

FEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON, DC 20429

FORM 10-QSB

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

For the Quarterly Period Ended: **March 31, 2007**

FDIC certificate number: **34929**

**First Bank of Delaware**

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

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**51-0389698**  
IRS Employer Identification  
Number

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

(Address of principal executive offices)

(Zip code)

**302-529-5984**

(Issuer's telephone number, including area code)

**N/A**

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

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

YES  NO

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

YES  NO

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

**11,365,159 shares** of Issuer's Common Stock, par value  
**\$0.05 per share**, issued and outstanding as of May 14, 2007

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## **PART I - FINANCIAL INFORMATION**

### **ITEM 1: FINANCIAL STATEMENTS**

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**First Bank of Delaware**  
**Consolidated Balance Sheets**  
as of **March 31, 2007** and **December 31, 2006**  
(Dollars in thousands, except per share data)

<b>ASSETS:</b>	<u>March 31, 2007</u>	<u>December 31, 2006</u>
	<b>(unaudited)</b>	
Cash and due from banks	\$ 2,317	\$ 1,917
Interest bearing deposits with banks	680	697
Federal funds sold	49,284	36,141
Total cash and cash equivalents	<u>52,281</u>	<u>38,755</u>
Investment securities available for sale, at fair value	9,819	9,689
Federal Home Loan Bank stock, at cost	160	172
Loans held for sale	846	-
Loans receivable (net of allowance for loan losses of \$1,960 and \$1,860, respectively)	70,263	67,697
Premises and equipment, net	1,743	1,177
Accrued interest receivable	444	428
Bank owned life insurance	1,709	1,693
Other assets	<u>4,298</u>	<u>4,302</u>
Total Assets	<u>\$ 141,563</u>	<u>\$ 123,913</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>		
<b>Liabilities:</b>		
Deposits:		
Demand – non-interest-bearing	\$ 36,890	\$ 24,313
Demand – interest-bearing	141	78
Money market and savings	28,148	24,285
Time under \$100,000	27,498	27,189
Time \$100,000 or more	<u>16,731</u>	<u>16,771</u>
Total Deposits	109,408	92,636
Accrued interest payable	1,136	718
Due to short term consumer loan servicers and purchasers	2,240	3,390
Other liabilities	<u>1,734</u>	<u>1,316</u>
Total Liabilities	<u>114,518</u>	<u>98,060</u>
<b>Shareholders' Equity:</b>		
Respective amounts as of March 31, 2007 and December 31, 2006:		
Common stock par value: \$0.05;		
Shares authorized: 15,000,000;		
Shares issued: 11,362,159	568	568
Additional paid in capital	13,224	13,201
Retained earnings	13,596	12,420
Stock held by deferred compensation plan	(384)	(384)
Accumulated other comprehensive income	41	48
Total Shareholders' Equity	<u>27,045</u>	<u>25,853</u>
Total Liabilities and Shareholders' Equity	<u>\$ 141,563</u>	<u>\$ 123,913</u>

*(See notes to consolidated financial statements)*

**First Bank of Delaware**  
**Consolidated Statements of Income**  
**For the Three Months Ended March 31, 2007 and 2006**  
**(Dollars in thousands, except per share data)**  
**(unaudited)**

	<u>Three months ended</u>	
	<u>March 31,</u>	
	2007	2006
<b>Interest income:</b>		
Interest and fees on loans	\$1,880	\$1,411
Interest and dividend income on federal funds sold and other interest-earning balances	605	474
Interest and dividends on investment securities	<u>149</u>	<u>11</u>
Total interest income	2,634	1,896
<b>Interest expense:</b>		
Demand interest-bearing	4	-
Money market and savings	288	160
Time under \$100,000	375	166
Time \$100,000 or more	<u>222</u>	<u>130</u>
Total interest expense	889	456
Net interest income	1,745	1,440
Provision for loan losses	134	222
Net interest income after provision for loan losses	<u>1,611</u>	<u>1,218</u>
<b>Non-interest income:</b>		
Loan advisory and servicing fees	13	8
Service fees on deposit accounts	107	28
Net gain on sales of loans	142	-
Short-term loan fee income	1,483	799
First Capital Exchange fee income	55	-
Tax refund products	-	1,963
Card Product Income	1,131	271
Other income	<u>53</u>	<u>13</u>
	2,984	3,082
<b>Non-interest expenses:</b>		
Salaries and benefits	1,915	1,330
Occupancy	98	91
Depreciation	48	78
Legal	63	71
Data processing	68	77
Delaware franchise tax	93	105
Other expenses	<u>527</u>	<u>545</u>
	2,812	2,297
Income before provision for income taxes	<u>1,783</u>	<u>2,003</u>
Provision for income taxes	607	693
Net income	<u><u>\$1,176</u></u>	<u><u>\$1,310</u></u>
Net income per share:		
Basic	<u><u>\$0.10</u></u>	<u><u>\$0.17</u></u>
Diluted	<u><u>\$0.10</u></u>	<u><u>\$0.17</u></u>

*(See notes to consolidated financial statements)*

**First Bank of Delaware**  
**Consolidated Statements of Cash Flows**  
**For the Three Months Ended March 31, 2007 and 2006**  
(Dollars in thousands)  
(unaudited)

