545	169
Other real estate owned .....	31	-	-	-	-
Total non-performing assets (1).....	<u>\$ 62</u>	<u>\$ 198</u>	<u>\$ 153</u>	<u>\$ 545</u>	<u>\$ 169</u>
Non-performing loans as a percentage of total loans net of unearned income (1).....	0.04%	0.37%	0.37%	1.90%	0.57%
Non-performing assets as a percentage of total assets.....	0.05%	0.24%	0.26%	1.22%	0.38%

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

Problem loans consist of loans that are included in performing loans, but for which potential credit problems of the borrowers have caused management to have serious doubts as to the ability of such borrowers to continue to comply with present repayment terms. At December 31, 2006, all identified problem loans are included in the preceding table, or are classified as substandard or doubtful, with a reserve allocation in the allowance for loan losses (see “—Allowance for Loan Losses”). Management believes that the appraisals and other estimates of the value of the collateral pledged against the non-accrual loans generally exceed the amount of related balances.

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

	For the Year Ended December 31,				
	2006	2005	2004	2003	2002
Interest income that would have been recorded had the loans been in accordance with their original terms.....	\$3,000	\$ 17,000	\$ 8,000	\$ 32,000	\$ 12,000
Interest income included in net income .....	-	-	-	-	-

## Allowance for Loan Losses

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

	For the Year Ended December 31,				
	2006	2005	2004	2003	2002
	(Dollars in thousands)				
Balance at beginning of period .....	\$ 1,684	\$ 1,050	\$ 1,363	\$ 566	\$ 374
Charge-offs:					
Commercial .....	-	-	376	-	68
Consumer.....	88	18	-	-	-
Short-term loans .....	804	1,619	1,404	140	-
Total charge-offs.....	<u>892</u>	<u>1,637</u>	<u>1,780</u>	<u>140</u>	<u>68</u>
Recoveries:					
Commercial .....	-	10	-	-	-
Consumer.....	87	3	4	-	-
Short-term loans .....	33	400	-	-	-
Total recoveries .....	<u>120</u>	<u>413</u>	<u>4</u>	<u>-</u>	<u>-</u>
Net charge-offs .....	<u>772</u>	<u>1,224</u>	<u>1,776</u>	<u>140</u>	<u>68</u>
Provision for loan losses.....	948	1,858	1,463	937	260
Balance at end of period .....	<u>\$ 1,860</u>	<u>\$ 1,684</u>	<u>\$ 1,050</u>	<u>\$ 1,363</u>	<u>\$ 566</u>
Average loans outstanding (1).....	\$ 60,595	\$ 47,916	\$ 34,089	\$ 31,110	\$ 26,286
As a percent of average loans (1):					
Net charge-offs .....	1.27%	2.56%	5.21%	0.45%	0.26%
Provision for loan losses.....	1.56	3.88	4.29	3.01	0.99
Allowance for loan losses.....	3.07	3.52	3.08	4.38	2.15
Allowance for loan losses to:					
Total loans, net of unearned income.....	2.67%	3.18%	2.56%	4.75%	1.93%
Total non-performing loans .....	6000.00%	850.50%	686.27%	250.09%	334.91%

(1) Includes non-accruing loans.

Charge-offs of short term loans in 2006 decreased over their respective prior year periods as FBD ceased originating payday loans on June 30, 2006. Management makes at least a quarterly determination as to an appropriate provision from earnings to maintain an allowance for loan losses that is management's best estimate of known and inherent losses. Our Board of Directors periodically reviews the status of all non-accrual and impaired loans and loans classified by our regulators or internal loan review officer, who reviews both the loan portfolio and overall adequacy of the allowance for loan losses. The Board of Directors also considers specific loans, pools of similar loans, historical charge-off activity, economic conditions, and other relevant factors in reviewing the adequacy of the loan loss reserve. Any additions deemed necessary to the allowance for loan losses are charged to operating expenses.

We have an existing loan review program, which monitors the loan portfolio on an ongoing basis; the loan reviews are conducted by a loan review officer who reports directly to our Board of Directors quarterly.

Estimating the appropriate level of the allowance for loan losses at any given date is difficult, particularly in a continually changing economy. In management's opinion, the allowance for loan losses was appropriate at December 31, 2006. However, there can be no assurance that, if asset quality deteriorates in future periods, additions to the allowance for loan losses will not be required.

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

Allocation of the allowance for loan losses (1):	At December 31,									
	(Dollars in thousands)									
	2006		2005		2004		2003		2002	
	Amount	% of Loans	Amount	% of Loans	Amount	% of Loans	Amount	% of Loans	Amount	% of Loans
Commercial.....	\$ 494	72.5%	\$ 289	68.5%	\$ 309	71.8%	\$ 284	75.2%	\$ 362	78.2%
Construction.....	76	21.0%	152	25.7%	78	24.2%	75	19.8%	91	19.6%
Short-term consumer.....	1,131	6.5%	1,091	5.8%	563	4.0%	883	5.0%	97	2.2%
Unallocated.....	159	-	152	-	100	-	121	-	16	-
Total.....	<u>\$ 1,860</u>	<u>100%</u>	<u>\$ 1,684</u>	<u>100%</u>	<u>\$ 1,050</u>	<u>100%</u>	<u>\$ 1,363</u>	<u>100%</u>	<u>\$ 566</u>	<u>100%</u>

(1) Gross loans net of unearned income.

The methodology utilized to estimate the amount of the allowance for loan losses is as follows: We first apply an estimated loss percentage against all loans which are not specifically reserved. While such loss percentages have exceeded the percentages suggested by historical experience, we maintained those percentages in 2006. We applied historical loss percentages for short-term consumer loans and added additional reserves based on industry experience, which in some cases is significantly greater than our experience. We will continue to evaluate these percentages and may adjust these estimates on the basis of charge-off history, economic conditions or other relevant factors. We also provide specific reserves for impaired loans to the extent the estimated realizable value of the underlying collateral is less than the loan balance, when the collateral is the only source of repayment.

Also, we may estimate and recognize reserve allocations above these reserve percentages based upon any factor that might impact the loss estimates. Those factors include but are not limited to the impact of economic conditions on the borrower and management's potential alternative strategies for loan or collateral disposition. We provide specific reserves for impaired loans to the extent the estimated realizable value of the underlying collateral is less than the loan balance, when the collateral is the only source for repayment. We also provide reserves on loans classified as "doubtful," "substandard," or "special mention" based upon any facts that might impact loss estimates. At year end 2006 compared to 2005, the unallocated component increased \$7,000 to \$159,000, while year end loans increased \$16.6 million to \$69.6 million from \$52.9 million. The unallocated allowance is established for losses that have not been identified through the formulaic and other specific components of the allowance as described above. The unallocated portion is more subjective and requires a high degree of management judgment and experience. Management has identified several factors that impact credit losses that are not considered in either the formula or the specific allowance segments. These factors consist of macro and micro economic conditions, industry and geographic loan concentrations, changes in the composition of the loan portfolio, changes in underwriting processes and trends in problem loan and loss recovery rates. The impact of the above is considered in light of management's conclusions as to the overall adequacy of underlying collateral and other factors.

The majority of our loan portfolio represents loans made for commercial and commercial real estate purposes, while significant amounts of residential property may serve as collateral for such loans. We attempt to evaluate larger loans individually, on the basis of our loan review process, which scrutinizes loans on a selective basis; and other available information. Even if all commercial purpose loans could be reviewed, there is no assurance that information on potential problems would be available. Different types of short-term consumer loans are evaluated separately. At December 31, 2006, commercial and construction loans totaled \$65.0 million and short term consumer loans totaled \$4.2 million.

The recorded investment in loans that are impaired in accordance with SFAS No. 114 totaled \$31,000 and \$198,000 at December 31, 2006 and 2005 respectively. The amounts of related valuation allowances were \$15,000 and \$53,000, respectively, at those dates. For the years ended December 31, 2006 and 2005 the average recorded investment in impaired loans was approximately \$51,000 and \$150,000 respectively. We did not recognize any interest income on impaired loans during 2006 or 2005. There were no commitments to extend credit to any borrowers with impaired loans as of the end of the periods presented herein.

At December 31, 2006 and 2005, accruing substandard loans totaled approximately \$0 and \$0 respectively. Doubtful loans at those respective dates totaled \$0 and \$99,000. We do not classify short term consumer loans as substandard; however, they may be classified as such for regulatory purposes. We had delinquent loans as follows: (i) 30 to 59 days past due, at

December 31, 2006 and 2005, in the aggregate principal amount of \$0 and \$219,000 respectively; and (ii) 60 to 89 days past due, at December 31, 2006 and 2005 in the aggregate principal amount of \$0 and \$0 respectively.

The following table is an analysis of the change in Other Real Estate Owned for the years ended December 31, 2006 and 2005.

