

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: **September 30, 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.

11,377,101 shares of Issuer's Common Stock, par value
\$0.05 per share, issued and outstanding as of November 9, 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 September 30, 2007 and December 31, 2006
(Dollars in thousands, except per share data)
(unaudited)

ASSETS:	<u>September 30, 2007</u>	<u>December 31, 2006</u>
Cash and due from banks	\$ 4,599	\$ 1,917
Interest bearing deposits with banks	244	697
Federal funds sold	28,092	36,141
Total cash and cash equivalents	<u>32,935</u>	<u>38,755</u>
Investment securities available for sale, at fair value	9,269	9,689
Federal Home Loan Bank stock, at cost	131	172
Loans held for sale	56	-
Loans receivable (net of allowance for loan losses of \$2,019 and \$1,860, respectively)	70,108	67,697
Premises and equipment, net	3,566	1,177
Accrued interest receivable	434	428
Bank owned life insurance	1,740	1,693
Other assets	<u>5,322</u>	<u>4,302</u>
Total Assets	<u>\$ 123,561</u>	<u>\$ 123,913</u>
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Liabilities:		
Deposits:		
Demand—non-interest-bearing	\$ 32,441	\$ 24,313
Demand—interest-bearing	132	78
Money market and savings	32,273	24,285
Time under \$100,000	10,687	27,189
Time \$100,000 or more	<u>9,658</u>	<u>16,771</u>
Total Deposits	85,191	92,636
Accrued interest payable	210	718
Due to consumer loan servicers and purchasers	3,061	3,390
Other liabilities	<u>3,767</u>	<u>1,316</u>
Total Liabilities	<u>92,229</u>	<u>98,060</u>
Shareholders' Equity:		
Common stock par value: \$0.05; 15,000,000 shares authorized		
Shares issued 11,375,530 at September 30, 2007		
Shares issued: 11,359,017 at December 31, 2006	569	568
Additional paid in capital	13,266	13,201
Retained earnings	17,876	12,420
Stock held by deferred compensation plan	(384)	(384)
Accumulated other comprehensive income	<u>5</u>	<u>48</u>
Total Shareholders' Equity	<u>31,332</u>	<u>25,853</u>
Total Liabilities and Shareholders' Equity	<u>\$ 123,561</u>	<u>\$ 123,913</u>

(See notes to unaudited consolidated financial statements)

First Bank of Delaware
Consolidated Statements of Income
For the Three and Nine Months Ended September 30, 2007 and 2006
(Dollars in thousands, except per share data)
(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2007	2006	2007	2006
Interest income:				
Interest and fees on loans	\$1,825	\$1,626	\$5,667	\$4,899
Interest and dividend income on federal funds sold and other interest-earning balances	464	381	1,666	1,146
Interest and dividends on investment securities	<u>142</u>	<u>49</u>	<u>440</u>	<u>71</u>
Total interest income	<u>2,431</u>	<u>2,056</u>	<u>7,773</u>	<u>6,116</u>
Interest expense:				
Demand - interest bearing	1	1	1	1
Money market and savings	391	176	1,033	492
Time less than \$100,000	194	210	922	511
Time over \$100,000	145	172	586	424
Other borrowed funds	<u>14</u>	<u>-</u>	<u>21</u>	<u>0</u>
	<u>745</u>	<u>559</u>	<u>2,563</u>	<u>1,428</u>
Net interest income	1,686	1,497	5,210	4,688
Provision for loan losses	<u>20</u>	<u>124</u>	<u>172</u>	<u>915</u>
Net interest income after provision for loan losses	<u>1,666</u>	<u>1,373</u>	<u>5,038</u>	<u>3,773</u>
Non-interest income:				
Loan advisory and servicing fees	10	39	80	63
Service fees on deposit accounts	120	115	338	190
Net gain on sales of loans	464	-	1,023	0
Consumer loan fee income	2,718	675	6,312	2,099
First Capital Exchange fee income	42	70	107	70
Tax refund products	-	93	-	2,234
Card products	1,992	566	4,605	1,251
Other income	<u>110</u>	<u>14</u>	<u>230</u>	<u>40</u>
	<u>5,456</u>	<u>1,572</u>	<u>12,695</u>	<u>5,947</u>
Non-interest expenses:				
Salaries and employee benefits	2,024	1,157	5,961	3,595
Occupancy	205	102	459	290
Depreciation	84	83	188	240
Legal	151	3	444	109
Data processing and operational expenses	79	61	204	200
Delaware franchise tax	199	63	442	203
Professional fees	146	29	347	209
Other operating expenses	<u>465</u>	<u>256</u>	<u>1,291</u>	<u>1,023</u>
	<u>3,353</u>	<u>1,754</u>	<u>9,336</u>	<u>5,869</u>
Income before income taxes	3,769	1,191	8,397	3,851
Provision for income taxes	<u>1,343</u>	<u>412</u>	<u>2,941</u>	<u>1,343</u>
Net Income	<u>\$2,426</u>	<u>\$779</u>	<u>\$5,456</u>	<u>\$2,508</u>
Earnings per share:				
Basic	<u>\$0.21</u>	<u>\$0.07</u>	<u>\$0.47</u>	<u>\$0.28</u>
Diluted	<u>\$0.21</u>	<u>\$0.07</u>	<u>\$0.47</u>	<u>\$0.28</u>

(See notes to unaudited consolidated financial statements)

First Bank of Delaware
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2007 and 2006
(Dollars in thousands)
(unaudited)

	Nine months ended	
	September 30,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 5,456	\$ 2,508
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	172	915
Stock compensation expense	42	2
Depreciation	188	240
Amortization of discount on investment securities	(7)	-
Net gain on sale of loans	(1,023)	-
Increase in value of bank owned life insurance	(47)	(40)
Increase in accrued interest receivable and other assets	(1,004)	(388)
Decrease in due to consumer loan servicers and purchasers	(329)	(545)
Increase in accrued interest payable and other liabilities	1,943	62
Net cash provided by operating activities	5,391	2,754
Cash flows from investing activities:		
Purchase of securities:		
Available for sale	(322)	(6,003)
FHLB Stock purchase	-	(83)
Proceeds from principal receipts, calls and maturities of securities:		
Available for sale	684	102
FHLB Stock redemption	41	-
Gross loans originated for sale	(94,205)	-
Proceeds from sales of loans	95,172	-
Net increase in loans	(2,583)	(19,611)
Premises and equipment expenditures	(2,577)	(125)
Net cash used in investing activities	(3,790)	(25,720)
Cash flows from financing activities:		
Net proceeds from the exercise of stock options	24	654
Net proceeds from the common stock offering	-	7,502
Net increase in demand, money market and savings deposits	16,170	6,330
Net increase(decrease) in time deposits	(23,615)	13,676
Net cash provided by (used for) financing activities	(7,421)	28,162
Increase (decrease) in cash and cash equivalents	(5,820)	5,196
Cash and cash equivalents, beginning of period	38,755	22,838
Cash and cash equivalents, end of period	\$ 32,935	\$ 28,034
Supplemental disclosure:		
Interest paid	\$ 3,071	\$ 1,134
Taxes paid	\$ 2,700	\$ 1,900