	Three months ended	
	March 31,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 1,176	\$ 1,310
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	134	222
Stock based compensation	15	-
Depreciation and amortization	48	78
Amortization of premiums on investment securities	(5)	-
Net gain on sale of loans	(142)	-
Increase in value of bank owned life insurance	(16)	(13)
Increase in accrued interest receivable and other assets	(12)	(983)
Decrease in due to short term loan servicers and purchasers	(1,150)	(1,747)
Increase in accrued interest payable and other liabilities	837	2,184
Net cash provided by operating activities	885	1,051
Cash flows from investing activities:		
Purchase of securities:		
Available for sale	(322)	-
Proceeds from principal receipts, calls and maturities of securities:		
Available for sale	188	24
FHLB stock redemption	12	-
Gross loans originated for sale	(12,228)	-
Proceeds from sales of loans	11,525	-
Net (increase) decrease in loans	(2,700)	1,218
Premises and equipment expenditures	(614)	(24)
Net cash (used in) provided by investing activities	(4,139)	1,218
Cash flows from financing activities:		
Net proceeds from exercise of stock options	8	654
Net increase in demand, money market and savings deposits	16,503	16,773
Net (decrease) increase in time deposits	269	(4,019)
Net cash provided by financing activities	16,780	13,408
Increase in cash and cash equivalents	13,526	15,677
Cash and cash equivalents, beginning of period	38,755	22,838
Cash and cash equivalents, end of period	\$ 52,281	\$ 38,515
Supplemental disclosure:		
Interest paid	\$ 471	\$ 428
Taxes paid	\$ -	\$ -

(See notes to consolidated financial statements)

FIRST BANK OF DELAWARE  
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
For the three months ended March 31, 2007 and 2006  
(Dollars in thousands)  
(Unaudited)

	Comprehensive Income	Common Stock	Additional Paid in Capital	Retained Earnings	Stock Held by Deferred Compensation Plan	Accumulated Other Comprehensive Income (loss)	Total Shareholders' Equity
Balance January 1, 2007 .....		\$ 568	\$ 13,201	\$ 12,420	\$ (384)	\$ 48	\$ 25,853
Options exercised (3,142 shares)		-	8	-	-	-	8
Stock Based Compensation		-	15	-	-	-	15
Total other comprehensive loss, net of taxes of \$4,000.....	\$ (7)	-	-	-	-	(7)	(7)
Net income for the quarter .....	1,176	-	-	1,176	-	-	1,176
Total comprehensive income.....	\$ 1,169	-	-	-	-	-	-
Balance March 31, 2007		\$ 568	\$ 13,224	\$ 13,596	\$ (384)	\$ 41	\$ 27,045

	Comprehensive Income	Common Stock	Additional Paid in Capital	Retained Earnings	Stock Held by Deferred Compensation Plan	Accumulated Other Comprehensive Income (loss)	Total Shareholders' Equity
Balance January 1, 2006 .....		\$ 376	\$ 5,084	\$ 8,986	\$ (149)	\$ 4	\$ 14,301
Options exercised(425,358 shares)		21	633	-	-	-	654
Total other comprehensive loss, net of taxes of \$3,000.....	\$ (6)	-	-	-	-	(6)	(6)
Net income for the quarter .....	1,310	-	-	1,310	-	-	1,310
Total comprehensive income.....	\$ 1,304	-	-	-	-	-	-
Balance March 31, 2006		\$ 397	\$ 5,717	\$ 10,296	\$ (149)	\$ (2)	\$ 16,259

*(See notes to consolidated financial statements)*

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

**Note 1:        Organization**

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

FBD is a commercial bank chartered pursuant to the laws of the State of Delaware with its principal office located at Brandywine Commons II, Concord Pike, Wilmington, Delaware. As a Delaware chartered bank, it is subject to the regulations and examination of the Delaware State Banking Commissioner. As a state chartered bank which is not a member of the Federal Reserve System, it is also subject to examination and comprehensive regulation by the Federal Deposit Insurance Corporation (“FDIC”). Deposits are insured up to applicable limits by the Bank Insurance Fund of the FDIC. FBD presently conducts its principal business banking activities through two offices in Wilmington, Delaware. FBD offers a variety of credit and depository banking services. Commercial loan services are primarily offered to individuals and businesses in the Delaware area through two offices in New Castle County, Delaware; however a substantial number of consumer installment loans (120 day and over) are made in various states via the Internet. Credit and prepaid card products are also offered nationally. The majority of loan balances resulting from these national products are sold. FBD has two subsidiaries, BSC Services Corp. and FBD Capital Markets, Inc. d/b/a “First Capital Exchange”. BSC Services Corp. provides operations, accounting, compliance and human resources staffing to FBD and Republic First Bank. FBD also offers mezzanine and related financing through its subsidiary, First Capital Exchange. Such financing is generally short-term, (less the two years) with higher loan to value ratios than loans made by the bank. Risk and returns are also higher. FBD also provides banking services to money transmitters.

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

***Basis of Presentation:***

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ended December 31, 2007.

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

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

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

At March 31, 2007, there were approximately \$4.0 million of short term installment loans outstanding on the balance sheet, which were originated in various states and via the internet. These loans generally have principal amounts of \$2,500 or less. Legislation eliminating or limiting interest rates upon short-term consumer loans has from time to time been proposed. Should such proposals cease, increased competition will likely result in lower pricing. Certain loans that FBD originates are classified as "Held For Sale" on the balance sheet.

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 in the first and second quarters of 2007. 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 March 31, 2007 FBD had approximately \$560,000 of credit card related receivables on its books.

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

FBD's results of operations will be significantly affected by the ability of borrowers to repay their loans and many national consumer borrowers, including short term installment 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.

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

### ***Stock Based Compensation:***

At March 31, 2007, the Company maintains a Stock Option Plan (the “Plan”) under which the Company grants options to its employees and directors. Under terms of the plan, 1.5 million shares of common stock are reserved for such options. The Plan provides that the exercise price of each option granted equals the market price of the Company’s stock on the date of grant. Any options granted vest within one to five years and have a maximum term of 10 years.

A summary of the activity related to the Company’s stock options granted under the Stock Option Plan during the three months ended March 31, 2007 is presented below:

	<b>For the Three Months Ended</b>	
	<b>March 31, 2007</b>	
	<b>Shares</b>	<b>Weighted Average Exercise Price</b>
Outstanding, beginning of year	892,071	\$2.49
Granted	167,000	\$3.10
Exercised	(3,142)	\$2.60
Forfeited	-	-
Outstanding, end of period	<u>1,055,929</u>	<u>\$2.60</u>
Options exercisable at period-end	<u>878,929</u>	<u>\$2.49</u>
Weighted average fair value of options granted during the period		<u>\$1.21</u>

The following table summarizes information about options outstanding under the Stock Option Plan as of March 31, 2007.