Dollars in thousands

	<u>2006</u>	<u>2005</u>
Balance at January 1, .....	\$ -	\$-
Additions, net.....	31	-
Sales.....	-	-
Write downs.....	-	-
Balance at December 31, .....	<u>\$31</u>	<u>\$-</u>

## Deposit Structure

Of the total average deposits of approximately \$77.9 million held by us during the year ended December 31, 2006, approximately \$23.9 million, or 30.7%, represented non-interest bearing demand deposits, compared to approximately \$14 million, or 26.4%, of total daily average deposits during 2005. Total deposits at December 31, 2006, consisted of \$24.3 million in non-interest-bearing demand deposits, \$78,000 in interest-bearing demand deposits, \$24.3 million in savings and money market accounts, \$27.2 million in time deposits under \$100,000 and \$16.8 million in time deposits greater than \$100,000. In general, we pay higher interest rates on time deposits compared to other deposit categories. Our various deposit liabilities may fluctuate from period-to-period, reflecting customer behavior and strategies to optimize net interest income.

The following table is a distribution of the average balances of our deposits and the average rates paid thereon, for the years ended December 31, 2006, 2005 and 2004

	For the Years Ended December 31,					
	(Dollars in thousands)					
	2006		2005		2004	
	Average Balance	Rate	Average Balance	Rate	Average Balance	Rate
Demand deposits, non-interest-bearing .....	\$23,890	-	\$13,987	-	\$11,407	-
Demand deposits, interest-bearing .....	127	0.96%	385	0.15%	849	0.24%
Money market & savings deposits .....	22,058	3.32%	23,031	2.47%	20,431	1.42%
Time deposits.....	31,831	4.77%	15,592	3.34%	6,953	2.19%
Total deposits.....	<u>\$77,906</u>	<u>2.89%</u>	<u>\$52,995</u>	<u>2.06%</u>	<u>\$39,640</u>	<u>1.12%</u>

The following is a breakdown by contractual maturity, of our time certificates of deposit issued in denominations of \$100,000 or more as of December 31, 2006

	Certificates of Deposit (Dollars in thousands)
	<u>2006</u>
Maturing in:	
Three months or less .....	\$1,214
Over three months through six months .....	3,407
Over six months through twelve months.....	12,050
Over twelve months .....	100
Total.....	<u>\$16,771</u>

The following is a breakdown, by contractual maturities of our time certificates of deposit for the years 2007 through 2011 and beyond (dollars in thousands).

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Thereafter</u>	<u>Totals</u>
	(Dollars in thousands)						
Time certificates of deposit .....	<u>\$ 43,793</u>	<u>\$ 57</u>	<u>\$ -</u>	<u>\$ 10</u>	<u>\$ 100</u>	<u>\$ -</u>	<u>\$ 43,960</u>

**Effects of Inflation**

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

**Item 7: Financial Statements**

The consolidated financial statements of FBD begin on Page F-1 and are incorporated by reference into this Item.

**Item 8: Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

The Bank's financial statements for the year ended December 31, 2006 and 2005 were audited by Beard Miller Company LLP ("Beard"). The Bank's financial statements for the years ended December 31, 2004 and 2003 were audited by Parente Randolph, LLC ("Parente"). On April 4, 2005, the Bank dismissed Parente and appointed Beard as its new independent accountants, each effective immediately. The decisions to dismiss Parente and to engage Beard were approved by the Bank's Audit Committee. The decisions were based upon management's view that it will be more efficient to have both the Bank and RFB audited by the same auditor, because as noted above, both entities are serviced by BSC Services Corporation. BSC Services Corporation performs various operational, back office and other functions for both the Bank and RFB. Management believed that auditing such functions by one auditor will be more cost effective. The reports on the Bank's financial statements from Parente for 2003 and 2004 have not contained an adverse opinion or disclaimer of opinion, nor were they qualified or modified as to any uncertainty, audit scope or accounting principles. There have been no disagreements with Parente on any matter of accounting principles or practices, financial statement disclosures, or auditing scope or procedure during 2003 and 2004, or any subsequent interim period through the date of dismissal or in any of the years prior to that period, which, if not resolved to the satisfaction of Parente, would have caused it to make reference to the subject matter of the disagreement in connection with its report. During such time period there were no "reportable events" as that term is described in Item 304(a)(1)(v) of Regulation S-K.

The Bank provided Parente with a copy of the disclosure it is making in this Form 10 KSB in response to Item 304(a) of Regulation S-K.

**Item 8A: Controls and Procedures**

An evaluation of the effectiveness of our "disclosure controls and procedures" (as such term is defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) was carried out by us under the supervision and with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). Based upon that evaluation, our CEO and CFO concluded that, as of the end of the period covered by this Annual Report, our disclosure controls and procedures were effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the FDIC. There has been no change in our internal control over financial reporting identified in connection with the evaluation that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 8B: Other Information**

Not Applicable.

## PART III

### **Item 9: Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act.**

#### **Code of Ethics**

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

The other information required by this Item is incorporated by reference from the definitive proxy materials of FBD to be filed with the FDIC in connection with our 2007 annual meeting of shareholders scheduled for April 17, 2007.

### **Item 10: Executive Compensation**

The information required by this Item is incorporated by reference from the definitive proxy materials of FBD to be filed with the FDIC in connection with our 2007 annual meeting of shareholders scheduled for April 17, 2007.

### **Item 11: Security Ownership of Certain Beneficial Owners and Management**

The information required by this item is incorporated by reference from the definitive proxy materials of FBD to be filed with the FDIC in connection with our 2007 annual meeting of shareholders scheduled for April 17, 2007.

### **Item 12: Certain Relationships and Related Transactions**

The information required by this Item is incorporated by reference from the definitive proxy materials of FBD to be filed with the FDIC in connection with our 2007 annual meeting of shareholders scheduled for April 17, 2007.

### **Item 13: Exhibits and Financial Statements**

#### **A. Financial Statements**

- (1) Report of Independent Registered Public Accounting Firm
- (2) Consolidated Balance Sheets as of December 31, 2006 and 2005
- (3) Consolidated Statements of Income for the years ended December 31, 2006 and 2005
- (4) Consolidated Statements of Cash Flows for the years ended December 31, 2006 and 2005
- (5) Consolidated Statements of Changes in Shareholder's Equity for the years ended December 31, 2006 and 2005
- (6) Notes to Consolidated Financial Statements

#### **B. Exhibits**

The following Exhibits are filed as part of this report. (Exhibit numbers correspond to the exhibits required by Item 601 of Regulation S-K for an annual report on Form 10-K)

<u>Exhibit Number</u>	<u>Description</u>	<u>Manner of Filing</u>
3.1	Amended Articles of Association	Incorporated by reference to Exhibit 3.1 to Form 8-K dated January 31, 2005

3.2	By-Laws	Incorporated by reference to Exhibit 3.2 to Form 10 filed December 9, 2004
10.1	Employment Agreement Between First Bank of Delaware and Harry D. Madonna*	Incorporated by reference to Exhibit 10.3 to Form 8-K dated March 2, 2007
10.2	First Bank of Delaware Change of Control Policy*	Incorporated by reference to Exhibit A of Exhibit 10.3 to Form 8-K dated January 31, 2005
10.3	First Bank of Delaware Deferred Compensation Plan*	Incorporated by reference to Exhibit 10.3 to Form 10 filed January 11, 2005
10.4	Stock Option Plan and Restricted Stock Plan of First Bank of Delaware*	Incorporated by reference to Exhibit 10.2 to Form 10 filed January 11, 2005
10.5	Separation and Distribution Agreement between Republic First Bancorp, Inc. and First Bank of Delaware dated January 31, 2005	Incorporated by reference to Exhibit 10.1 to Form 8-K dated January 31, 2005
10.6	Tax Disaffiliation Agreement between Republic First Bancorp, Inc. and First Bank of Delaware dated January 31, 2005	Incorporated by reference to Exhibit 10.2 to Form 8-K dated January 31, 2005
10.7	Master Sale, Participation, Servicing and Indemnification Agreement between Republic First Bancorp, Inc. and First Bank of Delaware	Incorporated by reference to Exhibit 10.4 to Form 10 filed January 11, 2005
10.8	Human Resources and Payroll Services Agreement between First Bank of Delaware and its wholly owned subsidiary BSC Services Corporation dated January 1, 2005	Incorporated by reference to Exhibit 10.8 to Form 10-K filed March 31, 2005
10.9	Operation and Data Processing Services Agreement between First Bank of Delaware and its wholly owned subsidiary BSC Services Corporation dated January 1, 2005	Incorporated by reference to Exhibit 10.9 to Form 10-K filed March 31, 2005
10.10	Compliance Services Agreement between First Bank of Delaware and its wholly owned subsidiary BSC Services Corporation dated January 1, 2005	Incorporated by reference to Exhibit 10.10 to Form 10-K filed March 31, 2005
10.11	Financial Accounting and Reporting Services Agreement between First Bank of Delaware and its wholly owned subsidiary BSC Services Corporation dated January 1, 2005	Incorporated by reference to Exhibit 10.11 to Form 10-K filed March 31, 2005
10.12	Affinity Card agreement between First Bank of Delaware and Compucredit Corporation.	Filed Herewith
10.13	Employment Agreement Between First Bank of Delaware and Harry D. Madonna dated January 1, 2007*	Incorporated by reference to Exhibit 10.1 to Form 8-K dated March 2, 2007
10.14	Employment Agreement Between First Bank of Delaware and Alonzo J. Primus dated January 1, 2007*	Incorporated by reference to Exhibit 10.2 to Form 8-K dated March 2, 2007
14.1	First Bank of Delaware Code of Ethics	Incorporated by reference to Exhibit 10.11 to Form 10-K filed March 31, 2005
21.1	Subsidiaries of First Bank of Delaware	Filed Herewith
23.1	Consent of Beard Miller Company LLP	Filed Herewith

31.1	Certification of Chairman and Chief Executive Officer of First Bank of Delaware pursuant to Commission Rule 13a-14(a) and Section 302 of the Sarbanes-Oxley Act of 2002	Filed Herewith
31.2	Certification of Executive Vice President and Chief Financial Officer of First Bank of Delaware pursuant to Commission Rule 13a-14(a) and Section 302 of the Sarbanes-Oxley Act of 2002	Filed Herewith
32.1	Certification under Section 906 of the Sarbanes Oxley Act of Harry D. Madonna.	Filed Herewith
32.2	Certification under Section 906 of the Sarbanes Oxley Act of Paul Frenkiel.	Filed Herewith

\* Constitutes a compensation agreement or arrangement.