(See notes to unaudited consolidated financial statements)

FIRST BANK OF DELAWARE
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the nine months ended September 30, 2007 and September 30, 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(16,513 shares)		1	23	-	-	-	24
Stock based compensation		-	42	-	-	-	42
Total other comprehensive loss, net of taxes of \$22	\$ (43)	-	-	-	-	(43)	(43)
Net income year to date	5,456	-	-	5,456	-	-	5,456
Total comprehensive income	<u>\$ 5,413</u>						
Balance September 30, 2007		<u>\$ 569</u>	<u>\$ 13,266</u>	<u>\$ 17,876</u>	<u>\$ (384)</u>	<u>\$ 5</u>	<u>\$ 31,332</u>

	Comprehensive Income	Common Stock	Additional Paid in Capital	Retained Earnings	Stock Held by Deferred Compensation Plan	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance January 1, 2006		\$ 376	\$ 5,084	\$ 8,986	\$ (149)	\$ 4	\$ 14,301
Options exercised(425,358 shares)		21	633	-	-	-	654
Stock based compensation		-	2	-	-	-	2
Proceeds from Stock Offering, net of offering cost of \$149,000		170	7,332	-	-	-	7,502
Total other comprehensive gain, net of taxes of \$13	\$ 24	-	-	-	-	24	24
Net income year to date	2,508	-	-	2,508	-	-	2,508
Total comprehensive income	<u>\$ 2,532</u>						
Balance September 30, 2006		<u>\$ 567</u>	<u>\$ 13,051</u>	<u>\$ 11,494</u>	<u>\$ (149)</u>	<u>\$ 28</u>	<u>\$ 24,991</u>

(See notes to unaudited consolidated financial statements)

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

Note 1: Organization

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

FBD is a commercial bank chartered pursuant to the laws of the State of Delaware with its principal office located at Brandywine Commons II, Concord Pike, Wilmington, Delaware. As a Delaware chartered bank, it is subject to the regulations and examination of the Delaware State Banking Commissioner. As a state chartered bank which is not a member of the Federal Reserve System, it is also subject to examination and comprehensive regulation by the Federal Deposit Insurance Corporation (“FDIC”). Deposits are insured up to applicable limits by the Bank Insurance Fund of the FDIC. FBD presently conducts its principal business banking activities through two full service offices in Wilmington, and a loan office in Lewes, Delaware. FBD offers a variety of credit and depository banking services. Commercial loan services are primarily offered to individuals and businesses in the Delaware area through the three offices; however a substantial number of consumer loans (120 days 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 in the secondary market. FBD has two subsidiaries, BSC Services Corp. and FBD Capital Markets, Inc. (d/b/a “First Capital Exchange”). BSC Services Corp. provides operations, accounting, compliance and human resources staffing to FBD and Republic First Bancorp; which was the parent company of First Bank of Delaware prior to its spin-off on January 1, 2006. FBD 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 FBD. 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 nine month period ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

Risks and Uncertainties and Certain Significant Estimates:

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

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

At September 30, 2007, there were approximately \$3.1 million of consumer loans outstanding on the balance sheet, which were originated via the internet. These loans generally have principal amounts of \$5,000 or less. Legislation eliminating or limiting interest rates upon consumer loans has from time to time been proposed. 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 offered 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 had an adverse affect on our business and operations in 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 through various marketers and sells the majority of such receivables into the secondary market. FBD earns a monthly fee for each active account. At September 30, 2007 and December 31, 2006 FBD had approximately \$232,000 and \$306,000 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. FBD 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:

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 three to four years and have a maximum term of 10 years.

A summary of the activity related to the Company's stock options granted under the Plan during the nine months ended September 30, 2007 is presented below:

	For the Nine Months Ended September 30, 2007	
	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	891,071	\$2.49
Granted	167,000	\$3.10
Exercised	(16,513)	\$1.46
Forfeited	-	-
Outstanding, end of period	<u>1,041,558</u>	<u>\$2.62</u>
Options exercisable at period-end	<u>864,558</u>	<u>\$2.51</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 Plan as of September 30, 2007.

Range of Exercise Prices	Options outstanding			Options exercisable	
	Shares	Weighted Average remaining contractual life (years)	Weighted Average exercise price	Shares	Weighted Average Exercise Price
\$0.78 to \$1.00	20,350	3.2	\$ 0.78	20,350	\$ 0.78
\$1.01 to \$1.50	15,950	4.2	1.20	15,950	1.20
\$1.51 to \$1.99	23,600	3.8	1.66	23,600	1.66
\$2.00 to \$2.69	365,258	6.7	2.51	365,258	2.51
\$2.70 to \$3.10	616,400	8.0	2.82	439,400	2.71
	<u>1,041,558</u>		<u>\$ 2.62</u>	<u>864,558</u>	<u>\$ 2.51</u>

During the nine months ended September 30, 2007, \$27,000 was recognized in compensation expense, with a 35% assumed tax benefit, for the Plan. Of that expense \$9,000 was recognized in the third quarter. 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: cash dividend yield of 0%; expected volatility of 25.24%; risk-free interest rate of 4.7% and an expected life of 7.0 years. No shares vested in the first nine months of 2007, but expense is recognized ratably over the period required to vest. There were 10,000 unvested options at the beginning of 2007 with a fair value of \$11,900 with

\$7,907 of that amount remaining to be recognized as expense. At September 30, 2007, there were 177,000 unvested options with a fair value of \$213,970 with \$165,903 of that amount remaining to be recognized as expense. At that date, the intrinsic value of the 1,041,558 options outstanding was (\$72,909), while the intrinsic value of the 864,558 exercisable (vested) options was \$34,582. No options were forfeited during the first nine months of 2007.

	For the Nine Months Ended	
	September 30, 2006	
	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	1,052,968	\$2.11
Granted	281,955	\$2.46
Exercised	(425,358)	\$1.53
Forfeited	(2,200)	\$2.92
Outstanding, end of period	<u>907,365</u>	<u>\$2.49</u>
Options exercisable at period-end	<u>897,365</u>	<u>\$2.49</u>
Weighted average fair value of options granted during the period		<u>\$1.04</u>

During the nine months ended September 30, 2006, \$1,900 was recognized in compensation expense for the Plan. The Company granted 10,000 options during the nine months ended September 30, 2006, and a related compensation expense of \$1,900 was recognized in the Stock Option Plan during the nine months ended September 30, 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.