<b>Range of Exercise Prices</b>	<b>Options outstanding</b>			<b>Options exercisable</b>	
	<b>Shares</b>	<b>Weighted Average remaining contractual life (years)</b>	<b>Weighted Average exercise price</b>	<b>Shares</b>	<b>Weighted Average Exercise Price</b>
\$0.78 to \$1.00	25,850	3.7	\$ 0.78	25,850	\$ 0.78
\$1.01 to \$1.50	20,350	4.8	1.20	20,350	1.20
\$1.51 to \$1.99	27,600	4.0	1.66	27,600	1.66
\$2.00 to \$2.69	365,729	7.2	2.51	365,729	2.51
\$2.70 to \$2.92	616,400	8.5	2.82	439,400	2.71
	<u>1,055,929</u>		<u>\$ 2.60</u>	<u>878,929</u>	<u>\$ 2.49</u>

During the three months ended March 31, 2007, \$8,000 was recognized in compensation expense for the Stock Option Plan. The fair value of each option granted in 2007 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 25.24%; risk-free interest rate of 4.7% and an expected life of 7.0 years. There were 10,000 unvested options at the beginning of 2007 with a fair value of \$11,900 with \$8,905 of that amount remaining to be recognized as expense. At March 31, 2007, there were 177,000 unvested options with a fair value of \$213,970 with \$202,469 of that amount remaining to be recognized as expense. At that date, the intrinsic value of the 1,055,928 options

outstanding was \$992,572, while the intrinsic value of the 878,929 exercisable (vested) options was \$922,875. No options were forfeited during the first quarter.

	<b>For the Three Months Ended</b>	
	<b>March 31, 2006</b>	
	<b>Shares</b>	<b>Weighted Average Exercise Price</b>
Outstanding, beginning of year	1,052,968	\$2.11
Granted	-	-
Exercised	(425,358)	\$1.53
Forfeited	-	-
Outstanding, end of period	<u>627,610</u>	<u>\$2.50</u>
Options exercisable at period-end	<u>627,610</u>	<u>\$2.50</u>
Weighted average fair value of options granted during the period		<u>-</u>

The following table summarizes information about options outstanding under the Stock Option Plan as of March 31, 2006.

<b>Range of Exercise Prices</b>	<b>Options outstanding</b>			<b>Options exercisable</b>	
	<b>Shares</b>	<b>Weighted Average remaining contractual life (years)</b>	<b>Weighted Average exercise price</b>	<b>Shares</b>	<b>Weighted Average Exercise Price</b>
\$0.78 to \$1.00	29,150	5.0	\$ 0.78	29,150	\$ 0.78
\$1.01 to \$1.50	25,850	6.0	1.21	25,850	1.21
\$1.51 to \$1.99	28,600	5.2	1.67	28,600	1.67
\$2.00 to \$2.69	102,410	8.0	2.67	102,410	2.67
\$2.70 to \$2.92	441,600	9.2	2.71	441,600	2.71
	<u>627,610</u>		<u>\$ 2.50</u>	<u>627,610</u>	<u>\$ 2.50</u>

FBD granted no options during the three months ended March 31, 2006. Since, in 2005, the Company vested all previously issued unvested options and the Company has granted no options during the three months ended March 31, 2006, there was no compensation expense recognized for the Stock Option Plan during the three months ended March 31, 2006.

### **Note 3: Reclassifications**

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

### **Note 4: Recent Accounting Pronouncements**

In 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 the Company'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. The Company adopted this statement effective January 1, 2007. The adoption did not have a material effect on the Company's financial position or results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" (FIN 48), which clarifies the accounting for uncertainty in tax positions. This Interpretation requires that companies recognize in their financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006 with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company is currently evaluating the impact of adopting FIN 48 on our financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS 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. The Company is currently evaluating the impact, if any, of the adoption of SFAS No. 157 on its financial statements.

On September 13, 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 ("SAB 108"). SAB 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 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 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. The Company has analyzed SAB 108 and determined that upon adoption it will have no impact on its financial statements.

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.

In March 2007, the FASB ratified EITF Issue No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards." EITF 06-11 requires companies to recognize the income tax benefit realized from dividends or dividend equivalents that are charged to retained earnings and paid to employees for nonvested equity-classified employee share-based payment awards as an increase to additional paid-in capital. EITF 06-11 is effective for fiscal years beginning after September 15, 2007. The Company does not expect EITF 06-11 will have a material impact on its financial position, results of operations or cash flows.

**Note 5: Legal Proceedings**

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

**Note 6: Segment Reporting**

FBD's reportable segments represent strategic businesses that offer different products and services. The segments are managed separately because each segment has unique operating characteristics, management requirements and marketing strategies. FBD has four reportable segments: one community banking segment; mezzanine financing ; consumer installment loans; and card products. The community banking segment is primarily comprised of the results of operations and financial condition of commercial loan and deposit operations. The mezzanine financing loans are primarily for real estate projects with higher loan to value ratios than loans made by the bank and with relatively shorter terms (generally less than two years). Some of these loans are participated. FBD additionally offers national consumer products to the underbanked consumer including consumer installment loans. Consumer installment loans are loans with principal amounts of \$5,000 or less and terms of 120 days and greater. These loans typically are made in states that are outside of Delaware through a small number of marketers with rates and fees significantly different from other loan products offered. A majority of these loans are sold in the secondary market. FBD also offers card products, which consist of prepaid and credit cards, on a national basis.