#### **Item 14: Principal Accountant Fees and Services**

The information required by this Item is incorporated by reference from the definitive proxy materials of FBD to be filed with the FDIC in connection with our 2007 annual meeting of shareholders scheduled for April 17, 2007.

## SIGNATURES

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

### FIRST BANK OF DELAWARE [registrant]

Date: March 9, 2007

By: /s/ Harry D. Madonna  
Harry D. Madonna  
Chief Executive Officer

Date: March 9, 2007

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

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

Date: March 9, 2007

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

/s/ Steven J. Shotz  
Steven J. Shotz, Director

/s/ William Batoff  
William Batoff, Director

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

/s/ Alonzo J. Primus  
Alonzo J. Primus, CPA, Director  
and President First Bank of  
Delaware

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**  
**OF**  
**FIRST BANK OF DELAWARE**

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2006 and 2005

Consolidated Statements of Income for the years ended December 31, 2006 and 2005

Consolidated Statements of Cash Flows for the years ended December 31, 2006 and 2005

Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2006 and 2005

Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders  
First Bank of Delaware  
Wilmington, Delaware

We have audited the consolidated balance sheets of First Bank of Delaware and its subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of First Bank of Delaware and its subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2 to the consolidated financial statements, the Bank changed its method of accounting for share-based payments in 2006.

Beard Miller Company LLP  
Paoli, Pennsylvania  
March 9, 2007

**FIRST BANK OF DELAWARE**  
**CONSOLIDATED BALANCE SHEETS**  
**December 31, 2006 and 2005**  
**(Dollars in thousands, except per share data)**

	2006	2005
<b>ASSETS:</b>		
Cash and due from banks .....	\$1,917	\$3,722
Interest-bearing deposits with banks .....	697	52
Federal funds sold .....	36,141	19,064
Total cash and cash equivalents .....	38,755	22,838
Investment securities available for sale, at fair value .....	9,689	807
Federal Home Loan Bank stock, at cost .....	172	-
Loans receivable, (net of allowance for loan losses of \$1,860 and \$1,684, respectively) .....	67,697	51,238
Premises and equipment, net .....	1,177	1,304
Accrued interest receivable .....	428	270
Bank owned life insurance .....	1,693	1,638
Other assets .....	4,302	4,081
Total Assets .....	\$123,913	\$82,176
<b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>		
<b>Liabilities:</b>		
Deposits:		
Demand — non-interest-bearing .....	24,313	\$9,502
Demand — interest-bearing .....	78	46
Money market and savings .....	24,285	23,310
Time less than \$100,000 .....	27,189	16,183
Time over \$100,000 .....	16,771	13,502
Total Deposits .....	92,636	62,543
Accrued interest payable .....	718	227
Due to short term consumer loan servicers and purchasers .....	3,390	4,130
Accrued expenses .....	889	715
Other liabilities .....	427	260
Total Liabilities .....	98,060	67,875
Commitments and contingencies		
<b>Shareholders' Equity:</b>		
Common stock, par value \$.05 per share; 15,000,000 and 10,000,000 shares authorized at December 31, 2006 and 2005 respectively; shares issued and outstanding 11,359,017 as of December 31, 2006 ; 7,518,362 as of December 31, 2005	568	376
Additional paid in capital .....	13,201	5,084
Retained earnings .....	12,420	8,986
Stock held by deferred compensation plan .....	(384)	(149)
Accumulated other comprehensive income .....	48	4
Total Shareholders' Equity .....	25,853	14,301
Total Liabilities and Shareholders' Equity .....	\$123,913	\$82,176

*(See notes to consolidated financial statements)*

**FIRST BANK OF DELAWARE**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**For the years ended December 31, 2006 and 2005**  
**(Dollars in thousands, except per share data)**

	<u>2006</u>	<u>2005</u>
Interest income:		
Interest and fees on loans .....	\$6,941	\$6,145
Interest on federal funds sold and other interest-earning assets .....	1,562	481
Interest and dividends on investment securities .....	173	55
	<u>8,676</u>	<u>6,681</u>
Interest expense:		
Demand – interest bearing .....	1	1
Money market and savings .....	732	568
Time less than \$100,000 .....	867	266
Time over \$100,000 .....	652	255
	<u>2,252</u>	<u>1,090</u>
Net interest income .....	6,424	5,591
Provision for loan losses .....	948	1,858
Net interest income after provision for loan losses .....	<u>5,476</u>	<u>3,733</u>
Non-interest income:		
Loan advisory and servicing fees .....	187	20
Service fees on deposit accounts .....	290	126
Short-term loan fee income .....	2,832	4,788
Card products .....	2,127	223
Tax refund products .....	2,322	1,647
Other income .....	55	49
	<u>7,813</u>	<u>6,853</u>
Non-interest expenses:		
Salaries and employee benefits .....	4,938	3,535
Occupancy .....	397	296
Depreciation .....	356	267
Legal .....	168	401
Advertising .....	79	64
Data processing and operational expense .....	254	341
Professional Fees .....	147	236
Audit expense .....	145	105
Delaware franchise tax .....	277	222
Other operating expenses .....	1,267	901
	<u>8,028</u>	<u>6,368</u>
Income before income taxes .....	5,261	4,218
Provision for income taxes .....	1,827	1,449
Net Income .....	<u>\$3,434</u>	<u>\$2,769</u>
Earnings per share:		
Basic .....	<u>\$0.36</u>	<u>\$0.38</u>
Diluted .....	<u>\$0.36</u>	<u>\$0.36</u>

*(See notes to consolidated financial statements)*

**FIRST BANK OF DELAWARE**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the years ended December 31, 2006 and 2005  
(Dollars in thousands)

	<u>2006</u>	<u>2005</u>
<b>Cash flows from operating activities:</b>		
Net income.....	\$3,434	\$2,769
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Provision for loan losses.....	948	1,858
Stock purchases for deferred compensation plan.....	(235)	(149)
Stock compensation expense.....	3	-
Depreciation and amortization.....	356	267
Amortization of securities.....	1	2
Increase in value of bank owned life insurance.....	(55)	(49)
Increase in other assets.....	(371)	(1,157)
Decrease in due to short term loan servicers and purchasers.....	(740)	(2,931)
(Decrease) Increase in accrued expenses and other liabilities.....	832	(1,237)
Net cash provided by (used in) operating activities.....	<u>4,173</u>	<u>(627)</u>
<b>Cash flows from investing activities:</b>		
Purchase of securities:		
Available for sale.....	(9,000)	-
FHLB Stock Purchase.....	(172)	-
Proceeds from sales, maturities, and calls of securities available for sale.....	184	379
Net increase in loans.....	(17,438)	(13,182)
Premises and equipment expenditures.....	(229)	(170)
Net cash used in investing activities.....	<u>(26,655)</u>	<u>(12,973)</u>
<b>Cash flows from financing activities:</b>		
Net proceeds from common stock offering.....	7,501	-
Net proceeds from exercise of stock options.....	679	303
Tax benefit of stock options exercised.....	126	-
Net increase in demand, money market and savings deposits.....	15,818	1,983
Net increase in time deposits.....	14,275	22,848
Net cash provided by financing activities.....	<u>38,399</u>	<u>25,134</u>
Increase in cash and cash equivalents.....	15,917	11,534
Cash and cash equivalents, beginning of year.....	22,838	11,304
Cash and cash equivalents, end of year.....	<u>\$38,755</u>	<u>\$22,838</u>
Supplemental disclosures:		
Interest paid.....	<u>\$1,761</u>	<u>\$883</u>
Taxes paid.....	<u>\$2,000</u>	<u>\$2,065</u>
Non-monetary transfer from loans to other real estate owned.....	<u>\$31</u>	<u>-</u>

*(See notes to consolidated financial statements)*

**FIRST BANK OF DELAWARE**  
**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**For the years ended December 31, 2006 and 2005**  
**(Dollars in thousands)**