Note 3: Reclassifications

Certain items in the unaudited 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. In May 2007, the FASB issued FASB Staff Position ("FSP") FIN 48-1 "Definition of Settlement in FASB Interpretation No. 48" (FSP FIN 48-1). FSP FIN 48-1 provides guidance on how to determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. FSP FIN 48-1 is effective retroactively to January 1, 2007. The adoption did not have a material effect on the Company's financial position or results of operations.

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 September 2006, the FASB ratified the consensus reached by the Emerging Issues Task Force ("EITF") in Issue No. 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 post retirement periods. EITF 06-4 is effective for fiscal years beginning after December 15, 2007, with earlier application permitted. The Company is continuing to evaluate the impact of this consensus, which may require it to recognize an additional liability and compensation expense related to its BOLI policies and deferred compensation arrangements.

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: community banking; 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 made primarily for real estate projects with higher loan to value ratios than loans made by FBD and with relatively shorter terms (generally less than two years). Some of these loans are participated. FBD additionally offers national consumer products to the underbanked consumer including consumer installment loans and credit cards. 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 via the internet through a small number of marketers with rates and fees significantly different from other loan products offered. FBD also offers card products, which consist of prepaid and credit cards, on a national basis through a small number of marketers. The majority of these installment loans and credit card receivables are sold in the secondary market.

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

Segment information for the three and nine months ended September 30, 2007 and 2006, is as follows:

For the three months ended September 30, 2007

(dollars in thousands)

	First Bank of Delaware	Mezzanine Financing	Card Products	Consumer loans	Total
Net interest income	\$ 904	\$ 184	\$ 212	\$ 386	\$ 1,686
Provision for loan losses	-	-	-	20	20
Non-interest income	252	30	1,992	3,182	5,456
Non-interest expenses	775	123	1,033	1,422	3,353
Provision for income taxes	136	32	417	758	1,343
Net income	<u>\$ 245</u>	<u>\$ 59</u>	<u>\$ 754</u>	<u>\$ 1,368</u>	<u>\$ 2,426</u>

For the nine months ended September 30, 2007

(dollars in thousands)

	First Bank of Delaware	Mezzanine Financing	Card Products	Consumer loans	Total
Net interest income	\$ 2,720	\$ 485	\$ 627	\$ 1,378	\$ 5,210
Provision for loan losses	52	-	-	120	172
Non-interest income	660	95	4,605	7,335	12,695
Non-interest expenses	2,232	387	2,943	3,774	9,336
Provision for income taxes	380	68	805	1,688	2,941
Net income	<u>\$ 716</u>	<u>\$ 125</u>	<u>\$ 1,484</u>	<u>\$ 3,131</u>	<u>\$ 5,456</u>

Selected Balance Sheet Accounts at September 30, 2007:

Total assets	\$ 95,966	\$ 5,168	\$ 17,596	\$ 4,831	\$ 123,561
Total loans	62,222	4,316	467	3,159	70,164
Total deposits	65,374	-	16,199	3,618	85,191

For the three months ended September 30, 2006

(dollars in thousands)

	Community Banking	Tax Refund Products	Card Products	Consumer loans	Total
Net interest income	\$ 949	\$ 14	\$ 102	\$ 432	\$ 1,497
Provision for loan losses	75	-	-	49	124
Non-interest income	238	93	566	675	1,572
Non-interest expenses	580	116	360	698	1,754
Provision for income taxes	195	(11)	105	123	412
Net income (loss)	<u>\$ 337</u>	<u>\$ 2</u>	<u>\$ 203</u>	<u>\$ 237</u>	<u>\$ 779</u>

For the nine months ended September 30, 2006

(dollars in thousands)

	Community Banking	Tax Refund Products	Card Products	Consumer loans	Total
Net interest income	\$ 2,422	\$ 240	\$ 217	\$ 1,809	\$ 4,688
Provision for loan losses	124	-	-	791	915
Non-interest income	363	2,235	1,251	2,098	5,947
Non-interest expenses	1,656	872	1,066	2,275	5,869
Provision for income taxes	361	553	138	291	1,343
Net income	<u>\$ 644</u>	<u>\$ 1,050</u>	<u>\$ 264</u>	<u>\$ 550</u>	<u>\$ 2,508</u>

Selected Balance Sheet Accounts at 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 September 30, 2007 there were 611,400 options which were antidilutive and therefore excluded from the calculation. At September 30, 2006, there were no stock options that were not included in the calculation of EPS because the option exercise price is greater than the average market price for the period.

The following table is a comparison of EPS for the three and nine months ended September 30, 2007, and 2006.

	<u>2007</u>		<u>Three months ended</u> <u>2006</u>	
	<u>Shares</u>	<u>Per Share</u>	<u>Shares</u>	<u>Per Share</u>
Net Income	\$2,426,000		\$779,000	
Weighted average shares For period	11,375,530		11,343,720	
Basic EPS		\$0.21		\$0.07
Add common stock equivalents representing dilutive stock options	<u>62,364</u>		<u>81,217</u>	
Effect on basic EPS of dilutive CSE		=		=
Equals total weighted average shares and CSE (diluted)	<u>11,437,894</u>		<u>11,424,937</u>	
Diluted EPS		<u>\$0.21</u>		<u>\$0.07</u>

	<u>2007</u>		<u>Nine months ended</u> <u>2006</u>	
	<u>Shares</u>	<u>Per Share</u>	<u>Shares</u>	<u>Per Share</u>
Net Income	\$5,456,000		\$2,508,000	
Weighted average shares For period	11,367,828		8,975,235	
Basic EPS		\$0.47		\$0.28
Add common stock equivalents representing dilutive stock options	<u>173,153</u>		<u>74,485</u>	
Effect on basic EPS of dilutive CSE		=		=
Equals total weighted average shares and CSE (diluted)	<u>11,540,981</u>		<u>9,049,720</u>	
Diluted EPS		<u>\$0.47</u>		<u>\$0.28</u>

Note 8: Comprehensive Income

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

(dollar amounts in thousands)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Net income	\$ 2,426	\$ 779	\$ 5,456	\$ 2,508
Other comprehensive gain(loss), net of tax:				
Unrealized gains(losses) on securities:				
Unrealized holding gains(losses) during the period	74	40	(43)	24
Comprehensive income	<u>\$ 2,500</u>	<u>\$ 819</u>	<u>\$ 5,413</u>	<u>\$ 2,532</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:

The Bank is currently in discussions with the FDIC regarding concerns raised by the FDIC in connection with certain of the Bank's credit card and lending programs. While the Bank is endeavoring to address the FDIC's concerns, the FDIC may pursue an informal or formal regulatory action with respect to its concerns. The Bank cannot determine at this time the nature, scope or timing of any such action, if any, or the impact, if any, that such action may have on the Bank's future earnings.