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

Segment information for the three months ended March 31, 2007 and 2006, is as follows:

**March 31, 2007**  
(dollars in thousands)

As of and for the three months ended

	Community Banking	Mezzanine Financing	Card Products	Short-term Consumer loans	Total
Net interest income	\$ 950	\$ 127	\$ 195	\$ 473	\$ 1,745
Provision for loan losses	34	-	-	100	134
Non-interest income	174	55	1,131	1,624	2,984
Non-interest expenses	840	137	1,063	1,379	3,419
Net income	<u>\$ 250</u>	<u>\$ 45</u>	<u>\$ 263</u>	<u>\$ 618</u>	<u>\$ 1,176</u>

**Selected Balance Sheet Accounts:**

Total assets	\$ 129,131	\$ 4,068	\$ 1,232	\$ 7,132	\$ 141,563
Total loans	62,706	4,002	781	3,620	71,109
Total deposits	81,286	-	22,537	5,585	109,408

**March 31, 2006**  
(dollars in thousands)

	Community Banking	Tax Refund Products	Card Products	Short-term Consumer loans	Total
Net interest income	\$ 702	\$ 184	\$ 50	\$ 504	\$ 1,440
Provision for loan losses	33	-	-	189	222
Non-interest income	49	1,963	271	799	3,082
Non-interest expenses	578	1,124	343	945	2,990
Net income	<u>\$ 140</u>	<u>\$ 1,023</u>	<u>\$ (22)</u>	<u>\$ 169</u>	<u>\$ 1,310</u>

**Selected Balance Sheet Accounts:  
December 31, 2006**

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

**Note 7: Earnings Per Share:**

Earnings per share (“EPS”) consists of two separate components: basic EPS and diluted EPS. Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding for each period presented. Diluted EPS is calculated by dividing net income by the weighted average number of common shares outstanding plus dilutive common stock equivalents (“CSEs”). CSEs consist of dilutive stock options granted through FBD’s stock option plan. The following table is a reconciliation of the numerator and denominator used in calculating basic and diluted EPS. CSEs which are anti-dilutive are not included in the following calculation. At March 31, 2007, and 2006, respectively, there were no stock options that were not included in the calculation of EPS because the option exercise price was greater than the average market price for the period.

The following table is a comparison of EPS for the three months ended March 31, 2007, and 2006.

	Year to Date			
	<u>2007</u>		<u>2006</u>	
<b>Net Income</b>	\$1,176,000		\$1,310,000	
	<u>Shares</u>	<u>Per Share</u>	<u>Shares</u>	<u>Per Share</u>
Weighted average shares o/s for the period ended	11,360,964		7,600,953	
Basic EPS		\$0.10		\$0.17
Add common stock equivalents representing dilutive stock options	<u>285,773</u>		<u>81,726</u>	
Effect on basic EPS of dilutive CSE		\$ -		\$ -
Equals total weighted average Shares o/s and CSE (diluted)	<u>11,646,737</u>		<u>7,682,678</u>	
Diluted EPS		<u>\$0.10</u>		<u>\$0.17</u>

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

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

Certain statements in this document may be considered to be "forward-looking statements" as that term is defined in the U.S. Private Securities Litigation Reform Act of 1995, such as statements that include the words "may," "believes," "expect," "estimate," "project," "anticipate," "should," "intend," "probability," "risk," "target," "objective" and similar expressions or variations on such expressions. The forward-looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. For example, risks and uncertainties can arise with changes in: general economic conditions, including their impact on capital expenditures; new service and product offerings by competitors and price pressures; and similar items. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. FBD undertakes no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances that arise after the date hereof. Readers should carefully review the risk factors described in other documents FBD files from time to time with the FDIC, including FBD's Annual Report on Form 10-KSB for the year ended December 31, 2006, Quarterly Reports on Form 10-QSB, filed by the Company in 2007 and 2006, and any Current Reports on Form 8-K, as well as other filings.

### **Recent Developments:**

#### Tax Products

The Company agreed with Liberty Tax Service ("LTS") to terminate the agreement pursuant to which the Bank offers Bank 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 were 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 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.

#### Installment Loans

The bank ceased making short term installment loans in storefronts effective April 17, 2007. This change will have a material effect on earnings.

## **Financial Condition:**

### *March 31, 2007, Compared to December 31, 2006*

Total assets increased \$17.6 million to \$141.6 million at March 31, 2007, versus \$123.9 million at December 31, 2006. This increase reflected a \$13.1 million increase in fed funds sold which was funded primarily by increases in non-interest-bearing demand, which increased \$12.6 million between those respective dates.

### *Loans:*

The loan portfolio represents FBD's largest asset, and is its most significant source of interest income. Net loans, excluding loans held for sale, increased \$2.6 million, or 3.8%, to \$70.3 million at March 31, 2007, versus \$67.7 million at December 31, 2006. The loan portfolio consists of commercial real estate, construction and other commercial loans as well as short term consumer loans. Commercial real estate loans comprise the majority of the loan portfolio. Commercial real estate loans amounted to \$40.1 million at March 31, 2007 compared to \$42.5 million at December 31, 2006. Construction and land development loans amounted to \$19.4 million and \$18.1 million respectively, at those dates. At March 31, 2007, there were \$5.4 million in consumer loans outstanding versus \$4.5 million at December 31, 2006.

### *Investment Securities:*

Investment securities available-for-sale are investments, which may be sold in response to changing market and interest rate conditions and for liquidity and other purposes. The investment securities available-for-sale consist primarily of U.S. Government agency issued mortgage backed securities. Available-for-sale securities totaled \$9.8 million at March 31, 2007, an increase of \$130,000, or 1.3%, from year-end 2006. This increase resulted primarily from a purchase of a mortgage-backed security. At March 31, 2007, and December 31, 2006, the portfolio had net unrealized gains of \$63,000 and \$73,000, 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. FBD did not have any held-to-maturity securities at those respective dates.

### *Cash and Cash Equivalents:*

Cash and due from banks, interest-bearing deposits and federal funds sold comprise this category, which consists of FBD's most liquid assets. The aggregate amount in these three categories increased by \$13.5 million, to \$52.3 million at March 31, 2007 from \$38.8 million at December 31, 2006. Federal funds sold increased by \$13.1 million, between those respective dates, to \$49.3 million at March 31, 2007.

### *Fixed Assets:*

Bank premises and equipment, net of accumulated depreciation was \$1.7 million at March 31, 2007 and \$1.2 million at December 31, 2006, respectively. The increase reflected expenditures in process related to moving the operations center and various offices.