	Shares Outstanding	Comprehensive Income/(loss)	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, 2005.....	7,236,389		\$ 362	\$ 4,795	\$ 6,217	—	\$ 22	\$ 11,396
Options exercised	281,973		14	289	—	—	—	303
Stock purchases for deferred compensation plan (44,043 shares)	—		—	—	—	(149)	—	(149)
Total other comprehensive loss, net of reclassification adjustments and taxes .....	—	\$ (18)	—	—	—	—	(18)	(18)
Net income for the year.....	—	2,769	—	—	2,769	—	—	2,769
Total comprehensive income .....	—	\$ 2,751	—	—	—	—	—	—
Balance December 31, 2005 .....	7,518,362		\$ 376	\$ 5,084	\$ 8,986	\$ (149)	\$ 4	\$ 14,301
Options exercised	440,655		22	657	—	—	—	679
Tax benefit of stock options exercised	—		—	126	—	—	—	126
Stock compensation	—		—	3	—	—	—	3
Stock purchases for deferred compensation plan ( 92,690 shares)	—		—	—	—	(235)	—	(235)
Proceeds from stock offering, net of offering cost of \$149,000	3,400,000		170	7,331	—	—	—	7,501
Total other comprehensive loss, net of reclassification adjustments and taxes .....	—	\$ 44	—	—	—	—	44	44
Net income for the year.....	—	3,434	—	—	3,434	—	—	3,434
Total comprehensive income .....	—	\$ 3,478	—	—	—	—	—	—
Balance December 31, 2006 .....	11,359,017		\$ 568	\$ 13,201	\$12,420	\$ (384)	\$ 48	\$ 25,853

*(See notes to consolidated financial statements)*

**FIRST BANK OF DELAWARE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Organization:**

First Bank of Delaware (“FBD”), a Delaware State chartered Bank, is located at Brandywine Commons II, Concord Pike and Rocky Run Parkway in Brandywine, New Castle County Delaware. FBD offers a variety of banking services and financial products in Delaware, and additionally offers nationally, short-term consumer loans and other loan products.

Prior to January 31, 2005, FBD was a wholly-owned subsidiary of Republic First Bancorp, Inc. (“Republic”). On January 31, 2005, FBD was spun off from Republic, effective as of January 1, 2005. All FBD assets, liabilities and shareholder’s equity were spun off, and new stock was issued to Republic shareholders. Shareholders of Republic received one share of stock in FBD for each share of Republic stock they owned. The newly issued FBD shares trade on the Over-the-Counter (OTC) Bulletin Board, and a total of 7,236,389 shares were issued. Additionally, option holders of Republic were issued one stock option in FBD for each stock option outstanding at the spin off date. A total of 826,707 options were issued at an average exercise price of \$1.40 and a weighted average remaining life of 5.86 years, of which 793,293 of the options were exercisable at January 1, 2005. Effective June 30, 2006, a common stock rights offering to current shareholders resulted in the issuance of 3.4 million shares. A total of \$7.7 million, prior to stock offering costs of approximately \$149,000, was generated through the exercise of the rights, and related oversubscription. The number of stock options was increased by 271,955 in proportion to the number of shares issued in the common stock offering. While other terms of these options matched their original terms, the exercise price of \$2.45 was set at the stock price at the closing of the offering.

Both FBD and Republic share data processing, accounting, human resources and compliance services through BSC Services Corp. (“BSC”), which is a wholly-owned subsidiary of FBD. BSC allocates its costs, on the basis of usage, to Republic and FBD, which classify such costs to the appropriate non-interest expense categories.

First Capital Exchange markets financing generally for short term real estate projects. Related loans may differ from other loans made by FBD in that they may have higher loan to value ratios.

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

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

**2. Summary of Significant Accounting Policies:**

**Basis of Presentation:**

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

**Risks and Uncertainties and Certain Significant Estimates:**

We are dependent primarily upon the level of net interest income, which is the difference between interest earned on our interest-earning assets, such as loans and investments, and the interest paid on its interest-bearing liabilities, such as deposits and borrowings. Accordingly, our operations are subject to risks and uncertainties surrounding their exposure to change in the interest rate environment.

Short term consumer loans are offered by FBD and through July 2006 primarily consisted of payday loans. At December 31, 2006, there were approximately \$4.2 million in short term consumer loans, which consisted of installment loans outstanding on the balance sheet. We originate loans in various states, and via the Internet, which are sold to third parties. The participations sold at December 31, 2006 were \$10.5 million. FBD evaluated these sales and determined that they qualify as sales under SFAS No. 140. These loans generally have principal amounts of \$2,500 or less. FBD ceased originating payday loans on June 30, 2006. In the third quarter 2005, FBD began offering the installment loans, previously described, and began offering prepaid card and credit card products. New guidelines issued regarding payday loans by the FDIC had a material adverse impact on the Bank’s financial results in 2006 and 2005. The guidelines may adversely affect our business and operations. See “Note 11”.

During 2006, FBD offered two tax refund products to customers of Liberty Tax Service. Liberty Tax Service is a nationwide tax service provider which prepares and electronically files federal and state income tax returns and FBD offers certain Liberty Tax Service customers accelerated refunds (“Tax Refund Products”). Tax Refund Products consist of electronic refund checks (“ERCs”) and refund anticipation loans (“RALs”). FBD has decided not to continue with this program. This decision will adversely affect our business and operations. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Recent Developments.”

FBD is an issuing bank for certain credit card programs. FBD originates credit card receivables and sells the majority of such receivables into the secondary market. FBD earns a monthly fee for each active account. At December 31, 2006 FBD had approximately \$306,000 of credit card receivables on its books.

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

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

Significant estimates are made by management in determining the allowance for loan losses, assessment of other-than-temporary impairment of securities, carrying values of other real estate owned, and income taxes. Consideration is given to a variety of factors in establishing these estimates. In estimating the allowance for loan losses, management considers current economic conditions, diversification of the loan portfolio, delinquency statistics, results of internal loan reviews, borrowers’ perceived financial and managerial strengths, the adequacy of underlying collateral, if collateral dependent, or present value of future cash flows and other relevant factors. Since the allowance for loan losses and carrying value of real estate owned are dependent, to a great extent, on the general economy and other conditions that may be beyond our control, it is at least reasonably possible that the estimates of the allowance for loan losses and the carrying values of the real estate owned could differ materially in the near term.

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

We are subject to federal and state regulations governing virtually all aspects of our activities, including, but not limited to, lines of business, liquidity, investments, the payment of dividends, and others. Such regulations and the cost of adherence to such regulations can have a significant impact on earnings and financial condition. See “Note 11”

#### **Cash and Cash Equivalents:**

For purposes of the statements of cash flows, FBD considers all cash and due from banks, interest-bearing deposits with an original maturity of ninety days or less and federal funds sold to be cash and cash equivalents.

#### **Restrictions on Cash:**

FBD is required to maintain certain average reserve balances as established by the Federal Reserve Board. The amounts of those balances for the reserve computation periods that include December 31, 2006 and 2005 were \$50,000 at each of those dates. These requirements were satisfied through the restriction of vault cash and a balance at the Federal Reserve Bank of Philadelphia.

#### **Investment Securities:**

Debt and equity investment securities are classified in one of three categories, as applicable, and accounted for as follows: debt securities which FBD has the positive intent and ability to hold to maturity are classified as “securities held to maturity” and are reported at amortized cost; debt and equity securities that are bought and sold in the near term are classified as “trading” and are reported at fair value with unrealized gains and losses included in earnings; and debt and equity securities not classified as either held to maturity or trading securities are classified as “investment securities available for sale” and are reported at fair value with net unrealized gains and losses, net of tax, reported as a separate component of shareholder’s equity. Gains or losses on disposition are based on the net proceeds and cost of securities sold, adjusted for amortization of premiums and accretion of discounts, using the specific identification method. FBD did not have any investment securities designated as held to maturity or trading during 2006 and 2005. Federal Home Loan Bank stock is carried at cost, which approximates fair value.

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

#### **Loans and Allowance for Loan Losses:**

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

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

Loans are generally classified as non-accrual if they are past due as to maturity or payment of principal or interest for a period of more than 90 days, unless such loans are well-secured and in the process of collection. Loans that are on a current payment status or past due less than 90 days may also be classified as non-accrual if repayment in full of principal and/or interest is in doubt. Loans may be returned to accrual status when all principal and interest amounts contractually due are reasonably assured of repayment within an acceptable period of time, and there is a sustained period of repayment performance of interest and principal by the borrower, in accordance with the contractual terms. Generally, in the case of non-accrual loans, cash received is applied to reduce the principal outstanding.

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

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

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

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

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

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

The majority of short term consumer loans are sold to third parties. FBD records fees on sold loans as non-interest income. FBD had total short term consumer loan participations sold of \$10.5 million at December 31, 2006 and \$17.2 million at December 31, 2005. FBD evaluated these sales and determined that they qualified as such under SFAS No. 140.