Tax Products

The Company decided to terminate the agreement with Liberty Tax Service ("LTS") pursuant to which FBD offered products, which included 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 s 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. FBD 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 had a material adverse impact on FBD's earnings in the first and second quarters of 2007. The tax program is a seasonal business with all 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 prepaid card programs.

Installment Loans

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

Financial Condition:

September 30, 2007, compared to December 31, 2006

Total assets decreased \$350,000 to \$123.6 million at September 30, 2007, versus \$123.9 million at December 31, 2006. This decrease reflected a \$8.0 million decrease in fed funds sold which was offset by a \$2.7 million increase in cash and due from banks, \$2.4 million of increases in loans, and a \$2.4 million increase in premises and equipment 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 \$2.4 million, or 3.6%, to \$70.1 million at September 30, 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 consumer installment loans. Commercial real estate loans comprise the majority of the loan portfolio. Commercial real estate loans amounted to \$37.7 million at September 30, 2007 compared to \$42.5 million at December 31, 2006. Construction and land development loans amounted to \$22.9 million and \$18.1 million respectively, at those dates. At September 30, there were \$3.9 million in consumer loans outstanding versus \$4.5 million at December 31, 2006.

Loans held for sale amounted to \$56,000 at September 30, 2007, which reflected a new program initiated in 2007.

Investment Securities:

Investment securities available-for-sale are investments, which may be sold in response to changing market and interest rate conditions and for liquidity and other purposes. The investment securities available-for-sale consist primarily of U.S. Government agency issued mortgage backed securities. Available-for-sale securities totaled \$9.3 million at September 30, 2007, a decrease of \$420,000, or 4.3%, from year-end 2006. This decrease resulted primarily from repayments on mortgage-backed securities. At September 30, 2007, and December 31, 2006, the portfolio had net unrealized gains of \$8,000 and \$73,000, respectively.

Cash and Cash Equivalents:

Cash and due from banks, interest-bearing deposits and federal funds sold comprise this category, which consists of FBD's most liquid assets. The aggregate amount in these three categories decreased by \$5.8 million, to \$32.9 million at September 30, 2007 from \$38.8 million at December 31, 2006. Federal funds sold decreased by \$8.0 million, between those respective dates, to \$28.1 million at September 30, 2007.

Fixed Assets:

Bank premises and equipment, net of accumulated depreciation was \$3.6 million at September 30, 2007 and \$1.2 million at December 31, 2006, respectively. The increase reflected capital expenditures related to moving the operations center and office space for other personnel.

Bank Owned Life Insurance:

The income earned on these policies is reflected in non-interest income. Bank owned life insurance amounted to \$1.7 million at September 30, 2007 and December 31, 2006.

Deposits:

Deposits, which include non-interest and interest-bearing demand deposits, money market, savings and time deposits, represent the primary source for funding loan growth. 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. We also obtain deposits from our card product customers.

Total deposits decreased by \$7.4 million to \$85.2 million at September 30, 2007, from \$92.6 million at December 31, 2006. Average transaction accounts in the current quarter increased 69.7% or \$27.1 million more than the comparable prior year quarter. A portion of that increase may be temporary. Time deposits decreased by \$23.7 million, or 53.7% to \$20.3 million at September 30, 2007, versus \$44.0 million at December 31, 2006.

Due to Consumer Loan Servicers and Purchasers

Amounts due to consumer loan servicers and purchasers totaled \$3.1 million at September 30, 2007, a decrease of \$329,000 from \$3.4 million at December 31, 2006.

Shareholders' Equity:

Total shareholders' equity increased \$5.4 million to \$31.3 million at September 30, 2007, versus \$25.9 million at December 31, 2006. This increase primarily reflected net income of \$5.5 million.

Three Months Ended September 30, 2007 Compared to September 30, 2006

Results of Operations:

Overview

FBD's net income increased to \$2.4 million or \$0.21 per diluted share for the three months ended September 30, 2007, compared to \$779,000, or \$0.07 per diluted share for the comparable prior year period. The increase primarily reflects a \$2.0 million increase in consumer loan fees and an increase in card product fees of \$1.4 million. These factors were partially offset by increased operating expenses including an \$867,000 increase in salaries primarily related to the consumer loans and card products. These factors were reflected in a return on average assets and average equity of 7.52% and 31.44% respectively, in the third quarter of 2007 compared to 3.12% and 12.55% respectively for the same period in 2006.

Analysis of Net Interest Income

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

Interest-earning assets: (Dollars in thousands)	For the three months ended September 30, 2007			For the three months ended September 30, 2006		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
Federal funds sold and other interest- earning assets	\$ 34,183	\$ 464	5.39%	\$ 27,594	\$ 381	5.43%
Securities	9,418	142	6.03%	3,252	49	5.90%
Loans receivable	71,916	1,825	10.06%	60,580	1,626	10.68%
Total interest-earning assets	115,517	2,431	8.35%	91,426	2,056	8.92%
Other assets	12,478			7,678		
Total assets	<u>\$ 127,995</u>			<u>\$ 99,104</u>		
Interest-bearing liabilities:						
Demand-non interest bearing	\$ 33,209	\$ -		\$ 16,819	\$ -	
Demand interest-bearing	175	1	1.13%	229	1	1.14%
Money market & savings	32,651	391	4.75%	21,872	176	3.19%
Time deposits	26,394	339	5.10%	30,846	382	4.91%
Total deposits	92,429	731	3.14%	69,766	559	3.18%
Total interest-bearing deposits	59,220	731	4.90%	52,947	559	4.19%
Other borrowings	634	14	8.76%	-	-	-
Total interest-bearing liabilities	<u>\$ 59,854</u>	<u>\$ 745</u>	<u>4.94%</u>	<u>\$ 52,947</u>	<u>\$ 559</u>	<u>4.19%</u>
Total deposits and other borrowings	93,063	745	3.18%	69,766	559	3.18%
Non interest-bearing liabilities	4,316			4,703		
Shareholders' equity	30,616			24,635		
Total liabilities and shareholders' equity	<u>\$ 127,995</u>			<u>\$ 99,104</u>		
Net interest income		<u>\$ 1,686</u>			<u>\$ 1,497</u>	
Net interest spread			<u>3.41%</u>			<u>4.73%</u>
Net interest margin			<u>5.79%</u>			<u>6.49%</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. Significant amounts of fees on consumer loans are shown under other income, because related balances are sold shortly after they are originated.