*Bank Owned Life Insurance:*

The income earned on these policies is reflected in non-interest income. Business owned life insurance amounted to \$1.7 million at March 31, 2007 and December 31, 2006.

*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 the Delaware market area through the offering of a variety of products to attract and retain customers, with a primary focus on multi-product relationships.

Total deposits increased by \$16.8 million to \$109.4 million at March 31, 2007, from \$92.6 million at December 31, 2006. Average transaction accounts in the current quarter increased 2.9% or \$1.7 million over the comparable prior year quarter. Time deposits increased \$269,000 to \$44.2 million at March 31, 2007, versus \$44.0 million at the prior year-end.

*Due to Short-Term Consumer Loan Servicers and Purchasers*

Amounts due to short-term consumer loan servicers and purchasers totaled \$2.2 million at March 31, 2007, a decrease of \$1.2 million, from \$3.4 million at December 31, 2006. The decrease resulted primarily because of the decrease in the volume of consumer installment loans which were sold to third parties. See "Managements Discussion and Analysis of Financial Condition and Results of Operations Recent Developments."

*Shareholders' Equity:*

Total shareholders' equity increased \$1.2 million to \$27.0 million at March 31, 2007, versus \$25.9 million at December 31, 2006. This increase reflected net income of \$1.2 million.

## **Three Months Ended March 31, 2007 Compared to March 31, 2006**

### **Results of Operations:**

#### *Overview*

FBD's net income decreased to \$1.2 million or \$0.10 per diluted share for the three months ended March 31, 2007, compared to \$1.3 million, or \$0.17 per diluted share for the comparable prior year period. The variance in earnings per share is mostly attributable, \$.06 per diluted share, to the common stock offering in June of 2006 which added 3.3 million shares. The \$134,000 decrease in net income reflected a \$2.0 million decrease in income from the discontinuation of the tax refund program, which was partially offset by a \$860,000 increase in card product and \$826,000 increase in installment loan non-interest income. Additionally, salary and benefits expense increased \$585,000, primarily reflecting increases related to consumer installment loans and the card product programs. Commercial loan interest increased \$410,000, reflecting a \$15.7 million, or 31.4% increase in average commercial loan balances, and higher rates on variable rate loans. Higher rates and balances for fed funds sold and securities also contributed to a \$305,000 increase in net interest income. These factors were reflected in a return on average assets and average equity of 3.39% and 17.76% respectively, in the first quarter of 2007 compared to 4.56% and 34.51% respectively for the same period in 2006.

## Analysis of Net Interest Income

Historically, FBD's earnings have depended significantly upon net interest income, which is the difference between interest earned on interest-earning assets and interest paid on interest-bearing liabilities. Net interest income is impacted by changes in the mix of the volume and rates of interest-earning assets and interest-bearing liabilities.

	For the three months ended March 31, 2007			For the three months ended March 31, 2006		
(Dollars in thousands)	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
Interest-earning assets:						
Federal funds sold and other interest-earning assets	\$ 46,906	\$ 605	5.23%	\$ 42,782	\$ 474	4.49%
Securities	10,004	149	5.95%	790	11	5.64%
Loans receivable	71,742	1,880	10.63%	53,247	1,411	10.74%
Total interest-earning assets	128,652	2,634	8.30%	96,819	1,896	7.94%
Other assets	10,169			18,165		
Total assets	<u>\$ 138,821</u>			<u>\$ 114,984</u>		
Interest-bearing liabilities:						
Demand-non interest bearing	\$ 34,353			\$ 37,514		
Demand interest-bearing	277	\$ -	0.00%	32	\$ -	0.00%
Money market & savings	26,109	292	4.54%	21,505	160	3.02%
Time deposits	45,024	597	5.38%	28,742	296	4.18%
Total deposits	105,763	889	3.41%	87,793	456	2.11%
Total interest-bearing deposits	71,410	889	5.05%	50,279	456	3.68%
Total interest-bearing liabilities	<u>\$ 71,410</u>	<u>\$ 889</u>	<u>5.05%</u>	<u>\$ 50,279</u>	<u>\$ 456</u>	<u>3.68%</u>
Total deposits	105,763	889	3.41%	87,793	456	2.11%
Non interest-bearing liabilities	6,562			12,006		
Shareholders' equity	26,496			15,185		
Total liabilities and shareholders' equity	<u>\$ 138,821</u>			<u>\$ 114,984</u>		
Net interest income		<u>\$ 1,745</u>			<u>\$ 1,440</u>	
Net interest spread			<u>3.25%</u>			<u>4.26%</u>
Net interest margin			<u>5.50%</u>			<u>6.03%</u>

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

### Rate/Volume Table

	Three months ended March 31, 2007 versus March 31, 2006 (dollars in thousands)		
	Due to change in:		
	<u>Volume</u>	<u>Rate</u>	<u>Total</u>
Interest earned on:			
Federal funds sold	\$ 53	\$ 78	\$ 131
Securities	137	1	138
Loans	485	(16)	469
<b>Total interest-earning assets</b>	<b>675</b>	<b>63</b>	<b>738</b>
Interest expense of			
deposits			
Interest-bearing demand deposits	-	-	-
Money market and savings	(51)	(80)	(131)
Time deposits	(216)	(86)	(302)
<b>Total deposit interest expense</b>	<b>(267)</b>	<b>(166)</b>	<b>(433)</b>
Other borrowings	-	-	-
<b>Total interest expense</b>	<b>(267)</b>	<b>(166)</b>	<b>(433)</b>
<b>Net interest income</b>	<b>\$ 408</b>	<b>\$ (103)</b>	<b>\$ 305</b>

FBD's net interest margin decreased 53 basis points to 5.50% for the three months ended March 31, 2007, versus the prior year comparable period. The majority of the decrease resulted from an increased cost of funds. The average yield on interest-earning assets increased 36 basis points to 8.30% for the three months ended March 31, 2007, from 7.94% for the prior year comparable period. The increase reflected the higher yield on fed funds sold and investment securities. However, the average rate paid on interest-bearing liabilities increased 137 basis points to 5.05% for the three months ended March 31, 2007, from 3.68% in the prior year comparable period, as FBD repriced its deposits to the higher rate environment. Yields on total deposits increased 130 basis points, to 3.41% in first quarter 2007 from 2.11% in first quarter 2006.