FBD accounts for guarantees in accordance with FIN 45 *Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others*. FIN 45 requires a guarantor entity, at the inception of a guarantee covered by the measurement provisions of the interpretation, to record a liability for the fair value of the obligation undertaken in issuing the guarantee. The Company has financial and performance letters of credit. Financial letters of credit require the Company to make payment if the customer's financial condition deteriorates, as defined in the agreements. Performance letters of credit require the Company to make payments if the customer fails to perform certain non-financial contractual obligation. The maximum potential undiscounted amount of future payments of these letters of credit as of December 31, 2006 is \$323,000 and they expire in 2007. Amounts due under these letters of credit would be reduced by any proceeds that the Company would be able to obtain in liquidating the collateral for the loans, which varies depending on the customer.

Fees earned on short term consumer loans which are not sold are recorded as interest income. At December 31, 2006, there were approximately \$4.2 million of these loans outstanding.

Short term consumer loans are generally made under marketing and servicing agreements with third parties. The majority of such loans are sold to other third parties. Balances due to these third parties are shown in the balance sheet as "due to short term loan servicers and purchasers".

#### **Premises and Equipment:**

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

#### **Bank Owned Life Insurance:**

FBD invests in bank owned life insurance ("BOLI") as a source of funding to purchase life insurance on certain employees. FBD is the owner and beneficiary of the policies. This life insurance investment is carried at the cash surrender value of the underlying policies. Income from the increase in cash surrender value of the policies is included in other income on the income statement. At December 31, 2006 and 2005, the Company owned \$1.7 million and \$1.6 million, respectively in BOLI. In 2006 and 2005, FBD respectively recognized \$55,000 and \$49,000, in related income.

#### **Advertising Costs:**

It is FBD's policy to expense advertising costs in the period in which they are incurred. Advertising expense in 2006 and 2005 was approximately \$79,000 and \$64,000 respectively.

#### **Income Taxes:**

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

#### **Earnings Per Share:**

Earnings per share ("EPS") consists of two separate components, basic EPS and diluted EPS. Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding for each period presented. Diluted EPS is calculated by dividing net income by the weighted average number of common shares outstanding plus dilutive common stock equivalents ("CSE"). Common stock equivalents consist of dilutive stock options granted through FBD's stock option plan. The following table is a reconciliation of the numerator and denominator used in calculating basic and diluted EPS. Common stock equivalents, which are antidilutive are not included for purposes of this calculation. At December 31, 2006 and 2005, there were no stock options excluded from the computation of earnings per share because the option price was greater than the average market price, respectively.

Until January 31, 2005, Republic was the sole shareholder of FBD. Shareholders of Republic received one share of stock in FBD, for every share they owned in Republic.

(Dollars in thousands, except per share data)

	<u>2006</u>		<u>2005</u>	
Income (numerator for basic and diluted earnings per share)	<u>\$3,434</u>		<u>\$2,769</u>	
	<u>Shares</u>	<u>Per Share</u>	<u>Shares</u>	<u>Per Share</u>
Weighted average shares outstanding for the period				
(denominator for basic earnings per share).....	9,568,397		7,328,699	
Earnings per share — basic .....		\$0.36		\$0.38
Effect of dilutive stock options.....	<u>98,713</u>		<u>376,645</u>	
Effect on basic earnings per share of CSE.....		-		(0.02)
Weighted average shares outstanding- diluted	<u>9,667,110</u>		<u>7,705,344</u>	
Earnings per share — diluted .....		<u>\$0.36</u>		<u>\$0.36</u>

### **Stock Based Compensation:**

In December 2004, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 123R (revised 2004), “Share-Based Payment”, which revises SFAS No. 123, “Accounting for Stock-Based Compensation”, and supersedes Accounting Principles Board (“APB”) Opinion No. 25, “Accounting for Stock Issued to Employees”. This statement requires an entity to recognize the cost of employee services received in share-based payment transactions and measure the cost on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. The provisions of SFAS No. 123R were effective January 1, 2006.

In March 2005, the Securities and Exchange Commission (the “SEC”) issued Staff Accounting Bulletin (“SAB”) No. 107 which expressed the views of the SEC regarding the interaction between SFAS No. 123R and certain SEC rules and regulations. SAB No. 107 provides guidance related to the valuation of share-based payment arrangements for public companies, including assumptions such as expected volatility and expected term.

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

At December 31, 2006, FBD maintains a Stock Option Plan (the “Plan”) under which FBD 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 FBD’s stock on the date of grant. Any options granted vest within one to five years and have a maximum term of 10 years.

For the year ended December 31, 2006, \$3,000 was recognized in compensation expense for the Stock Option Plan. Prior to January 1, 2006, FBD accounted for the Stock Option Plan under the recognition and measurement principles of APB No. 25 and related interpretations. Share-based employee compensation costs were not reflected in net income, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of the grant. In 2005, FBD vested all previously issued unvested options and FBD granted 10,000 options during the year ended December 31, 2006. Compensation expense is recognized in the income statement for only the options granted during the year ended December 31, 2006.

In accordance with SFAS No.123, The following table shows pro-forma net income and earnings per share assuming stock options had been expensed based on the fair value of the options granted as well as the significant assumptions used in the Black-Scholes option valuation model (dollars in thousands, except per share data).

	<u>2005</u>
Net income as reported.....	\$2,769
Less : Stock based compensation costs determined under fair value based method for all awards, net of tax...	<u>(389)</u>
Net income, pro-forma .....	<u>\$2,380</u>
Earnings per common share- basic: As reported	<u>\$0.38</u>
Pro-forma	<u>\$0.32</u>
Earnings per common share- diluted: As reported	<u>\$0.36</u>
Pro-forma	<u>\$0.31</u>

The pro-forma compensation expense is based upon the fair value of the option at grant date. The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 2005; dividend yields of 0%; expected volatility of 22% for 2005; risk-free interest rate of 4.03% and expected life of 9.0 years.

**Comprehensive Income:**

The tax effects allocated to each component of “Comprehensive Income” are as follows:

**For the year ended December 31, 2006**

*(Dollars in thousands)*

	<u>Before Tax Amount</u>	<u>Tax Benefit</u>	<u>Net of Tax Amount</u>
Unrealized gains on securities:			
Unrealized holding gains arising during the period .....	<u>\$ 67</u>	<u>\$ (23)</u>	<u>\$ 44</u>
Other comprehensive gain.....	<u>\$ 67</u>	<u>\$ (23)</u>	<u>\$ 44</u>

**For the year ended December 31, 2005**

*(Dollars in thousands)*

Unrealized losses on securities:			
Unrealized holding losses arising during the period .....	<u>\$ (27)</u>	<u>\$ 9</u>	<u>\$ (18)</u>
Other comprehensive loss .....	<u>\$ (27)</u>	<u>\$ 9</u>	<u>\$ (18)</u>

### **Recent Accounting Pronouncements:**

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments. This statement amends FASB Statements No. 133, Accounting for Derivative Instruments and Hedging Activities, and No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. This statement resolves issues addressed in Statement 133 Implementation Issue No. D1, Application of Statement 133 to Beneficial Interest in Securitized Financial Assets. This Statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company adopted this guidance on January 1, 2007. The adoption did not have any effect on FBD's financial position or results of operations.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Asset- An Amendment of FASB Statement No. 140. This statement amends SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities, with respect to the accounting for separately recognized servicing assets and servicing liabilities. This statement requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. It also permits, but does not require, the subsequent measurement of servicing assets and servicing liabilities at fair value. FBD adopted this statement effective January 1, 2007. The adoption did not have a material effect on FBD's financial position or results of operations.

In July 2006, the FASB issued FASB Interpretation ("FIN") No. 48, Accounting for Uncertainty in Income Taxes. This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This Interpretation is effective for fiscal years beginning after December 15, 2006. FBD is continuing to evaluate the impact of this interpretation, but does not expect that the guidance will have a material effect on FBD's financial position or results of operations.

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 is continuing to evaluate the impact of this consensus, which may require FBD to recognize an additional liability and compensation expense related to its BOLI policies.

In September 2006, the FASB ratified the consensus reached by the EITF in Issue 06-5, Accounting for Purchases of Life Insurance – Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance. Technical Bulletin No. 85-4 states that an entity should report as an asset in the statement of financial position the amount that could be realized under the insurance contract. EITF 06-5 clarifies certain factors that should be considered in the determination of the amount that could be realized. EITF 06-5 is effective for fiscal years beginning after December 15, 2006, with earlier application permitted under certain circumstances. FBD is continuing to evaluate the impact of this consensus, but does not expect that the guidance will have a material effect on FBD's consolidated financial position or results of operations.

In September 2006, the FASB issued FASB Statement No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. FASB Statement No. 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. FBD is currently evaluating the potential impact, if any, of the adoption of FASB Statement No. 157 on our consolidated financial position or results of operations.