Rate/Volume Table

	Three months ended September 30, 2007 versus September 2006 (dollars in thousands)		
	Due to change in:		
	<u>Volume</u>	<u>Rate</u>	<u>Total</u>
Interest earned on:			
Federal funds sold	\$ 86	\$ (3)	\$ 83
Securities	93	-	93
Loans	292	(93)	199
Total interest-earning assets	471	(96)	375
Interest expense of			
deposits			
Interest-bearing demand deposits	-	-	-
Money market and savings	(129)	(86)	(215)
Time deposits	56	(13)	43
Total deposit interest expense	(73)	(99)	(172)
Other borrowings	(14)	-	(14)
Total interest expense	(87)	(99)	(186)
Net interest income	\$ 384	\$ (195)	\$ 189

FBD's net interest margin decreased 70 basis points to 5.79% for the three months ended September 30, 2007, versus the prior year comparable period. The decrease reflected an 82 basis point decline in commercial loan yields. FBD participates to third parties the majority of consumer loans and related revenues from those participated loans are accordingly recorded as fee income. Without the consumer loans, net interest margins would have been approximately 4.48% in third quarter 2007 and 5.00% in third quarter 2006. The lower margin also reflected higher rates paid on interest bearing deposit accounts. Rates paid on total deposits were comparable due to a higher volume of non-interest bearing demand deposits held in 2007. The average rate paid on interest-bearing liabilities increased 75 basis points to 4.94% for the three months ended September 30, 2007, from 4.19% in the prior year comparable period, as FBD repriced its deposits to the higher rate environment. However, yields on total deposits decreased by 4 basis points, to 3.14% in third quarter 2007 from 3.18% in third quarter 2006, reflecting the impact of non-interest bearing deposit growth.

FBD's net interest income increased \$189,000, or 12.6%, to \$1.7 million for the three months ended September 30, 2007, from \$1.5 million for the prior year comparable period. The increase reflected \$375,000 of growth in interest income resulting from higher average balances offset, in part, by higher interest bearing deposit balances, and rates thereon, which led to a \$186,000 increase in interest expense.

Total interest income increased \$375,000, or 18.2%, to \$2.4 million for the three months ended September 30, 2007, from \$2.1 million for the prior year comparable period. Interest and fees on loans increased \$199,000 to \$1.8 million for the three months ended September 30, 2007, from \$1.6 million for the prior year comparable period. The increases reflected those factors noted in the preceding paragraphs which discussed net interest margin and net interest income. Interest and dividends on investment securities increased \$93,000 to \$142,000 for the three months ended September 30, 2007, from \$49,000 for the prior year comparable period primarily reflecting increased average balances held. Federal funds sold income increased \$83,000, to \$464,000 in third quarter 2007, compared to \$381,000 in third quarter 2006. The increase reflected higher average balances held between those respective periods. Average federal funds sold increased \$6.4 million, to \$34.2 million in third quarter 2007, from \$27.8 million in third quarter 2006.

Total interest expense increased \$186,000, or 33.3%, to \$745,000 for the three months ended September 30, 2007, from \$559,000 for the prior year comparable period. That increase reflected the impact of higher short-term interest rates on the yield of interest-bearing liabilities which increased 75 basis points to 4.94% in third quarter 2007 from 4.19% in third 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 \$6.9 million, or 13.0%, to \$59.9 million in third quarter 2007, from \$52.9 million in third quarter 2006.

Interest expense on money market and savings increased \$215,000, or 122.2% to \$391,000 for third quarter 2007 from \$176,000 for the prior year comparable period. The increase reflected an increase in yield to 4.75% from 3.19%, which resulted from the higher rate environment. The increase also reflected higher deposit balances which rose to \$32.7 million for third quarter 2007 from \$21.9 million for the prior year comparable period.

Interest expense on time deposits (certificates of deposit) decreased \$43,000, or 11.3%, to \$339,000 for third quarter 2007, from \$382,000 for the prior year comparable period. This decrease reflected lower deposit volumes, as average certificates of deposit decreased \$4.4 million, or 14.4%, to \$26.4 million, for the quarter ended September 30, 2007, from \$30.8 million in the prior year comparable period. The average rate increased 19 basis points to 5.10% from 4.91% for the prior year comparable period.

Provision for Loan Losses

The provision for loan losses is charged to operations in an amount necessary to bring the total allowance for loan losses to a level that reflects the known and estimated inherent losses in the portfolio. The provision for loan losses decreased \$104,000 to \$20,000 for the three months ended September 30, 2007, from \$124,000 for the prior year comparable period, due to various changes in the consumer loan products.

Non-Interest Income

Total non-interest income increased \$3.9 million, or 247.1%, to \$5.5 million for the three months ended September 30, 2007, versus \$1.6 million for the prior year comparable period, which reflects an increase in consumer loan fee income of \$2.0 million and an increase in card product income of \$1.4 million. The increases reflected the growth in internet based consumer loan activity and the growth of our credit cards outstanding. FBD participates a majority of the consumer loans made to third parties, generating fee income on the transactions. For loans sold, FBD retains a portion of the revenue collected from the customer and includes this in fee income. FBD earns its revenues from card products primarily based on accounts open at the end of each month. Gains on sales of a new consumer installment loan product added \$464,000 to non-interest income in third quarter 2007.

Non-Interest Expenses

Total non-interest expenses increased \$1.6 million or 91.1% to \$3.4 million for the three months ended September 30, 2007, from \$1.8 million for the prior year comparable period. Salaries and employee benefits increased \$867,000 or 74.9%, to \$2.0 million for the three months ended September 30, 2007, from \$1.2 million for the prior year comparable period. The increase reflected increases related to staffing for new consumer loan, prepaid and credit card and other loan products.

Occupancy expense increased \$103,000, or 101.0%, to \$205,000 for third quarter 2007, versus \$102,000 for third quarter 2006. The increase reflected increased space requirements primarily for staff related to consumer loan and card products and the move to a new operations center.

Legal fees increased \$148,000, or 4,933.3%, to \$151,000 in third quarter 2007, compared to \$3,000 in third quarter 2006. The increase reflected legal fees related to new product development which included consumer loans, prepaid and credit cards and other loan products.

Delaware franchise tax increased \$136,000, or 215.9%, to \$199,000 in third quarter 2007 from \$63,000 in third quarter 2006. The increase resulted primarily from increased taxable income.