FBD's net interest income increased \$305,000, or 21.2%, to \$1.7 million for the three months ended March 31, 2007, from \$1.4 million for the prior year comparable period. A \$433,000 increase in interest expense was offset by a \$410,000 increase in commercial loan interest and lesser increases in fed funds and investment interest. The increases resulted from higher balances and higher rates on variable rate commercial loans and fed funds, reflecting higher market rates.

Total interest income increased \$738,000, or 39.0%, to \$2.6 million for the three months ended March 31, 2007, from \$1.9 million for the prior year comparable period. Interest and fees on loans increased \$469,000 to \$1.9 million for the three months ended March 31, 2007, from \$1.4 million for the prior year comparable period. The increases reflected those factors noted in the preceding paragraph which discussed net interest income. Interest and dividends on investment securities increased \$138,000

to \$149,000 for the three months ended March 31, 2007, from \$11,000 for the prior year comparable period. FBD purchased securities in 2006 which accounted for substantially all of the increase in income from the prior year period. Federal funds sold income increased \$131,000, or 27.6%, to \$605,000 in first quarter 2007, compared to \$474,000 in first quarter 2006. The increase reflected higher average short-term interest rates which increased the yield to 5.23% from 4.49% between those respective periods. Average balances between those respective periods also increased, and were invested at those higher average rates. In first quarter 2007, average federal funds sold increased \$4.1 million, to \$46.9 million in first quarter 2007, from \$42.8 million in first quarter 2006.

Total interest expense increased \$433,000, or 95.0%, to \$889,000 for the three months ended March 31, 2007, from \$456,000 for the prior year comparable period. That increase reflected the impact of higher short-term interest rates on the cost of interest-bearing liabilities which increased 137 basis points to 5.05% in first quarter 2007 from 3.68% in first quarter 2006. It also represented the expense associated with increased amounts of interest-bearing liabilities subject to those higher rates. Total interest-bearing liabilities increased \$21.1 million, or 42.0%, to \$71.4 million in first quarter 2007, from \$50.3 million in first quarter 2006.

Interest expense on time deposits (certificates of deposit) increased \$301,000, or 101.7%, to \$597,000 for first quarter 2007, from \$296,000 for the prior year comparable period. This increase reflected the higher interest rate environment as the average rate increased 120 basis points to 5.38%. In addition, average certificates of deposit outstanding increased \$16.3 million, or 56.6%, to \$45.0 million, for the quarter ended March 31, 2007, from \$28.7 million in the prior year comparable period. The increase in balances reflected the impact of fourth quarter 2006 promotions.

### **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 \$88,000 to \$134,000 for the three months ended March 31, 2007, from \$222,000 for the prior year comparable period. This decrease resulted from lower provisions for short term consumer loans, reflecting fewer charge-offs.

### **Non-Interest Income**

Total non-interest income decreased \$98,000 to \$3.0 million for the three months ended March 31, 2007, versus \$3.1 million for the prior year comparable period. While a \$2.0 million decrease resulted from the discontinued tax refund program, fees on installment loans increased by \$684,000 to \$1.5 million primarily as a result of increases in the volume of such products and \$142,000 on net gain on sales of such loans. Card product income, which includes prepaid and credit cards, increased by \$860,000 or 317.3% for the three months ended March 31, 2007 compared to the quarter ended March 31, 2006.

### **Non-Interest Expenses**

Total non-interest expenses increased \$515,000 or 22.4% to \$2.8 million for the three months ended March 31, 2007, from \$2.3 million for the prior year comparable period. Salaries and employee benefits increased \$585,000 or 44.0%, to \$1.9 million for the three months ended March 31, 2007, from \$1.3 million for the prior year comparable period. The majority of the \$585,000 increase reflected increases related to staffing for the consumer loan and card products.

Occupancy expense increased \$7,000, or 7.7%, to \$98,000 for first quarter 2007, versus \$91,000 for first quarter 2006. The increase reflected increased space requirements for the consumer loan and card products.

Depreciation expense decreased \$30,000, or 38.5% to \$48,000 for the three months ended March 31, 2007, versus \$78,000 for the prior year comparable period. The \$30,000 decrease reflected retirements and write-offs of equipment from first quarter 2006 to March 31, 2007.

Legal fees decreased \$8,000, or 11.3%, to \$63,000 in first quarter 2007, compared to \$71,000 in first quarter 2006 as out of pocket legal fees related to new products were reduced.

Data processing expense decreased \$9,000, or 11.7%, to \$68,000 in first quarter 2007 from \$77,000 in first quarter 2006. The decrease reflected decreased data processing charges related to consumer installment loans.

Delaware franchise tax decreased \$12,000, or 11.4%, to \$93,000 in first quarter 2007 from \$105,000 in first quarter 2006. The decrease resulted primarily from decreases in taxable income.

Other expenses decreased \$18,000, or 3.3% to \$527,000 for the three months ended March 31, 2007, from \$545,000 for the prior year comparable period.

### **Provision for Income Taxes**

The provision for income taxes decreased \$86,000, to \$607,000 for the three months ended March 31, 2007, from \$693,000 for the prior year comparable period. This decrease was primarily the result of the decrease in pre-tax income. The effective tax rate was approximately 34% in both periods.

## **Commitments, Contingencies and Concentrations**

FBD is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of their customers. These financial instruments include commitments to extend credit and standby letters of credit totaling \$16.1 million at March 31, 2007. These instruments involve to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the financial statements.

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

Financial instruments whose contract amounts represent potential credit risk were comprised of commitments to extend credit of approximately \$15.8 million and \$18.9 million and standby letters of credit of approximately \$296,000 and \$323,000 at March 31, 2007, and December 31, 2006, respectively.