In September 2006, the FASB issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R). This statement which amends SFAS No. 87 and SFAS No. 106 to require recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. Under SFAS No. 158, gains and losses, prior service costs and credits, and any remaining transition amounts under SFAS No. 87 and SFAS No. 106 that have not yet been recognized through net periodic benefit cost will be recognized in accumulated other comprehensive income, net of tax effects, until they are amortized as a component of net periodic cost. The measurement date — the date at which the benefit obligation and plan assets are measured — is required

to be FBD's fiscal year end. SFAS No. 158 is effective for publicly-held companies for fiscal years ending after December 15, 2006, except for the measurement date provisions, which are effective for fiscal years ending after December 15, 2008. FBD adopted SFAS No. 158 as of December 31, 2006. The adoption of this FASB Statement had no impact on the consolidated financial position or results of operations of FBD.

In September 2006, the SEC issued SAB No. 108, Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements. SAB No. 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a potential current year misstatement. Prior to SAB No. 108, companies might evaluate the materiality of financial-statement misstatements using either the income statement or balance sheet approach, with the income statement approach focusing on new misstatements added in the current year, and the balance sheet approach focusing on the cumulative amount of misstatement present in a company's balance sheet. Misstatements that would be material under one approach could be viewed as immaterial under another approach, and not be corrected. SAB No. 108 now requires that companies view financial statement misstatements as material if they are material according to either the income statement or balance sheet approach. FBD has analyzed SAB No. 108 and determined that upon adoption it will have no impact on the reported financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. An entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. This statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS No.157. We are currently evaluating the potential impact, if any, of the adoption of FASB Statement No. 159 on our consolidated financial position or results of operations.

**Reclassifications:**

Certain reclassifications have been made to the 2005 information to conform to the current year's presentation.

**3. Investment Securities:**

Investment securities available for sale as of December 31, 2006 are as follows:

<i>(Dollars in thousands)</i>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
Mortgage Backed Securities.....	\$ 9,616	\$ 80	\$ (7)	\$ 9,689
Total .....	\$ 9,616	\$ 80	\$ (7)	\$ 9,689

Investment securities available for sale as of December 31, 2005 are as follows:

<i>(Dollars in thousands)</i>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
Mortgage Backed Securities.....	\$ 801	\$ 13	\$ (7)	\$ 807
Total .....	\$ 801	\$ 13	\$ (7)	\$ 807

The maturity distribution of the amortized cost and estimated fair value of investment securities by contractual maturity at December 31, 2006, is as follows:

<i>(Dollars in thousands)</i>	<b>Available for Sale</b>	
	<b>Amortized Cost</b>	<b>Estimated Fair Value</b>
After 10 years.....	\$ 9,616	\$ 9,689
Total .....	<u>\$ 9,616</u>	<u>\$ 9,689</u>

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

FBD did not sell any securities during 2006 or 2005.

There were no pledged securities as of December 31, 2006 and 2005.

At December 31, 2006, FBD held one mortgage backed security with an unrealized loss of approximately \$7,000. The security had a fair market value of approximately \$315,000, and was in an unrealized loss for less than twelve months.

Management consider the unrealized loss to be attributable to changes in interest rates, and considers the loss to be temporary in nature.

At December 31, 2005, FBD held one mortgage backed security with an unrealized loss of approximately \$7,000. The security had a fair market value of approximately \$366,000, and was in an unrealized loss for less than twelve months.

#### 4. Loans Receivable:

Loans receivable consist of the following at December 31,

<i>(Dollars in thousands)</i>	<u>2006</u>	<u>2005</u>
Real Estate – commercial .....	\$ 50,469	\$ 36,324
Construction and land development .....	14,596	13,590
Consumer and other.....	4,550	3,059
Loans receivable.....	69,615	52,973
Less net deferred loan fees (costs).....	(58)	(51)
Less allowance for loan losses.....	(1,860)	(1,684)
Total loans receivable, net .....	<u>\$ 67,697</u>	<u>\$ 51,238</u>

The recorded investment in loans, which are impaired in accordance with SFAS No. 114, totaled \$31,000 and \$198,000 at December 31, 2006 and 2005 respectively. The amounts of related valuation allowances were \$15,000 and \$53,000 respectively at those dates. For the years ended December 31, 2006 and 2005, the average recorded investment in impaired loans was approximately \$51,000 and \$150,000, respectively. FBD did not realize any interest on impaired loans during 2006 or 2005. There were no commitments to extend credit to any borrowers with impaired loans as of the end of the periods presented herein.

As of December 31, 2006 and 2005, there were loans of approximately \$31,000 and \$198,000 respectively, which were classified as non-accrual. If these loans were performing under their original contractual rate, interest income on such loans would have increased approximately \$3,000 and \$17,000, for 2006 and 2005 respectively. Loans past due 90 days and accruing totaled \$0 and \$0 respectively, at December 31, 2006 and December 31, 2005.

The majority of loans outstanding are with borrowers in FBD's marketplace, New Castle County Delaware. Generally, these loans are to customers whose assets and businesses are concentrated in real estate. Repayment of FBD's loans is in part dependent upon general economic conditions affecting FBD's market place and specific industries. FBD evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained is based on management's credit evaluation of the customer. Collateral varies but primarily includes residential, commercial and income-producing properties. At December 31, 2006, FBD had no foreign loans and no loan concentrations exceeding 10% of total loans except for credits extended to real estate operators and lessors in the aggregate amount of \$19.3 million, which represented 27.6% of gross loans

receivable at December 31, 2006. Various types of real estate are included in this category, including industrial, retail shopping centers, office space, residential multi-family and others. Loan concentrations are considered to exist when their amounts loaned to a multiple number of borrowers engaged in similar activities that management believes would cause them to be similarly impacted by economic or other conditions.

Included in loans are loans due from directors and other related parties of \$2.0 million and \$2.0 million at December 31, 2006 and 2005, respectively. All loans made to directors and other related parties have substantially the same terms and interest rates as other bank borrowers. The Board of Directors can approve loans to individual directors if collateral requirements, terms and rates are comparable to other borrowers and are in compliance with underwriting policies. At December 31, 2006 there was an outstanding line of credit of \$1.5 million which had not been drawn upon.

<i>(Dollars in thousands)</i>	<u>2006</u>	<u>2005</u>
Balance at beginning of year.....	\$2,000	\$ -
Additions.....	-	2,000
Repayments.....	-	-
Balance at end of year.....	<u>\$2,000</u>	<u>\$2,000</u>

**5. Allowance for Loan Losses:**

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

<i>(Dollars in thousands)</i>	<u>2006</u>	<u>2005</u>
Balance at beginning of year.....	\$1,684	\$1,050
Charge-offs.....	(892)	(1,637)
Recoveries.....	120	413
Provision for loan losses.....	948	1,858
Balance at end of year.....	<u>\$1,860</u>	<u>\$1,684</u>

**6. Premises and Equipment:**

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

<i>(Dollars in thousands)</i>	<u>Useful lives</u>	<u>2006</u>	<u>2005</u>
Furniture and equipment.....	3 to 10 years	\$1,385	\$1,505
Banking building.....	40 years	917	917
Leasehold improvements.....	20 years	316	316
		<u>2,618</u>	<u>2,738</u>
Less accumulated depreciation.....		(1,441)	(1,434)
Net premises and equipment.....		<u>\$1,177</u>	<u>\$1,304</u>

Depreciation expense on premises, equipment and leasehold improvements amounted to \$356,000 and \$267,000 in 2006 and 2005 respectively.

## 7. Deposits:

The following is a breakdown, by contractual maturities of FBD's time certificate of deposits as of December 31, 2005 for the years 2006 through 2010, which is the longest remaining maturity.

<i>(Dollars in thousands)</i>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Totals</u>
Time certificates of deposit .....	<u>\$43,793</u>	<u>\$57</u>	<u>\$-</u>	<u>\$10</u>	<u>\$100</u>	<u>\$43,960</u>

## 8. Income Taxes:

The following represents the components of income tax expense (benefit) for the years ended December 31, 2006 and 2005 respectively.

<i>(Dollars in thousands)</i>	<u>2006</u>	<u>2005</u>
Current provision		
Federal:		
Current .....	\$ 1,919	\$ 1,663
Deferred .....	(92)	(214)
Total provision for income taxes .....	<u>\$ 1,827</u>	<u>\$ 1,449</u>

The following table accounts for the difference between the actual tax provision and the amount obtained by applying the statutory federal income tax rate of 34.0% to income before income taxes for the years ended December 31, 2006 and 2005.

<i>(Dollars in thousands)</i>	<u>2006</u>	<u>2005</u>
Tax provision computed at statutory rate.....	\$ 1,789	\$ 1,434
Bank owned life insurance.....	(19)	(17)
Other .....	57	32
Total provision for income taxes .....	<u>\$ 1,827</u>	<u>\$ 1,449</u>

The approximate tax effect of each type of temporary difference and that gives rise to net deferred tax assets included in the other assets in FBD balance sheets at December 31, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Allowance for loan losses .....	\$ 633	\$ 573
Depreciation.....	23	(7)
Deferred loan costs .....	(40)	(42)
Unrealized gains on investments .....	(25)	(2)
Net deferred tax asset.....	<u>\$ 591</u>	<u>\$ 522</u>

The realizability of the deferred tax asset is dependent upon a variety of factors, including the generation of future taxable income, the existence of taxes paid and recoverable, the reversal of deferred tax liabilities and tax planning strategies. Based

upon these and other factors, management believes that it is more likely than not that FBD will realize the benefits of these deferred tax assets.