Professional fees increased \$117,000, or 403.4% to \$146,000 in third quarter 2007, compared to \$29,000 in the comparable prior year period. The increase reflected cost recoveries from a loan servicer in third quarter 2006 and consulting fees related to new product development in third quarter 2007. Also in 2007 there was a \$21,000 increase in accounting expenses.

Other expenses increased \$209,000, or 81.6% to \$465,000 for the three months ended September 30, 2007, from \$256,000 for the prior year comparable period. The increase reflected \$70,000 in expenses for credit card programs, a \$19,000 increase in business development expenses, a \$32,000 increase in telephone expense, a \$21,000 expense for money transmitter services and a \$15,000 increase in FDIC insurance assessments.

Provision for Income Taxes

The provision for income taxes increased \$931,000, or 226.0% to \$1.3 million for the three months ended September 30, 2007, from \$412,000 for the prior year comparable period. This increase was primarily the result of the increase in pre-tax income. The effective tax rate increased to 35.6% in third quarter 2007 from 34.6% in third quarter 2006.

Nine Months Ended September 30, 2007 Compared to September 30, 2006

Results of Operations:

Overview

FBD's net income increased to \$5.5 million or \$0.47 per diluted share for the nine months ended September 30, 2007, compared to \$2.5 million, or \$0.28 per diluted share for the comparable prior year period reflecting higher card product and consumer loan income. The increase reflected a \$4.2 million increase in consumer loan fee income, and a \$3.4 million increase in card product fee income, which more than offset a decrease of \$2.2 million in tax refund product income. The increased revenue was partially offset by increased operating expenses including a \$2.4 million increase in salaries primarily related to the consumer loans and card products. These factors were reflected in a return on average assets and average equity of 5.34% and 25.60% respectively, in the nine months ended 2007 compared to 3.38% and 17.44% respectively for the same period in 2006.

Analysis of Net Interest Income

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

Interest-earning assets: (Dollars in thousands)	For the nine months ended September 30, 2007			For the nine months ended September 30, 2006		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
Federal funds sold and other interest- earning assets	\$ 42,022	\$ 1,666	5.30%	\$ 31,122	\$ 1,146	4.92%
Securities	9,827	440	5.97%	1,611	71	5.81%
Loans receivable	73,008	5,667	10.38%	55,227	4,899	11.86%
Total interest-earning assets	<u>124,857</u>	<u>7,773</u>	<u>8.32%</u>	<u>87,960</u>	<u>6,116</u>	<u>9.30%</u>
Other assets	<u>11,859</u>			<u>11,332</u>		
Total assets	<u>\$ 136,716</u>			<u>\$ 99,292</u>		
Interest-bearing liabilities:						
Demand-non interest bearing	\$ 34,120			\$ 24,153		
Demand interest-bearing	227	\$ 1	0.59%	105	\$ 1	1.27%
Money market & savings	29,722	1,033	4.65%	21,394	492	3.07%
Time deposits	37,836	1,508	5.33%	27,658	935	4.52%
Total deposits	<u>101,905</u>	<u>2,542</u>	<u>3.35%</u>	<u>73,310</u>	<u>1,428</u>	<u>2.60%</u>
Total interest-bearing deposits	<u>67,785</u>	<u>2,542</u>	<u>5.01%</u>	<u>49,157</u>	<u>1,428</u>	<u>3.88%</u>
Other borrowings	<u>324</u>	<u>21</u>	<u>8.67%</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total interest-bearing liabilities	<u>\$ 68,109</u>	<u>\$ 2,563</u>	<u>5.03%</u>	<u>\$ 49,157</u>	<u>\$ 1,428</u>	<u>3.88%</u>
Total deposits and other borrowings	<u>102,229</u>	<u>2,563</u>	<u>3.35%</u>	<u>73,310</u>	<u>1,428</u>	<u>2.60%</u>
Non interest-bearing liabilities	5,990			6,753		
Shareholders' equity	<u>28,497</u>			<u>19,229</u>		
Total liabilities and shareholders' equity	<u>\$ 136,716</u>			<u>\$ 99,292</u>		
Net interest income		<u>\$ 5,210</u>			<u>\$ 4,688</u>	
Net interest spread			<u>3.29%</u>			<u>5.42%</u>
Net interest margin			<u>5.58%</u>			<u>7.13%</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. Significant amounts of fees on consumer loans are shown under other income, because related balances are sold shortly after they are originated.

Rate/Volume Table

	Nine months ended September 30, 2007 versus September 2006 (dollars in thousands)		
	Due to change in:		
	<u>Volume</u>	<u>Rate</u>	<u>Total</u>
Interest earned on:			
Federal funds sold	\$ 432	\$ 88	\$ 520
Securities	368	1	369
Loans	1,401	(633)	768
Total interest-earning assets	2,201	(544)	1,657
Interest expense of			
deposits			
Interest-bearing demand deposits	(1)	1	-
Money market and savings	(290)	(251)	(541)
Time deposits	(406)	(167)	(573)
Total deposit interest expense	(697)	(417)	(1,114)
Other borrowings	(21)	-	(21)
Total interest expense	(718)	(417)	(1,135)
Net interest income	\$ 1,483	\$ (961)	\$ 522

FBD's net interest margin decreased 155 basis points to 5.58% for the nine months ended September 30, 2007, versus the prior year comparable period. The decrease reflected lower rates on consumer loans retained on the balance sheet and a 40 basis point reduction in commercial loan rates. FBD participates to third parties the majority of consumer installment loans and revenues from those participated loans are accordingly recorded as fee income. While a greater amount of consumer loans were retained in 2007, they carried a lower yield. Without the consumer installment loans, net interest margins would have been approximately 4.11% for year to date 2007 and 4.68% for year to date 2006. The resulting decrease also reflected higher rates paid on deposit products. The average yield on interest-earning assets decreased 98 basis points to 8.32% for the year to date September 30, 2007, from 9.30% for the prior year comparable period. The average rate paid on interest-bearing liabilities increased 115 basis points to 5.03% for the nine months ended September 30, 2007, from 3.88% in the prior year comparable period, as FBD repriced its deposits to the higher rate environment. Rates paid on deposits increased 74 basis points, to 3.35% in year to date 2007 from 2.60% in year to date 2006, also reflecting the higher rate environment.

FBD's net interest income increased \$522,000, or 11.1%, to \$5.2 million for the nine months ended September 30, 2007, from \$4.7 million for the prior year comparable period, as the impact of higher average loan balances more than offset lower loan yields and higher interest costs.