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

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

## Regulatory Matters

The following table presents the FBD's capital regulatory ratios at March 31, 2007, and December 31, 2006:

	Actual		For Capital Adequacy purposes	
	Amount	Ratio	Amount	Ratio
Dollars in thousands				
At March 31, 2007				
Total risk based capital				
First Bank of Delaware	\$28,217	29.30%	\$7,705	8.00%
Tier one risk based capital				
First Bank of Delaware	27,004	28.04%	3,853	4.00%
Tier one leveraged capital				
First Bank of Delaware	27,004	19.46%	6,939	5.00%
	Actual		For Capital Adequacy purposes	
	Amount	Ratio	Amount	Ratio
At December 31, 2006				
Total risk based capital				
First Bank of Delaware	\$26,925	30.33%	\$7,101	8.00%
Tier one risk based capital				
First Bank of Delaware	25,806	29.07%	3,551	4.00%
Tier one leveraged capital				
First Bank of Delaware	25,806	21.06%	6,126	5.00%

## Dividend Policy

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

## Liquidity

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

Regulatory authorities requires FBD to maintain certain liquidity ratios to 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, FBD has formed an Asset/Liability Committee ("ALCO"), comprised of selected members of the FBD board of directors and senior management, which monitor such ratios. The purpose of the Committees is in part, to monitor FBD's liquidity and adherence to the ratios in addition to managing the relative interest rate risk. ALCO meets at least quarterly.

FBD's most liquid assets, consisting of cash and due from banks, interest bearing deposits with banks and federal funds sold, totaled \$52.3 million at March 31, 2007, compared to \$38.8 million at

December 31, 2006, due primarily to an increase in federal funds sold. Loan maturities and repayments, if not reinvested in loans, also are immediately available for liquidity. Funding requirements have historically been satisfied primarily by generating core deposits and certificates of deposit with competitive rates. At March 31, 2007, FBD had aggregate outstanding commitments (including unused lines of credit and letters of credit) of \$16.1 million. Certificates of deposit scheduled to mature in one year totaled \$43.9 million at March 31, 2007. FBD anticipates that it will have sufficient funds available to meet its current commitments.

Target and actual liquidity levels are determined by comparisons of the estimated repayment and marketability of interest-earning assets and projected future outflows of deposits and other liabilities. FBD is a member of the Federal Home Loan Bank and has a credit line exceeding \$25 million, all of which is available. FBD has also established a line of credit from a correspondent bank to assist in managing the liquidity position. That line of credit totaled \$4.0 million and was unused at March 31, 2007. Securities also represent a primary source of liquidity for FBD. Accordingly, investment decisions generally reflect liquidity over other considerations.

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

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

### **Investment Securities Portfolio**

At March 31, 2007, FBD had identified certain investment securities that are being held for indefinite periods of time, including securities that will be used as part of FBD's asset/liability management strategy and that may be sold in response to changes in interest rates, prepayments and similar factors. These securities are classified as available for sale and are intended to increase the flexibility of FBD's asset/liability management. Available for sale securities consisted primarily of US Government Agency securities. The book and market values of investment securities available for sale were approximately \$9.8 million as of March 31, 2007. The net unrealized gain on investment securities available for sale as of that date was \$63,000.

### **Loan Portfolio**

FBD's loan portfolio consists of secured and unsecured commercial loans including commercial real estate loans, loans secured by one-to-four family residential property, commercial construction, residential construction, and mezzanine financing loans as well as residential mortgages, home equity loans, short-term consumer and other consumer loans. Commercial loans are primarily term loans made to small to medium-sized businesses and professionals for working capital, asset acquisition and other purposes. Commercial loans are originated as either fixed or variable rate loans with typical terms of 1 to 5 years. FBD's commercial loans typically range between \$250,000 and \$1,000,000 but customers may borrow significantly larger amounts up to the secured legal lending limit of approximately \$5.7 million at March 31, 2007. Individual customers may have several loans often secured by different collateral. Mezzanine financing is done through our subsidiary, First Capital Exchange, and is offered

primarily for real estate projects under two years in term. These loans may have higher loan to value ratios than those made by the bank.

Net loans increased \$3.4 million, to \$71.1 million at March 31, 2007, from \$67.7 million at December 31, 2006.

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

(dollars in thousands)	<b>As of March 31, 2007</b>		<b>As of December 31, 2006</b>	
	<b>Balance</b>	<b>% of Total</b>	<b>Balance</b>	<b>% of Total</b>
Commercial:				
Real estate secured	\$ 40,633	55.6	\$ 42,545	61.2
Construction and land development	19,424	26.6	18,066	26.0
Non real estate secured	5,918	8.1	4,330	6.2
Unsecured	827	1.1	80	0.1
	<u>66,802</u>	<u>91.4</u>	<u>65,021</u>	<u>93.5</u>
Consumer	5,421	7.4	4,536	6.5
Consumer - held for sale	846	1.2	-	-
Total loans	<u>73,069</u>	<u>100.0%</u>	<u>69,557</u>	<u>100.0%</u>
Less: allowance for loan losses	<u>(1,960)</u>		<u>(1,860)</u>	
Net loans	<u>\$ 71,109</u>		<u>\$ 67,697</u>	

## Credit Quality

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

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

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

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

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

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

	<b>March 31, 2007</b>	<b>December 31, 2006</b>
(dollars in thousands)		
Loans accruing, but past due 90 days or more	\$ 395	\$ -
Non-accrual loans	313	31
Total non-performing loans (1)	708	31
Other real estate owned	31	31
Total non-performing assets (2)	\$739	\$62
Non-performing loans as a percentage of total loans net of unearned income	0.99%	0.04%
Non-performing assets as a percentage of total assets	0.52%	0.05%

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

Non accrual-loans of \$313,000 at March 31, 2007 were increased from \$31,000 at December 31, 2006, primarily as a result of the transfer of \$282,000 of installment loans to nonaccrual status. The full \$282,000 balance was collected in April of 2007. There were two loans accruing, but past due 90 days or more at March 31, 2007, which comprised the balance of non performing loans.