**9. Financial Instruments with Off-Balance Sheet Risk:**

FBD is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the financial statements.

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

Financial instruments whose contract amounts represent potential credit risk are commitments to extend credit of approximately \$18.9 million and \$7.5 million and standby letters of credit of approximately \$323,000 and \$73,000 at December 31, 2006 and 2005, respectively. However, commitments may often expire without being drawn upon. Of the \$19.2 million of commitments to extend credit at December 31, 2006, substantially all were variable rate commitments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and many require the payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. FBD evaluates each customer's creditworthiness on a case-by-case basis.

The amount of collateral obtained upon extension of credit is based on management's credit evaluation of the customer. Collateral held varies but may include real estate, marketable securities, pledged deposits, equipment and accounts receivable.

Standby letters of credit are conditional commitments issued that guarantee the performance of a customer to a third party. The credit risk and collateral policy involved in issuing letters of credit is essentially the same as that involved in extending loan commitments. The amount of collateral obtained is based on management's credit evaluation of the customer. Collateral held varies but may include real estate, marketable securities, pledged deposits, equipment and accounts receivable. Management believes that the proceeds obtained through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees. The current amount of the liability as of December 31, 2006 and 2005 for guarantees under standby letters of credit issued is not material.

**10. Commitments:**

**Lease Arrangements:**

As of December 31, 2006, FBD had entered into non-cancelable leases expiring through May 31, 2030 (including options to renew). The leases are accounted for as operating leases. The minimum annual rental payments required under these leases are as follows:

*(Dollars in thousands)*

<b>Year Ended</b>	<b>Amount</b>
2007 .....	\$ 382
2008 .....	556
2009 .....	575
2010 .....	591
2011 .....	604
Thereafter .....	11,722
Total.....	<u>\$ 14,430</u>

FBD incurred rent expense of approximately \$216,000 and \$187,000 for the years ended December 31, 2006 and 2005 respectively.

**Other:**

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

**Employment Agreements:**

FBD has entered into two employment agreements with both the Chief Executive Officer and President of FBD, which provide for the payment of base salary and certain benefits through the year 2009. The aggregate commitment for future salaries and benefits under these employment agreements at December 31, 2006 is approximately \$1,904,000.

**11. Regulatory Considerations:**

Dividend payments by FBD are subject to regulation by the Delaware Banking Commissioner and the Federal Deposit Insurance Act (the "FDIA"). Generally, no dividends may be paid except from "accumulated net earnings" (generally, retained earnings). Under the FDIA, an insured bank may pay no dividends if the bank is in arrears in the payment of any insurance assessment due to the FDIC. Under current banking laws, FBD would be limited to \$12.4 million of dividends plus an additional amount equal to its net profit for 2006, up to the date of any such dividend declaration. However, dividends would be further limited in order to maintain capital ratios, requirements for which may vary. FBD has not paid dividends, since its inception.

FBD ceased originating payday loans on June 30, 2006. FBD also advised that it will be meeting with the FDIC to address the problems identified in the FDIC's letter and changes in the installment loan program which the Board of Directors believes will satisfy all matters raised in the letter. There can, however, be no assurance that FBD will be able to offer installment loans in a manner acceptable to the FDIC.

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

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

Management believes that FBD meets, as of December 31, 2006, all capital adequacy requirements to which it is subject. As of December 31, 2006, the FDIC categorized FBD as well capitalized under the regulatory framework for prompt corrective action provisions of the Federal Deposit Insurance Act. There are no calculations or events since that notification that management believes have changed FBD's category.

The following table presents FBD's capital regulatory ratios at December 31, 2006 and 2005:

	Actual		For Capital Adequacy Purposes		To be well capitalized under regulatory capital guidelines	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<i>(Dollars in thousands)</i>						
<b>At December 31, 2006</b>						
Total risk based capital .....	\$26,831	33.07%	\$6,491	8.00%	\$8,114	10.00%
Tier one risk based capital .....	25,805	31.81	3,246	4.00	4,868	6.00
Tier one leverage capital.....	25,805	21.06	6,127	5.00	6,127	5.00
<b>At December 31, 2005</b>						
Total risk based capital .....	\$15,021	26.38%	\$4,555	8.00%	\$5,694	10.00%
Tier one risk based capital .....	14,297	25.11	2,277	4.00	3,416	6.00
Tier one leverage capital.....	14,297	18.69	3,826	5.00	3,826	5.00

## 12. Fair Value of Financial Instruments:

The disclosure of the fair value of all financial instruments is required, whether or not recognized on the balance sheet, for which it is practical to estimate fair value. In cases where quoted market prices are not available, fair values are based on assumptions including future cash flows and discount rates. Accordingly, the fair value estimates cannot be substantiated, may not be realized, and do not represent the underlying value of FBD.

FBD uses the following methods and assumptions to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents, Accrued Interest receivable and Accrued Interest Payable: The carrying value is a reasonable estimate of fair value.

Investment Securities Available for Sale: For investment securities with a quoted market price, fair value is equal to quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Restricted stock represents FHLB Stock and is carried at cost because it does not have a readily determinable fair value as its ownership is restricted and it lacks a market. The carrying value is a reasonable estimate of fair value.

Loans: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair value is the carrying value. For other categories of loans such as commercial and industrial loans, real estate mortgage and consumer loans, fair value is estimated based on the present value of the estimated future cash flows using the current rates at which similar loans would be made to borrowers with similar collateral and credit ratings and for similar remaining maturities.

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

Deposit Liabilities: For checking, savings and money market accounts, fair value is the amount payable on demand at the reporting date. For time deposits, fair value is estimated using the rates currently offered for deposits of similar remaining maturities.

Commitments to Extend Credit and Standby Letters of Credit: The fair value of commitments to extend credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparts. For fixed rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit is based on fees currently charged for similar arrangements.

At December 31, 2006 and December 31, 2005, the carrying amount and the estimated fair value of FBD's financial instruments are as follows:

<i>(Dollars in Thousands)</i>	December 31, 2006		December 31, 2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Balance Sheet Data:</b>				
Financial Assets:				
Cash and cash equivalents .....	\$ 38,755	\$ 38,755	\$ 22,838	\$ 22,838
Investment securities available for sale.....	9,689	9,689	807	807
FHLB stock.....	172	172	-	-
Loans receivable, net .....	67,697	67,507	51,238	50,940
Bank owned life insurance.....	1,693	1,693	1,638	1,638
Accrued interest receivable.....	428	428	270	270
Financial Liabilities:				
Deposits:				
Demand, savings and money market .....	\$ 48,676	\$48,676	\$ 32,858	\$ 32,858
Time.....	43,960	43,777	29,685	29,487
Accrued interest payable.....	718	718	227	227

<i>(Dollars in Thousands)</i>	December 31, 2006		December 31, 2005	
	Notional Amount	Fair Value	Notional Amount	Fair Value
<b>Off Balance Sheet Financial Instruments:</b>				
Commitments to extend credit	\$ 18,882	\$ -	\$ 7,460	\$ -
Letters of credit	323	-	73	-

### 13. Benefit Plans:

#### Defined Contribution Plan:

BSC sponsors a defined contribution plan pursuant to the provision of 401(k) of the Internal Revenue Code. The Plan covers all full-time employees of FBD and Republic who meet age and service requirements. The plan provides for elective employee contributions with a matching contribution from BSC of up to 4% of salary. The total expense charged to FBD, and included in salaries and employee benefits was \$108,000 in 2006 and \$79,000 in 2005.

#### Directors' and Officers' Plans:

FBD maintains a deferred compensation plan for certain officers, wherein a percentage of base salary is contributed to the plan, and utilized to buy stock of FBD. To promote officer retention, a three year vesting period applies for each year's contributions. As of December 31, 2006 no amounts were vested. Expense for 2006 and 2005 was \$55,000 and \$29,000, respectively. The total related liability as of December 31, 2006 and 2005 was \$84,000 and \$29,000, respectively.

### 14. Stock Based Compensation:

FBD maintains a Stock Option Plan (the "Plan") under which the Company grants options to its employees and directors. Under the terms of the Plan, 1.5 million shares of common stock were reserved for such options. The Plan provides that the exercise price of each option granted equals the market price of the Company's stock on the date of grant. Any option granted vests within one to five years and has a maximum term of ten years.