Total interest income increased \$1.7 million, or 27.1%, to \$7.8 million for the nine months ended September 30, 2007, from \$6.1 million for the prior year comparable period. Interest and fees on loans

increased \$768,000 to \$5.7 million for the nine months ended September 30, 2007, from \$4.9 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 \$369,000 to \$440,000 for the nine months ended September 30, 2007, from \$71,000 for the prior year comparable period. The increase was primarily due to the higher average balances held. Federal funds sold income increased \$520,000, or 45.4%, to \$1.6 million in year to date 2007, compared to \$1.1 million in year to date 2006. The increase reflected higher average short-term interest rates which increased the yield to 5.30% from 4.92% between those respective periods. Average balances between those respective periods also increased, and were invested at those higher average rates. In year to date 2007, average federal funds sold increased \$10.9 million, to \$42.0 million from \$31.1 million in year to date 2006.

Total interest expense increased \$1.1 million, or 79.5%, to \$2.6 million for the nine months ended September 30, 2007, from \$1.4 million for the prior year comparable period. That increase reflected the impact of higher short-term interest rates on the yield of interest-bearing liabilities which increased 115 basis points to 5.03% in year to date 2007 from 3.88% in year to date 2006. It also represented the expense associated with increased amounts of interest-bearing liabilities subject to those higher rates. Total interest-bearing liabilities increased \$18.9 million, or 38.6%, to \$68.1 million for year to date 2006, from \$49.2 million for year to date 2006.

Interest expense on time deposits (certificates of deposit) increased \$573,000, or 61.3%, to \$1.5 million for year to date 2007, from \$935,000 for the prior year comparable period. This increase reflected the higher interest rate environment as the average rate increased 81 basis points to 5.33%. In addition, average certificates of deposit outstanding increased \$10.2 million, or 36.8%, to \$37.8 million, for the nine months ended September 30, 2007, from \$27.6 million in the prior year comparable period.

Provision for Loan Losses

The provision for loan losses is charged to operations in an amount necessary to bring the total allowance for loan losses to a level that reflects the known and estimated inherent losses in the portfolio. The provision for loan losses decreased \$743,000 to \$172,000 for the nine months ended September 30, 2007, from \$915,000 for the prior year comparable period. The decrease reflected various changes in the consumer loan products and lower commercial loan growth.

Non-Interest Income

Total non-interest income increased \$6.7 million to \$12.7 million for the nine months ended September 30, 2007, versus \$5.9 million for the prior year comparable period. Of the \$6.7 million increase, \$4.2 million resulted primarily from increased fee income on a higher volume of consumer loans. FBD participates a majority of consumer installment loans to third parties, generating fee income on the transactions. For loans sold, FBD retains a portion of the revenue collected from the customer and includes this in fee income. Credit and prepaid card product income increased by \$3.4 million from the prior year comparable period due to an increase in open accounts. FBD earns its revenues from card products primarily based on cards outstanding at the end of each month. Gain on sales of a new consumer installment loan product added \$1.0 million to non-interest income in 2007. The increases were partially offset by the \$2.2 million decline in tax product revenue, reflecting the decision to exit the tax refund program.

Non-Interest Expenses

Total non-interest expenses increased \$3.4 million or 59.1% to \$9.3 million for the nine months ended September 30, 2007, from \$5.9 million for the prior year comparable period. Salaries and employee benefits increased \$2.4 million or 65.8%, to \$6.0 million for the nine months ended September 30, 2007, from \$3.6 million for the prior year comparable period. The increase primarily reflected higher staffing costs for the new products including consumer loans, prepaid and credit card products and other loan products.

Occupancy expense increased \$169,000, or 58.3%, to \$459,000 for year to date 2007, versus \$290,000 for year to date 2006. The increase reflected increased space requirements primarily for staff related to new consumer loan and card products.

Depreciation expense decreased \$52,000, or 21.7% to \$188,000 for year to date 2007, versus \$240,000 for the prior year comparable period. The \$52,000 decrease reflected write-offs and retirements in prior periods.

Legal fees increased \$335,000, or 307.3%, to \$444,000 in year to date 2007, compared to \$109,000 in year to date 2006. The majority of the increase resulted from legal fees related to the consumer loan and card programs.

Delaware franchise tax increased \$239,000, or 117.7%, to \$442,000 in year to date 2007 from \$203,000 in year to date 2006. The increase resulted primarily from increases in taxable income.

Professional fees increased \$138,000 or 66.0% to \$347,000 for year to date 2007 from \$209,000 for the prior year comparable period. The increase reflected \$90,000 in consulting fees related to new products and \$48,000 in increased accounting expenses.

Other expenses increased \$268,000, or 26.1% to \$1.3 million for the nine months ended September 30, 2007, from \$1.0 million for the prior year comparable period. Of that increase, \$131,000 reflected expenses related to the credit card program, \$63,000 reflected increased business development related expenses, \$51,000 in money transmitter charges and \$34,000 in FDIC assessment and exam fees.

Provision for Income Taxes

The provision for income taxes increased \$1.6 million, to \$2.9 million for the nine months ended September 30, 2007, from \$1.3 million for the prior year comparable period. This increase was primarily the result of the increase in pre-tax income. The effective tax rate was approximately 35% 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 \$15.5 million at September 30, 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 \$15.3 million and \$18.9 million and standby letters of credit of approximately \$192,000 and \$323,000 at September 30, 2007, and December 31, 2006, respectively. No liability is currently recorded for these commitments.

At September 30, 2007 unused credit card lines amounted to \$142.4 million for which the resulting outstanding balances are sold after funding. Therefore such amounts are not indicative of actual future liquidity requirements. FBD has the unilateral right to cancel the unused lines, in the unlikely event that that would become necessary or desirable. The purchasers maintain deposit balances at FBD which provide support for daily card funding. FBD closely monitors the liquidity resources of each purchaser.

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

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

Regulatory Matters

The following table presents the FBD's capital regulatory ratios at September 30, 2007, and December 31, 2006:

	Actual		For Capital Adequacy purposes	
	Amount	Ratio	Amount	Ratio
Dollars in thousands				
At September 30, 2007				
Total risk based capital				
First Bank of Delaware	\$32,515	34.52%	\$7,536	8.00%
Tier one risk based capital				
First Bank of Delaware	31,327	33.26%	3,768	4.00%
Tier one leveraged capital				
First Bank of Delaware	31,327	24.46%	6,403	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 due from banks, deposits with banks and federal funds sold, totaled \$32.9 million at September 30, 2007, compared to \$38.8 million at December 31, 2006, due primarily to a decrease 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 September 30, 2007, FBD had aggregate outstanding commitments (including unused lines of credit and letters of credit) of \$15.5 million. Certificates of deposit scheduled to mature in one year totaled \$19.9 million at September 30, 2007. FBD anticipates that it will have sufficient funds available to meet its current commitments.