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 March 31, 2007, all identified problem loans are included in the preceding table or are classified as substandard or doubtful, with a specific reserve allocation in the allowance for loan losses (see "Allowance For Loan Losses"). Management believes that the appraisals and other estimates of the value of the collateral pledged against the non-accrual loans generally exceed the amount of its outstanding balances.

The recorded investment in loans which were classified as impaired totaled \$708,000 at March 31, 2007, and \$31,000 at December 31, 2006, and the amount of related valuation allowances was \$86,000 and \$15,000 respectively. There were no commitments to extend credit to any borrowers with impaired loans as of the end of the periods presented herein.

At March 31, 2007, and December 31, 2006, internally classified accruing substandard loans totaled approximately \$0 and \$0 respectively; and doubtful loans totaled approximately \$30,000 and \$0 respectively. There were no loans classified as loss at those dates.

FBD had delinquent loans as follows: (i) 30 to 59 days past due, in the aggregate principal amount of \$622,000 at March 31, 2007 and \$0 at December 31, 2006; and (ii) 60 to 89 days past due, at March 31, 2007 and December 31, 2006, in the aggregate principal amount of \$0 and \$0, respectively. The \$622,000 includes the \$282,000 of installment loans receivable subsequently collected.

At March 31, 2007, FBD had no foreign loans.

**Other Real Estate Owned:**

There were two properties totaling \$31,000 held in other real estate owned at March 31, 2007 and December 31, 2006, included in other assets, and there was no activity during the period.

At March 31, 2007, FBD had no credit exposure to "highly leveraged transactions" as defined by the Federal Reserve Bank.

## Allowance for Loan Losses

An analysis of the allowance for loan losses for the three months ended March 31, 2007, and 2006, and the year ended December 31, 2006 is as follows:

(dollars in thousands)	For the three months ended March 31, 2007	For the year ended December 31, 2006	For the three months ended March 31, 2006
Balance at beginning of period.....	\$ 1,860	\$1,684	\$ 1,684
Charge-offs:			
Commercial and construction.....	1	-	23
Short-term loans.....	-	804	251
Consumer .....	35	88	-
Total charge-offs	<u>36</u>	<u>892</u>	<u>274</u>
Recoveries:			
Commercial and construction.....	2	-	19
Short-term loans.....	-	33	-
Consumer.....	-	87	-
Total	<u>2</u>	<u>120</u>	<u>19</u>
recoveries.....			
Net charge-offs (recoveries).....	<u>34</u>	<u>772</u>	<u>255</u>
Provision for loan losses.....	<u>134</u>	<u>948</u>	<u>222</u>
Balance at end of period.....	<u>\$1,960</u>	<u>\$1,860</u>	<u>\$1,651</u>
Average loans outstanding (1).....	<u>\$71,742</u>	<u>\$60,595</u>	<u>\$53,247</u>
As a percent of average loans (1):			
Net charge-offs (recoveries) (annualized).....	0.19%	1.27%	1.91%
Provision for loan losses (annualized).....	0.75%	1.56%	1.66%
Allowance for loan losses.....	2.73%	3.07%	3.10%
Allowance for loan losses to:			
Total loans, net of unearned income at period end	2.68%	2.67%	3.21%
Total non-performing loans at period end.....	276.84%	6000.00%	2,540.00%

(1) Includes nonaccruing loans.

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

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

Estimating the appropriate level of the allowance for loan losses at any given date is difficult, particularly in a continually changing economy. In management's opinion, the allowance for loan losses was appropriate at March 31, 2007. However, there can be no assurance that, if asset quality deteriorates in future periods, additions to the allowance for loan losses will not be required.

FBD management is unable to determine in which loan category future charge-offs and recoveries may occur. The entire allowance for loan losses is available to absorb loan losses in any loan category. The majority of the loan portfolio represents loans made for commercial purposes, while significant amounts of residential property may serve as collateral for such loans. FBD attempts to evaluate larger loans individually, on the basis of its loan review process, which scrutinizes loans on a selective basis and other available information. Even if all commercial purpose loans could be reviewed, there is no assurance that information on potential problems would be available. The portfolio of consumer loans is evaluated in groups. At March 31, 2007, loans made for commercial and construction, and consumer purposes respectively, amounted to \$66.8 million and \$6.3 million (at that date there were \$846,000 of installment loans held for sale and \$4.2 million of installment loans),

### **Effects of Inflation**

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

### **ITEM 3: CONTROLS AND PROCEDURES**

(a) Evaluation of disclosure controls and procedures.

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

(b) Changes in internal controls.

There has not been any change in our internal control over financial reporting during our quarter ended March 31, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II: OTHER INFORMATION**

**ITEM 1: LEGAL PROCEEDINGS**

None

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

None

**ITEM 3: DEFAULTS UPON SENIOR SECURITIES**

None

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

None

**ITEM 5: OTHER INFORMATION**

None

## **ITEM 6: EXHIBITS**

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

### **Exhibit No.**

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

## **SIGNATURES**

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

First Bank of Delaware

Harry D. Madonna  
Chairman and  
Chief Executive Officer

Paul Frenkiel  
Executive Vice President and  
Chief Financial Officer

Dated: May 14, 2007

CERTIFICATION

I, Harry D. Madonna, certify that:

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

Date: May 14, 2007

\_\_\_\_\_  
Chairman and Chief Executive Officer

CERTIFICATION

I, Paul Frenkiel, certify that:

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

Date: May 14, 2007

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Executive Vice President and Chief Financial Officer

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

In connection with the Quarterly Report on Form 10-QSB for the quarter ended March 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 result of operations of the FBD.

Date: May 14, 2007

By: \_\_\_\_\_  
Harry D. Madonna  
Chairman and  
Chief Executive Officer

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

In connection with the Quarterly Report on Form 10-QSB for the quarter ended March 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 result of operations of FBD.

Date: May 14, 2007

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