A summary of the status of the Company's stock options under the Stock Option Plan as of December 31, 2006 and changes during the year ended December 31, 2006 and 2005 are presented below:

	For the Twelve Months Ended December 31,			
	2006		2005	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	1,052,968	\$2.11	826,707	\$1.40
Granted	281,955	\$2.46	516,000	\$2.70
Exercised	(440,652)	\$1.54	(281,973)	\$1.07
Forfeited	(2,200)	\$2.92	(7,766)	\$2.68
Outstanding, end of period	892,071	\$2.49	1,052,968	\$2.11
Options exercisable at period-end	882,071	\$2.49	1,052,968	\$2.11
Weighted average fair value of options granted during the period		\$1.04		\$1.09

	For the Years Ended December 31,	
	2006	2005
Number of options exercised	440,652	281,973
Cash received	\$681,885	\$303,947
Intrinsic value	527,742	522,873
Tax benefit	126,624	-

	For the Years Ended December 31,	
	Number of shares	Weighted average grant date fair value
Nonvested at the beginning of the year	-	-
Granted	10,000	1.19
Vested	-	-
Forfeited	-	-
Nonvested at the end of the period	10,000	1.19

The fair value of each option granted in 2006 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 29.03%; risk-free interest rate of 4.99% and an expected life of 7.0 years. Assumptions and pro forma expense for 2005 are shown in note 2. A dividend yield of 0% is utilized, because cash dividends have never been paid. The expected life reflects a 3 year "all or nothing" vesting period, the maximum ten year term and review of historical behavior. The volatility was based on Bloomberg's 7 year volatility calculation for "FRBK" common stock, because an inadequate time period since the January 1, 2005 spin-off from that parent has transpired to more accurately measure volatility for "FBOD" common stock. The risk-free interest rate is based on the 7 year Treasury bond.

The following table summarizes information about options outstanding under the Stock Option Plan at December 31, 2006 and 2005.

Range of Exercise Prices	Options outstanding			Options exercisable	
	Number outstanding at December 31, 2006	Weighted Average remaining contractual life (years)	Weighted Average exercise price	Shares	Weighted Average Exercise Price
\$0.78 to \$1.00	25,850	3.99	\$ 0.78	25,850	\$ 0.78
\$1.01 to \$1.50	20,350	4.17	1.20	20,350	1.20
\$1.51 to \$1.99	27,600	4.27	1.66	27,600	1.66
\$2.00 to \$2.69	368,871	7.43	2.51	368,871	2.51
\$2.70 to \$2.92	449,400	8.27	2.71	439,400	2.71
	<u>892,071</u>		<u>\$ 2.49</u>	<u>882,071</u>	<u>\$ 2.49</u>

During the year ended December 31, 2006, \$3,000 was recognized in compensation expense for the Stock Option Plan, with no tax benefit recognized. Prior to January 1, 2006, the Company accounted for the Stock Option Plan under the recognition and measurement principles of APB No. 25 and related interpretations. Share-based employee compensation costs were not reflected in net income, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of the grant. In 2005, the Company vested all previously issued unvested options. The Company granted 10,000 options during the year ended December 31, 2006. Existing options were increased by 271,955 shares in proportion to the common stock rights offering, with an exercise price equal to the market price of \$2.45 at the offering close. No compensation expense was recognized related to this increase. No shares vested in 2006, but expense is recognized ratably over the period required to vest. There were no unvested options at the beginning of that year, and 10,000 unvested at December 31, 2006, with a fair value of \$11,900 and \$8,900 of that amount remained to be recognized as expense. At that date, the intrinsic fair value of the 892,071 options outstanding was \$544,163, while the intrinsic value of the 882,071 exercisable (vested) was \$538,063. During 2006, 2,200 options were forfeited, with a weighted average grant fair value of \$2,618.

## 15. Segment Reporting:

FBD's reportable segments represent strategic businesses that offer different products and services. The segments are managed separately because each segment has unique operating characteristics, management requirements and marketing strategies. FBD has four reportable segments: its community-banking segment; tax refund products; card products and short-term consumer loans. The community-banking segment is primarily comprised of the results of operations and financial condition of its Delaware commercial and consumer loans. FBD additionally offers national consumer products to the underbanked consumer including tax refund products, card products, and short-term consumer loans. Tax refund products are comprised of accelerated check refunds and refund anticipation loans offered by FBD on a national basis to customers of Liberty Tax Services, an unaffiliated national tax preparation firm. The tax refund program was terminated in 2006. Short-term consumer loans are loans made to customers offered by FBD, with principal amounts of \$2,000 or less and terms ranging from two weeks to 140 days. These products consist of payday (loans due in approximately 2 weeks) and installment loans (loans up to 140 days). These loans typically are made in states that are outside of Delaware through a small number of marketers and involve rates and fees significantly different from other loan products. Effective July 2006, the Bank no longer makes two week payday loans. FBD also offers card products, which consist of prepaid and credit cards, on a national basis to the un-banked and under-banked market.

Segment information for the years ended December 31, 2006 and 2005 is as follows:

### December 31, 2006 (Dollars in thousands)

	First Bank of Delaware	Tax Refund Products	Card Products	Short- term Consumer Loans	Total
Net interest income .....	\$ 3,708	\$ 253	\$ 349	\$ 2,114	\$ 6,424
Provision for loan losses .....	157	-	-	791	948
Non-interest income .....	531	2,323	2,127	2,832	7,813
Non-interest expenses .....	3,033	1,488	1,852	3,482	9,855
Net income .....	\$ 1,049	\$ 1,088	\$ 624	\$ 673	\$ 3,434

#### Selected Balance Sheet Amounts:

Total assets .....	\$ 96,856	\$ -	\$ 19,249	\$ 7,808	\$ 123,913
Total loans, net .....	64,346	-	306	3,045	67,697
Total deposits .....	72,536	852	18,400	848	92,636

### December 31, 2005 (Dollars in thousands)

	First Bank of Delaware	Tax Refund Products	Card Products	Short- term Consumer Loans	Total
Net interest income .....	\$ 2,422	\$ 137	\$ 20	\$ 3,012	\$ 5,591
Provision for loan losses .....	204	-	-	1,654	1,858
Non-interest income .....	195	1,647	223	4,788	6,853
Non-interest expenses .....	2,111	1,133	551	4,022	7,817
Net income (loss) .....	\$ 302	\$ 651	\$(308)	\$ 2,124	\$ 2,769

#### Selected Balance Sheet Amounts:

Total assets .....	\$ 75,476	\$ -	\$ 360	\$ 6,340	\$ 82,176
Total loans, net .....	49,338	-	222	1,678	51,238
Total deposits .....	58,702	502	1,610	1,729	62,543

**16. Transactions with Affiliate:**

Prior to January 1, 2005, FBD was a wholly owned subsidiary of Republic, which also is the 100% owner of Republic First Bank.

At December 31, 2006 and 2005, First Bank of Delaware had outstanding balances of \$40.9 million and \$41.5 million, respectively, of commercial loans, which had been participated to Republic First Bank ("RFB"). FBD also sold its tax refund loans to RFB. Such loans are repaid by U.S. Treasury-issued tax refunds paid directly to FBD in the first and second quarters of the year. Accordingly, there were no such loans outstanding at December 31, 2006 and 2005. As of December 31, 2006 and 2005 FBD had outstanding balances of \$21.6 and \$41.1 million of commercial loan balances it had purchased from Republic First Bank. The above loan participations and sales were made at arms length. They are made as a result of lending limit and other regulatory requirements. FBD also maintained a correspondent bank deposit account with Republic First Bank. At December 31, 2006 and 2005, balances amounted to \$0 and \$0 respectively.

Prior to 2005, FBD employees were allowed to participate in a 401(k) plan sponsored by RFB. In 2005, the plan sponsor was changed to BSC and all eligible FBD participants continued to participate. The plan expense was \$108,000 and \$79,000 for the years ending December 31, 2006 and 2005 respectively. The plan was not materially modified. FBD and RFB maintain a deferred compensation plan for certain officers, wherein a percentage of base salary is contributed to the plan and utilized to buy stock of either FBD or RFB. To promote officer retention, a three year vesting period applies for each contribution. As of December 31, 2006, no amounts were vested. Expense for 2006 and 2005 was \$55,000 and \$29,000, respectively.

**17. Borrowings:**

The Bank has a line of credit of \$4 million with a correspondent bank, that line was not used in 2006 or 2005, nor were there any other borrowings during those periods.

## SUBSIDIARIES OF FIRST BANK OF DELAWARE

First Bank of Delaware has two subsidiaries,  
BSC Services Corp.  
FBD Capital Corp. dba/First Capital Exchange(1)

(1) Formed in January 2006.

Contracts for the services provided to FBD by those subsidiaries listed above in exhibits 10.8 through 10.11.

## CERTIFICATION

I, Harry D. Madonna, certify that:

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

Date: March 9, 2007

/s/ Harry D. Madonna

Chairman

## CERTIFICATION

I, Paul Frenkiel, certify that:

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

Date: March 9, 2007

/s/ Paul Frenkiel  
Executive Vice President and Chief Financial Officer

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

In connection with the Annual Report on Form 10-KSB for the fiscal year ended December 31, 2006, as filed with the Federal Deposit Insurance Corporation by First Bank of Delaware ("FBD") on the date hereof (the "Report"), I, Harry D. Madonna, Chief Executive Officer of FBD, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: March 9, 2007

By: /s/ Harry D. Madonna

Harry D. Madonna  
Chairman

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

In connection with the Annual Report on Form 10-KSB for the fiscal year ended December 31, 2006, as filed with the Federal Deposit Insurance Corporation by First Bank of Delaware ("FBD") on the date hereof (the "Report"), I, Paul Frenkiel, Chief Financial Officer of FBD, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: March 9, 2007

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