At September 30, 2007 unused credit card lines amounted to \$142.4 million for which the resulting outstanding balances are sold after funding. Therefore such amounts are not indicative of actual future liquidity requirements. FBD has the unilateral right to cancel the unused lines, in the unlikely event that that would become necessary or desirable. The purchasers maintain deposit balances at FBD which provide support for daily card funding. FBD closely monitors the liquidity resources of each purchaser.

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 has established a line of credit from a correspondent bank to assist in managing the liquidity position. That line of credit totaled \$4.0 million and was unused at June 30, 2007. FBD also has the ability to borrow up to \$29.3 million from the Federal Home Loan Bank. 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 Delaware market rates or paying a premium rate of 25 to 50 basis points over those market rates. It is anticipated that this source of liquidity will continue to be available; however, its incremental cost may vary depending on market conditions. The securities portfolio is also available for liquidity. Numerous investment companies would likely provide repurchase agreements up to the amount of the market value of the securities.

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

Investment Securities Portfolio

At September 30, 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 \$9.3 million and \$9.3 million, respectively, as of September 30, 2007. The net unrealized gain on investment securities available for sale as of that date was \$8,000.

Loan Portfolio

FBD's loan portfolio consists of secured and unsecured commercial loans including commercial real estate loans, loans secured by one-to-four family residential property, commercial construction and residential construction loans as well as residential mortgages, home equity loans, short-term consumer credit card loans and other consumer loans. Commercial loans are primarily term loans made to small to medium-sized businesses and professionals for working capital, asset acquisition and other purposes. Commercial loans are originated as either fixed or variable rate loans with typical terms of 1 to 5 years. FBD's commercial loans typically range between \$250,000 and \$1,000,000 but customers may borrow

significantly larger amounts up to the secured legal lending limit of approximately \$7.1 million at September 30, 2007. Individual customers may have several loans often secured by different collateral.

Net loans increased \$2.4 million, to \$70.1 million at September 30, 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)	As of September 30, 2007		As of December 31, 2006	
	Balance	% of Total	Balance	% of Total
Commercial:				
Real estate secured	\$ 37,732	52.3	\$ 42,545	61.2
Construction and land development	22,921	31.8	18,066	26.0
Non real estate secured	6,647	9.2	4,330	6.2
Unsecured	950	1.3	80	0.1
	<u>68,250</u>	<u>94.6</u>	<u>65,021</u>	<u>93.5</u>
Consumer	<u>3,877</u>	<u>5.4</u>	<u>4,536</u>	<u>6.5</u>
Total loans	<u>72,127</u>	<u>100.0%</u>	<u>69,557</u>	<u>100.0%</u>
Less: allowance for loan losses	<u>(2,019)</u>		<u>(1,860)</u>	
Net loans	<u><u>\$ 70,108</u></u>		<u><u>\$ 67,697</u></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.

	September 30, 2007	December 31, 2006
(dollars in thousands)		
Loans accruing, but past due 90 days or more	\$ 136	\$ -
Non-accrual loans	667	31
Total non-performing loans (1)	803	31
Other real estate owned	18	31
Total non-performing assets (2)	\$ 821	\$62
Non-performing loans as a percentage of total loans net of unearned income	1.10%	0.04%
Non-performing assets as a percentage of total assets	0.66%	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 \$667,000 at September 30, 2007 increased from the \$31,000 at December 31, 2006, primarily the result of the transfer of two SBA loans to non-accrual status in the period. There were \$136,000 in loans accruing, but past due 90 days or more at September 30, 2007. The loans are part of our consumer installment portfolio.

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 September 30, 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 are impaired totaled \$803,000 at September 30, 2007 and \$31,000 at December 31, 2006, and the amount of related valuation allowances was \$158,000 and \$15,000 respectively of those dates. There were no commitments to extend credit to any borrowers with impaired loans as of the end of the periods presented herein.

Other Real Estate Owned:

There were two properties totaling \$31,000 held in other real estate owned at December 31, 2006. One property was sold in May 2007 leaving a remaining property of \$18,000 at September 30, 2007. Other real estate owned is included in other assets on the balance sheets.

At September 30, 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 nine months ended September 30, 2007 and 2006, and the twelve months ended December 31, 2006 is as follows:

(dollars in thousands)	For the nine months ended September 30, 2007	For the twelve months ended December 31, 2006	For the nine months ended September 30, 2006
Balance at beginning of period.....	\$ 1,860	\$1,684	\$ 1,684
Charge-offs:			
Commercial and construction.....	1	-	88
Consumer installment loans.....	49	804	804
Consumer	-	88	-
Total charge-offs	<u>50</u>	<u>892</u>	<u>892</u>
Recoveries:			
Commercial and construction.....	2	0	87
Consumer installment loans.....	35	33	33
Consumer.....	-	87	-
Total	<u>37</u>	<u>120</u>	<u>120</u>
recoveries.....			
Net charge-offs.....	<u>13</u>	<u>772</u>	<u>772</u>
Provision for loan losses.....	<u>172</u>	<u>948</u>	<u>915</u>
Balance at end of period.....	<u>\$2,019</u>	<u>\$1,860</u>	<u>\$1,827</u>
Average loans outstanding (1).....	<u>\$73,008</u>	<u>\$60,595</u>	<u>\$55,227</u>
As a percent of average loans (1):			
Net charge-offs (annualized)	0.07%	1.27%	1.86%
Provision for loan losses (annualized).....	0.31%	1.56%	2.21%
Allowance for loan losses.....	2.76%	3.07%	3.31%
Allowance for loan losses to:			
Total loans, net of unearned income at period end	2.80%	2.67%	2.54%
Total non-performing loans at period end.....	251.43%	6,000.0%	4,152.27%

(1) Includes non-accruing loans.

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

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

Estimating the appropriate level of the allowance for loan losses at any given date is difficult, particularly in a continually changing economy. In management's opinion, the allowance for loan losses

was appropriate at September 30, 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 September 30, 2007, loans made for commercial and construction, and consumer purposes, respectively, amounted to \$68.3 million and \$3.9 million (at that date there were \$56,000 of installment loans held for sale and \$3.9 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 September 30, 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: November 13, 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 that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors :
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: November 13,
2007

Harry D. Madonna
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 that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors :
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: November 13,
2007

Paul Frenkiel
Executive Vice President and Chief Financial Officer

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

In connection with the Quarterly Report on Form 10-QSB for the quarter ended September 30, 2007, 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: November 13, 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 September 30, 2007, 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: November 13, 2007

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